



# OFFICE OF THE INSPECTOR GENERAL REPORTS

*Did  
you  
know*



**<http://www.Business.gov>**

is a one-stop web site for federal compliance resources, and provides information on starting, growing, and managing a small business.

## OFFICE OF THE INSPECTOR GENERAL AUDIT FOLLOW-UP

### Summary of OIG Follow-up

Throughout the year, the OIG conducts audits of SBA's processes, procedures and programs, and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on SBA's financial and administrative operation, but are very beneficial to SBA's management. Program management has the option to agree or disagree with OIG recommendations. If agreement cannot be reached, the issue can be raised to a higher level by the OIG. Once both management and the OIG agree with a recommendation, it becomes a "management decision." The manager also develops a specific action plan and provides a target date for completion as part of the "management decision." The corrective action is referred to as a "final action."

The OCFO is responsible for monitoring the final actions and reporting on their status of implementation. To track and report these to management, the OCFO maintains a database

and provides a status report available on the SBA intranet page. This is updated as corrective actions are completed. Program offices also provide regular updates on final action status that are used to update the database.

The OCFO continues to take aggressive steps to improve management's attention to these issues, resulting in 225 final actions during FY 2007. Of these final actions, 20 were monetary and 205 were non-monetary.

The following two charts depict SBA's monetary final action activity: audit recommendations with disallowed or questioned costs, and audit recommendations with funds put to better use. The status of all audit recommendations is reconciled with the OIG to ensure actions are posted promptly and accomplished in accordance with the agreed-upon target dates.

Table I

Final Action On Audit Recommendations With Disallowed / Questioned Costs October 1, 2006 – September 30, 2007		
	Number of Recommendations	Disallowed Costs (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	11	\$ 3,455
B. Recommendations on which management decisions were made during the period.	22	\$ 28,770
C. Total recommendations pending final action during period.	33	\$ 32,225
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	17	\$ 2,512
(b) Property	0	\$ 0
(c) Other	0	\$ 0
2. Write-Offs	1	\$ 121
3. Total	18	\$ 2,633
E. Recommendations needing final action at the end of the period.	15	\$ 29,592

Table II

Final Action On Audit Recommendations With Funds Put To Better Use October 1, 2006 – September 30, 2007		
	Number of Recommendations	Funds to be Put to Better Use (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	1	\$ 143
B. Recommendations on which management decisions were made during the period.	3	\$ 376,487
C. Total recommendations pending final action during period.	4	\$ 376,629
D. Recommendations on which final action was taken during the period.		
1. Value of recommendations implemented (completed).	2	\$ 376,193
2. Value of recommendations that management concluded should not or could not be implemented or completed.	0	\$ 0
3. Total	2	\$ 476,193
E. Recommendations needing final action at the end of the period.	2	\$ 436

## Detail of Final Action Activity

### Disallowed/Questioned Costs

#### Report # 3-14, TEP Consulting Inc.

**Summary:** The audit objective was to determine whether TEP complied with certain provisions of SBA's Notice of Award. The audit recommended the Office of Administration recover, from TEP Consulting, the unallowable and unsupported costs charged to the cooperative agreement.

**Final Action:** \$37,002.90 collected / \$0.00 written off

#### Report # 4-29, Early Defaulted Loan To Jonathan's Stop N Save

**Summary:** The audit objective was to determine if the early loan default was caused by lender or borrower noncompliance with SBA requirements. The audit recommended the SBA seek recovery of the guaranty repair paid to Washington Mutual Bank.

**Final Action:** \$373,760.00 collected / \$0.00 written off

#### Report # 4-32, SBA Guaranteed Loan To Rose Enterprises, Inc.

**Summary:** The objective of the audit was to determine if the lender originated, disbursed and liquidated the loan in accordance with SBA rules and regulations. The audit recommended the SBA recover the guaranty from the lender.

**Final Action:** \$542,663.00 collected / \$0.00 written off

#### Report # 5-08, Single Audit Of The MountainMade Foundation, SBAHQ-02-0014

**Summary:** The audit objective was to determine whether the MountainMade Foundation complied with grant requirements

regarding disbursements documentation, budget overruns, property management records, requirements for prior approval, asset purchases and timely reporting. The audit recommended the grantee provide supporting documentation for costs, provide justification for the amount that exceeded the budget, and determine if the purchase of computer equipment was reasonable and allowable.

**Final Action:** \$178,206.00 collected / \$0.00 written off

#### Report # 5-26, SBA Guaranteed Loan To Ray Hansen Enterprises, LLC dba Hansen's Agway Otego Crop Center

**Summary:** The objective of the audit was to determine if the lender originated, serviced and liquidated the purchased loan in accordance with SBA rules and regulations. The audit recommended SBS seek recovery of the loan guaranty.

**Final Action:** \$234,286.00 collected / \$0.00 written off

#### Report # 6-03, Single Audit Of Greenpoint Manufacturing And Design Center (GMDC), June 1, 2004

**Summary:** The audit objective was to determine whether GMDC complied with the requirement of documenting salaries and whether the monthly cash requisitions used budgeted, not actual, salaries. The audit recommended the SBA take appropriate action in accordance with OMB guidance.

**Final Action:** \$347,692.00 collected / \$0.00 written off

#### Report # 6-14, SBA Guaranteed Loan To Terri Annette Ford And Charles Douglas Ford dba Ford's Plumbing

**Summary:** The objective of the audit was to determine if the lender originated, serviced and liquidated the purchased loan in accordance with SBA rules and regulations. The audit recommended the SBA seek recovery of the guaranty paid.

**Final Action:** \$13,072.00 collected / \$0.00 written off

#### **Report # 6-16, SBA Guaranteed Loan To Furco, Inc.**

**Summary:** The objective of the audit was to determine if the lender originated, serviced and liquidated the purchased loan in accordance with SBA rules and regulations. The audit recommended the SBA seek recovery of the guaranty paid.

**Final Action:** \$18,992.00 collected / \$0.00 written off

#### **Report # 6-17, SBA Guaranteed Loan To ScapeArt, Inc.**

**Summary:** The objective of the audit was to determine if the lender originated, serviced and liquidated the purchased loan in accordance with SBA rules and regulations. The audit recommended the SBA seek recovery of the guaranty paid.

**Final Action:** \$80,000.00 collected / \$8,269.00 written off

#### **Report # 7-02, Review Of An SBA Guaranteed Loan To Texas Truck Accessory**

**Summary:** During an ongoing audit of the guarantee purchase process, the auditor identified a problematic loan made to Texas Truck Accessory Warehouse, Inc. The audit recommended the SBA seek recovery of the guaranty paid.

**Final Action:** \$226,407.00 collected / \$30,526.00 written off

#### **Report # 7-05, SBA Guaranteed Loan To Rafael Remus Milan dba Palmarejo Service Station**

**Summary:** During an ongoing audit of the guarantee purchase process, the auditor identified a problematic loan made to Rafael Remus Milan dba Palmarejo Service Station. The loan was reviewed to determine if the lender originated, serviced and liquidated the purchased loan in accordance with SBA rules and regulations. The audit recommended the SBA seek recovery of the guaranty paid.

**Final Action:** \$31,463.00 collected / \$0.00 written off

#### **Report # 7-07, SBA Guaranteed Loan To One One Nine Consulting Corporation**

**Summary:** During an ongoing audit of the guarantee purchase process, the auditor identified a problematic loan made to One One Nine Consulting Corporation dba Abobest. The loan was reviewed to determine if the lender originated, serviced and liquidated the purchased loan in accordance with SBA rules and regulations. The audit recommended the SBA seek recovery of the guaranty paid.

**Final Action:** \$22,000.00 collected / \$0.00 written off

#### **Report # 7-09, SBA Guaranteed Loan To Ayman M. Salaymeh And Afaf A. Salaymeh dba L&L Legal Assistance**

**Summary:** During an ongoing audit of the guarantee purchase process, the auditor identified a problematic loan made to Ayman M. Salaymeh and Afaf A. Salaymeh dba L&L Legal Assistance. The loan was reviewed to determine if the lender originated, serviced and liquidated the purchased loan in accordance with SBA rules and

regulations. The audit recommended the SBA seek recovery of the guaranty paid.

**Final Action:** \$141,689.00 collected / \$0.00 written off

#### **Report # 7-10, SBA Guaranteed Loan To Jaime Sanchez dba Video Master Of Leonard Street**

**Summary:** During an ongoing audit of the guarantee purchase process, the auditor identified a problematic loan made to Jaime Sanchez dba Video Master of Leonard Street. The loan was reviewed to determine if the lender originated, serviced and liquidated the purchased loan in accordance with SBA rules and regulations. The audit recommended the SBA seek recovery of the guaranty paid.

**Final Action:** \$183,297.00 collected / \$0.00 written off

#### **Report # 7-15, Review Of An SBA Guaranteed Loan To Daniel Ereaux dba Homesteaders Pizza**

**Summary:** During an ongoing audit of the guarantee purchase process, the auditor identified a problematic loan made to Daniel Ereaux dba Homesteaders Pizza. The loan was reviewed to determine if the lender originated, serviced and liquidated the purchased loan in accordance with SBA rules and regulations. The audit recommended the SBA seek recovery of the guaranty paid.

**Final Action:** \$0.00 collected / \$82,411.00 written off

#### **Report # 7-17, SBA Guaranteed Loan To IROM CNC Machining, Inc. and IROM Imaging, Inc.**

**Summary:** During an ongoing audit of the guarantee purchase process, the auditor identified a problematic loan made to IROM CNC Machining, Inc. and IROM Imaging, Inc. The loan was reviewed to determine if the lender originated, serviced and liquidated the purchased loan in accordance with SBA rules and regulations. The audit recommended the SBA seek recovery of the guaranty paid.

**Final Action:** \$81,316.97 collected / \$0.00 written off

Funds Put To Better Use

#### **Report # 7-22, Securing Collateral For Disaster Loan Disbursements**

**Summary:** The objective of this audit was to determine whether the SBA obtained all of the documents required to protect its interest on secured loans prior to disbursing loan proceeds, and maintained original mortgage document needed to record a lien on property serving as collateral. The audit recommended SBA's Office of Disaster Assistance review all loans associated with the backlog of checks to ensure collateral on these loans was perfected.

**Final Action:** \$376,192,780.00 implemented

Table III

<b>Audit Recommendations Not Completed Within 1 Year</b> As Of September 30, 2007
<b>Report # 0-14, 7(a) Service Fee Collections</b>
<p><b>Program:</b> OCF0  <b>Date Issued:</b> 03/30/00  <b>Management Decision Date:</b> 08/22/00</p> <p><b>Explanation:</b> The recommendation is to the Chief Financial Officer to establish receivable accounts for 7(a) loan service fees. The SBA has determined that account receivable processing would not be cost efficient for these ongoing 7(a) user fees. The SBA is exploring the possibility of offsetting the amount of fees owed against the amount of purchases disbursed to banks on defaulted loans. This final action is expected by 10/01/08.</p>
<b>Report # 0-30, SBA's Administration of the MBELDEF Cosponsorship</b>
<p><b>Program:</b> SDB  <b>Date Issued:</b> 09/30/00  <b>Management Decision Date:</b> 03/26/01</p> <p><b>Explanation:</b> One recommendation remains open to the Office of Government Contracting and Business Development to determine the pro rata share of food costs for non-government attendees versus the amount collected at a cosponsorship gathering. The Office of General Counsel is preparing a legal opinion to address the outstanding issues regarding this Cosponsorship Agreement. This final action is expected to be completed by 10/31/07.</p>
<b>Report # 2-12, Improvements In The SBLC Oversight Process</b>
<p><b>Program:</b> SBLC  <b>Date Issued:</b> 03/20/02  <b>Management Decision Date:</b> 08/27/02</p> <p><b>Explanation:</b> The recommendation is to develop a formal policy regarding effective supervisory and enforcement actions. The Agency submitted proposed oversight regulations to OMB for clearance, a response is due back in October 2007. This final action is expected by 10/31/07.</p>
<b>Report # 2-29, Internal Control Over Colson Services Corporation's Contract As Central Servicing Agent For SBA's CDC Program</b>
<p><b>Program:</b> OFA  <b>Date Issued:</b> 09/16/02  <b>Management Decision Date:</b> 12/12/02</p> <p><b>Explanation:</b> The recommendation is for the Chief Financial Officer to use the Certified Development Company program trial balance to record Master Reserve Fund items on SBA's financial statements. FASAB issued a new accounting standard on fiduciary activities. This standard is consistent with SBA's current MRA reporting treatment. A final action is expected by 08/15/2008.</p>
<b>Report # 3-08, SBA's Oversight Of The Fiscal Transfer Agent (FTA) For The 7(a) Loan Program</b>
<p><b>Program:</b> CA  <b>Date Issued:</b> 01/30/03  <b>Management Decision Date:</b> 10/15/03</p> <p><b>Explanation:</b> Capital Access has three open recommendations: to begin the process of initiating a new procurement action for FTA activities and terminate the existing contract, to review FTA activities and identify contract costs for fees and services, and to develop SBA procedures and regulations governing the proper operation of the Master Reserve Fund. Regarding the first two recommendations, the RFP was published and proposals are due back in October 2007. The current contract was extended. These two recommendations are expected to be completed by 02/01/08. For the remaining recommendation, a rewrite of the procedures was recently completed and it is currently in clearance. This recommendation is expected to be completed by 12/31/07.</p>
<b>Report # 3-20, SBA's Information System Controls For FY-2002</b>
<p><b>Program:</b> Agency Management  <b>Date Issued:</b> 03/31/03  <b>Management Decision Date:</b> 05/12/03</p> <p><b>Explanation:</b> There is one open recommendation to the Office of the Chief Information Office to enforce procedures and remove unauthorized software. During the process of an IT Infrastructure Upgrade, all unlicensed/unauthorized software will be removed from workstations. Systems controls will further prevent the installation of unauthorized software. A final action is being reviewed by the OIG.</p>

Table continued on next page

## Audit Recommendations Not Completed Within 1 Year

As Of September 30, 2007

### Report # 3-26, Microloan Program: Moving Toward Performance Management

**Program:** Microloan

**Date Issued:** 05/13/03

**Management Decision Date:** 08/28/03

**Explanation:** Three recommendations remain open to the Office of Financial Assistance (OFA). 1) Work with the Office of Field Operations to establish a task force to develop a system for district office marketing and oversight of the Microloan program. 2) Ensure the development of a comprehensive Microloan program SOP. The Microloan program SOP was put it in clearance, some offices did not provide full comments or clearance. This clearance process was not reinitiated. 3) Ensure program goals are set and outcome-oriented data, such as information on business status at the time the microloan is paid in full or written off. The principal program goals are set forth in the SBA Microloan regulations, which OFA cannot change without a regulatory change.

### Report # 3-30, Early Defaulted Loan To 2B Systems, Inc.

**Program:** CA

**Date Issued:** 06/19/03

**Management Decision Date:** 12/21/04

**Explanation:** The one open recommendation is to the Office Of Financial Assistance to seek recovery of \$630,224, plus accrued interest, from First International Bank on the guaranty paid for a specific loan, less any subsequent recoveries. The lender will not repay. Consequently, SBA's OGC will provide an analysis of the sufficiency of the legal grounds for the SBA to pursue enforced recovery proceedings. The final action target date has passed and another has not yet been established.

### Report # 3-34, SBA's Compliance With JFMIP Property Management System Requirements

**Program:** Agency Management

**Date Issued:** 07/23/03

**Management Decision Date:** 09/11/03

**Explanation:** The recommendation is to the Chief Financial Officer to either establish and implement an interface or consolidate the reporting of all property management functions in JA2MS. This is a low priority financial management initiative because the SBA has limited capitalized property that meets the \$50k threshold. SBA has deferred the implementation of an integrated property management system until after its Loan Management and Accounting System is developed. A final action is expected by 12/31/2007.

### Report # 3-35, National Women's Business Council (NWBC)

**Program:** Agency Management

**Date Issued:** 07/28/03

**Management Decision Date:** 09/03/03

**Explanation:** This recommendation is to the NWBC Executive Director to require Springboard 2000 Enterprises, Inc. and Forum for Women Entrepreneurs to provide justification for receiving \$579,368.00 based on expenses incurred. The SBA referred the matter to the Department of Justice and is awaiting their decision on whether the Government will pursue litigation to recover the funds.

### Report # 4-13, Early Defaulted Loan To Ocumed Group, Inc., Roseland, NJ

**Program:** 7(a)

**Date Issued:** 03/02/04

**Management Decision Date:** 04/06/04

**Explanation:** The recommendation is to Capital Access to seek recovery of principal, interest and expenses paid to First International Bank for a specific loan. OFA requested an OGC legal opinion regarding litigation on the basis of faulty loan origination. The final action target date has passed and another has not been determined.

*Table continued on next page*

## Audit Recommendations Not Completed Within 1 Year

As Of September 30, 2007

### Report # 4-16, SBA's Administration Of The Procurement Activities Of Asset Sale Due Diligence Contracts And Task Orders

**Program:** OPGM

**Date Issued:** 03/17/04

**Management Decision Date:** 05/12/04

**Explanation:** There are 21 open recommendations to the Office of Management and Administration. The recommendations are; to revise current procedures regarding set-aside contracts to require information be provided to clearly support the amount of personnel costs to be subcontracted, ensure the amount of subcontracting is reviewed and documented in the contract file, revise procedures to ensure contracting officials review proposals and question any language that indicates contractors are not complying, develop and implement procedures to monitor contractor compliance with the 50 percent rule, obtain an interpretation from the Office of Policy, Planning and Liaison on whether the labor of third party vendors should be considered in determining compliance with the 50 percent rule, refer any potential contract violations to GSA for appropriate action, require FSS contractors classified as small businesses to certify their size to ensure they fit within applicable size standards, ensure GSA ordering procedures are fully complied with for task orders to FSS contracts, ensure all sole source requirements of the FAR are complied with, take appropriate action to ensure the contracting officials involved in the decision follow proper procedures, ensure debriefings are conducted in accordance with the FAR, take appropriate action to ensure contracting officials involved in the decision to postpone the debriefing related to the due diligence task order for asset sales conduct future briefings in accordance with requirements, ensure contracting officials provide all potential offerors with any contractor questions and respective SBA answers that clarify ambiguities in the solicitation, develop and implement planning procedures in accordance with FAR Part 7 and issue a Procedure Notice to ensure SBA program officials are aware of procurement planning requirements, ensure written acquisition plans are prepared for all future asset sale due diligence contracts and task orders, develop and issue Agency procedures regarding the content, format and retention of all required contractor performance evaluations, ensure contracting officials receive training, ensure future asset sale due diligence contracts are reported, issue the draft SOP 00 11 2 as soon as possible, and to ensure contracting officials are reviewing the GSA approved price lists when issuing task orders to FSS contracts. A rewrite of SOP 00 11 was put into clearance during FY 2007. However, substantive comments required the rewriting of several sections. Also, program staff are working with General Counsel staff to determine the definitions that will be used in determining compliance with the 50% rule. A final action is expected by 09/01/2008.

### Report # 4-19, SBA's Information Systems Controls FY 2003

**Program:** OCIO

**Date Issued:** 04/29/04

**Management Decision Date:** 08/04/04

**Explanation:** One recommendation remains open to the Office of Chief Information Officer to develop policies and procedures to ensure control weaknesses identified in certification and accreditation (C&A) reviews and audit reports are resolved in a timely manner. Procedures and a schedule for applying patches have been developed. A managers' report is under development. This final action is expected by 10/26/07.

### Report # 4-22, Business Development Provided By The 8(a) Business Development Program

**Program:** BD

**Date Issued:** 06/02/04

**Management Decision Date:** 07/14/04

**Explanation:** The two open recommendations are to the Office of Business Development to ensure the draft SOP is finalized, and to ensure the SBA collects sufficient data to analyze and report on 8(a) business development. An 8(a) Business Development Plan outlines specific initiatives and details the process for delivering and tracking services. This plan is contingent upon the deployment of BD MIS in mid FY 2008 when it will be incorporated into the SOP. The new BD MIS will include data collection on the type and amount of business development assistance provided to 8(a) firms. BD MIS will be deployed in FY 2008. These recommendations are expected to be final by 09/30/08.

### Report # 4-28, SBA Guaranteed Loan To Wynne Telecom, Inc.

**Program:** Office of Financial Assistance (OFA)

**Date Issued:** 07/09/04

**Management Decision Date:** 10/06/04

**Explanation:** The one open recommendation is to seek recovery of \$142,549 from the lender for the guaranty paid on a specific loan. The OGC issued a legal opinion and the lender repaid \$142,549.00. This recommendation is expected to be closed by 10/31/07.

*Table continued on next page*



## Audit Recommendations Not Completed Within 1 Year

As Of September 30, 2007

### Report # 4-34, SBA's Process For Complying With The FMFIA Reporting Requirements

**Program:** OCF0

**Date Issued:** 07/29/04

**Management Decision Date:** 09/09/04

**Explanation:** The two recommendations remaining open are to the Office of the Chief Financial Officer to revise, clear and issue the draft SOP 00 02 3 and clearly define material weakness, as it relates to the SBA, and define material weakness at the different levels of management within the Agency. The SOP is still in development. The definition of an FMFIA "material weakness" is included in the draft SOP and the OCF0 has discussed the meaning of an FMFIA "material weakness" in the training provided to SBA program managers. This will be used by program managers in their submission of the FY 2007 FMFIA assurance for their programs. These final actions are expected to be completed by 12/31/07.

### Report # 4-36, Early Defaulted Loan To Midwest Rotary Manifolds Company

**Program:** 7(a)

**Date Issued:** 08/10/04

**Management Decision Date:** 10/06/04

**Explanation:** The one open recommendation requested the program office seek recovery of the SBA guaranty repair of \$740,000 paid to First International Bank for a specific loan. Based on an OGC legal opinion, OFA recommended no recovery from the lender. This final action was completed on 10/05/07.

### Report # 4-39, Management Advisory Report On The Transfer Of Operations To The National Guaranty Purchase Center (NGPC)

**Program:** CA

**Date Issued:** 08/31/04

**Management Decision Date:** 04/13/05

**Explanation:** Two recommendations remain open to Capital Access. 1) In coordination with OGC, determine the appropriate number of loan officers, supervisors and attorneys to be assigned to the Center. A comprehensive reassessment of NGPC staffing levels began in calendar year 2007, a raise in staffing level was approved and positions were filled. Additional recruitment actions are continuing. This final action is expected to be completed by 12/31/07. 2) Determine the locations of all loan files coded to the Center and not entered into the Center's Inventory Tracking System. The NGPC completed a comprehensive review of all loan files in FY 2006. All files are accounted for and have been entered into the center's tracking systems. The final action is expected to be completed by 10/31/07.

### Report # 43H006021, 8(a) Continuing Eligibility Reviews

**Program:** 8(a)

**Date Issued:** 09/30/04

**Management Decision Date:** 12/30/04

**Explanation:** The recommendation is to the Office of Government Contracting and Business Development to establish procedures for determining whether 8(a) participants should no longer be considered economically disadvantaged based on their ownership interest in their 8(a) firms. This audit recommendation will remain open until the Agency can agree on a definition of Economic Disadvantage. This matter has been elevated to the Deputy Administrator for review.

### Report # 4-41, Selected SBA General Support Operating Systems

**Program:** OCIO

**Date Issued:** 09/10/04

**Management Decision Date:** 11/09/04

**Explanation:** There are four open recommendations to the Office of Chief Information Officer. These recommendations are related to systems patches and security fixes, file integrity, firewall risk assessment and monitoring strategy, and router logging and monitoring strategy. Procedures are in place to apply patches, installation of the file integrity checker tool was delayed until the Windows Migration project was completed, OCIO is drafting a firewall logging policy, implementation of router logging was slowed due to the lack of a test environment. Each of these final actions are expected to be completed by 12/31/2007.

### Report # 4-42, SBA's Email System

**Program:** OCIO

**Date Issued:** 09/10/04

**Management Decision Date:** 11/15/04

**Explanation:** There are three open recommendations to the Office of Chief Information Officer. These recommendations are related to risk assessment of the email environment and email policies. A risk assessment is being performed and procedures for outbound email are being evaluated. These final actions are expected to be completed by 12/30/07.

*Table continued on next page*

## Audit Recommendations Not Completed Within 1 Year

As Of September 30, 2007

### Report # 4-44, Summary Audit Of SBA-Sponsored And Cosponsored Events Conducted By District Offices

**Program:** OSA

**Date Issued:** 09/24/04

**Management Decision Date:** 05/11/05

**Explanation:** Two recommendations are open to the Office of Strategic Alliances (OSA). Recommend the OSA develop and issue, in accordance with the OGC, standard operating procedures addressing SBA-sponsored events and to require that district offices maintain files for SBA-sponsored events and report information to SBA Headquarters. A new SOP is in development. The first chapter on cosponsorships was issued, other chapters will include External Agreements and SBA-Sponsored Events. These final actions are overdue and new target dates have not yet been determined..

### Report # 5-04, Review Of The Small Disadvantaged Business Certification Program

**Program:** BD

**Date Issued:** 11/04/04

**Management Decision Date:** 04/01/05

**Explanation:** There are five open recommendations to the Office of Business Development (BD). 1) Develop and implement procedures to ensure proper determination of economic disadvantage. This recommendation will remain open until the Agency can agree on a definition of Economic Disadvantage. 2) Determine whether responding affirmatively to a question concerning derogatory financial information, but not providing an explanation, is in violation of 13 CFR 124.108(e). Training was provided to the certification and business development staff. A Procedure Notice is also being developed. 3) Give each SDB or its owner an opportunity to pay back the outstanding Federal obligation. BD provided training to the certification and field staff on how to use the Federal Government's database of delinquent Federal debtors. BD will also prepare a Procedure Notice. 4) Ensure the SDB application filing system safeguards critical program documents in accordance with SOP 00 41 2, Records Management Program. BD will conduct an audit of the 8(a) and SDB file rooms, and then provide training and draft a Procedure Notice to address procedures and safeguards for critical program documents. 5) Ensure the reliability and integrity of all data in the tracking system before that data is migrated to the new database. BD executed a contract to ensure the integrity of all data in the tracking system and migrate it to the SBA mainframe. The project was stopped due to data integrity issues. Excepting the recommendation regarding "economic disadvantage," the recommendations are expected to be completed by 12/30/07.

### Report # 5-12, SBA's Information System Controls for FY 2004

**Program:** OCIO

**Date Issued:** 02/24/05

**Management Decision Date:** 03/23/05

**Explanation:** There are three open recommendations addressed to the Chief Information Officer (CIO). Recommend the CIO develop logging procedures for all SBA internal and contractor supported general support systems and major applications. OCIO is developing logging retention policies. This recommendation is expected to be completed by 12/18/07. Recommend the CIO develop minimally acceptable baseline configurations. A baseline configuration was developed but cannot be completed until the new Windows migration is successfully implemented. A final action is being reviewed by the OIG. Recommend the CIO develop procedures for the administration of and restriction of access to system software. An Enterprise-wide Change Control Board was created. This recommendation is expected to be completed by 11/01/07.

### Report # 5-14, SBA Small Business Procurement Awards Are Not Always Going To Small Businesses

**Program:** GC/BD

**Date Issued:** 02/24/2005

**Management Decision Date:** 08/17/2006

**Explanation:** There are four open recommendations to the Office of Government Contracting and Business Development to coordinate with the FAR Council to resolve the set-aside exception inconsistency, work with GSA to ensure small business representations follow size eligibility requirements, work with the FAR Council to require compliance with set-aside regulations on multiple award vehicle purchases and continue working with DOD and GSA to modify DOD's Central Contractor Registration (CCR). The SBA submitted a case to the FAR Council in April 2006, but the Council rejected SBA's approach because it would protract the procurement process. The SBA is currently reviewing its size standards to determine whether a change would minimize confusion. The SBA published a final Size Recertification Rule that addressed the multiple award recommendation. The CCR was modified in April 2005 to eliminate the "self certification" button and the CCR has been modified to use the Small Business Source System to update the CCR record and small business status now includes the NAICS code.

### Report # 5-20, The Contract Bundling Process

**Program:** GC/BD

**Date Issued:** 05/20/2005

**Management Decision Date:** 05/23/2006

**Explanation:** There is one open recommendation to the Office of Government Contracting and Business Development to disseminate a best practices guide to maximize small business contracting opportunities. During FY 2006, we established a link from SBA's website to the Department of Defense's Benefit Analysis Guidebook. Work to disseminate best practices is continuing.

*Table continued on next page*

## Audit Recommendations Not Completed Within 1 Year

As Of September 30, 2007

### Report # 5-23, SBA's Administration Of Its Special Appropriations Grant

**Program:** OA

**Date Issued:** 09/21/2005

**Management Decision Date:** 05/01/2006

**Explanation:** There are five open recommendations to the Office of Administration to develop policies and procedures regarding the Agency's grants portfolio, obtain documentation that shows all costs charged to the grant are allocable and allowable, include guidelines in the grant application instructions that clearly define key personnel, obtain all performance and financial reports as required by the terms of the grant, and consider invoking SBA authority to suspend grantee payments until earlier audit recommendations are addressed. A rewrite of SOP 00 11 was put into clearance. However, substantive comments were provided warranting the rewriting of several sections. This is expected to have a final action by 09/01/08.

### Report # 5-24, Criteria For Overcoming The Presumption Of Social Disadvantage Is Needed

**Program:** BD

**Date Issued:** 09/28/2005

**Management Decision Date:** 03/09/2006

**Explanation:** There are three open recommendation to the Office of Business Development (BD) to determine whether the program participant discussed in this report is socially disadvantaged, ensure that this program is terminated from the 8(a) BD program, if it is determined that he is not socially disadvantaged, either develop and implement criteria on what constitutes "credible evidence" for overcoming the presumption of social disadvantage. The final action target date has passed and a new target date has not been determined.

### Report # 5-28, Review Of SBA Procedures For Cash Gifts

**Program:** OA

**Date Issued:** 09/30/2005

**Management Decision Date:** 02/23/2006

**Explanation:** The one open recommendation is to the Office of Administration to streamline procedures to obligate funds within five working days after a commitment document is approved. This procedure is included in an Agency SOP currently in clearance. This is expected to have a final action by 02/29/08.

### Report # 5-29, SBA Needs To Implement A Viable Solution To Its Loan Accounting System Migration Problem

**Program:** COO

**Date Issued:** 09/30/2005

**Management Decision Date:** 12/15/2005

**Explanation:** The one open recommendation is to the Chief Operating Officer to take steps to improve the computing environment and eliminate the security vulnerabilities identified for the mainframe operating system. SBA is in the process of acquiring the services of the solution provider who will implement, host and manage the Integrated Loan Management and Integrated Financial Management system as per the Federal security and privacy requirements. This is expected to have a final action by 12/31/2008.

### Report # 6-01, Independent Evaluation Of SBA's Information Security Program

**Program:** OCIO

**Date Issued:** 10/07/2005

**Management Decision Date:** 11/14/2005

**Explanation:** There are two open recommendations to the Office of the Chief Information Officer to require that configuration management plans be incorporated within C&A packages for all SBA systems and to ensure Privacy Impact Statements contain an overall assessment of the system compliance to the Privacy Act. OCIO requires a Configuration Management Plan as a part of the C&A process and has implemented a qualitative methodology regarding the Privacy Act, as required by OMB. These are expected to have final actions by 10/31/07.

### Report # 6-04, SBA's FY 2005 Financial Statements

**Program:** OCFO

**Date Issued:** 11/15/2005

**Management Decision Date:** 05/10/2006

**Explanation:** The two open recommendations are to the Office of the Chief Financial Officer (OCFO) to coordinate with the Office of Procurement and Grants Management (OPGM) to implement timely closeout procedures and strengthen monitoring procedures to ensure that all grant undelivered orders are supported by evidence as to their need and validity. OCFO continues to work with OPGM on this issue and this recommendation is expected to have final action by 10/01/08. Recommend the CFO coordinate with the Office of Disaster Assistance (ODA) to establish policies and procedures for processing Time and Attendance (T&A) reports and Federal Express shipping charges. ODA continues work to implement their consolidated administrative operation. Work on the processing of T&A and Federal Express continues. This is expected to have a final action by 03/01/08.

*Table continued on next page*

## Audit Recommendations Not Completed Within 1 Year

As Of September 30, 2007

### Report # 6-07, Review Of The 1502 Reporting Process

**Program:** CA

**Date Issued:** 12/09/2005

**Management Decision Date:** 04/03/2006

**Explanation:** The two open recommendations are to the Office of Capital Access (CA) to revise SOPs related to the 1502 reporting process and offices responsible for correcting reporting errors, and to ensure SBA and lender personnel receive appropriate training regarding the 1502 reporting process. The 1502 processes are expected to be changed with the upcoming FTA contract, the SOP will be updated once the new FTA has been selected and implemented. This is expected to have a final action by 12/31/07. A number of training methods have been introduced. The new FTA phase in period is anticipated to begin in FY 2008. This recommendation is expected to have a final action by 02/01/08.

### Report # 6-09, SBA's Administration Of The Supplemental Terrorist Activity Relief (STAR) Loan Program

**Program:** CA

**Date Issued:** 12/23/2005

**Management Decision Date:** 03/23/2006

**Explanation:** The two open recommendations are to the Office of Capital Access (CA) to determine, in consultation with OGC, whether STAR loans that contain inadequate justifications can be reclassified and for CA to review guaranties the Agency has already paid under the STAR loan program. No case of a loan misclassified as a STAR loan and submitted for purchase has been found, this issue has not been resolved. All but about 12 of the over 400 cases of STAR loans that contained inadequate justifications have been resolved. These recommendations are expected to have final actions by 10/31/07.

### Report # 6-10, SBA's FY 2005 Financial Statements Management Letter

**Program:** OCF0

**Date Issued:** 1/18/2006

**Management Decision Date:** 03/06/2006

**Explanation:** There are two open recommendations to the Office of the Chief Financial Officer (OCFO) to work with the Office of Field Operations to enhance existing controls over the loan charge-off process and to review and update the accounting SOP to include SBA's policies and procedures for processing detailed accounting transactions, including automated and manual journal vouchers. The OCFO will continue to work with SBA program and executive management during FY 2008 to improve internal control over loan liquidation and charge off. This recommendation is expected to be final by 06/30/08. OCFO is working on an update to the documentation of SBA accounting procedures that will include journal voucher processing. This recommendation is expected to be final by 12/31/07.

### Report # 6-15, Monitoring Compliance With 8(a) Business Development Regulations During 8(a) Business Development Performance

**Program:** GC/BD

**Date Issued:** 03/16/2006

**Management Decision Date:** 08/16/2006

**Explanation:** There is one open recommendation to the Office of Field Operations to ensure surveillance reviews of procuring agencies are conducted on a regular basis. A Procedure Notice is currently in clearance. This is expected to have a final action by 12/31/07.

### Report # 6-18, The Central Contractor Registration Needs Large Business And Small Business Designation Improvements

**Program:** GC

**Date Issued:** 03/21/2006

**Management Decision Date:** 04/03/2006

**Explanation:** The two open recommendation are the Office of Government Contracting and Business Development to work with the DOD and GSA and ensure DOD's Central Contractor Registration (CCR) is modified to ensure all data in CCR concerning company size is consistent and includes a description of how to calculate the number of employees and annual revenue number where the registrant inputs this data. The final action target date has passed and a new target date has not been determined.

### Report # 6-19, Review Of A Company's 8(a) Business Development Program Eligibility

**Program:** BD

**Date Issued:** 03/30/2006

**Management Decision Date:** 8/16/2006

**Explanation:** The one open recommendation is the Office of Government Contracting and Business Development to take the necessary steps to remove a specific company from the 8(a) BD Program. A copy of the termination letter and signed final action paperwork will be provided to the OIG. This is expected to have a final action by 10/31/07.

*Table continued on next page*

**Audit Recommendations Not Completed Within 1 Year**

As Of September 30, 2007

**Report # 6-25, SBA's Implementation Of The Improper Payments Information Act (IPIA)****Program:** OCF0**Date Issued:** 06/21/2006**Management Decision Date:** 7/19/2006

**Explanation:** The one open recommendation is to the Office of the Chief Financial Officer to develop Procedure Notices or SOPs as internal guidance when changes to IPIA requirements are issued by OMB. An SOP on internal control procedures will include a chapter on Eliminating Improper Payments and includes the IP estimating and reporting processes. This is expected to have a final action by 12/31/07.

**Report # 6-32, Economically Disadvantaged Status Of An 8(a) Program Participant's Owner****Program:** BD**Date Issued:** 09/25/2006**Management Decision Date:** 09/25/2006

**Explanation:** The one open recommendation is to the Office of Government Contracting and Business Development to determine whether contingent assets such as trusts should be considered when assessing economic disadvantage and whether any regulation changes are needed. A copy of the termination letter will be provided to OIG. This is expected to have a final action by 10/31/07.

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

**Report No. 08-01**

*Fiscal Year 2008 Report  
on the Most Serious Management and  
Performance Challenges Facing the  
Small Business Administration*

October 16, 2007



**U.S. SMALL BUSINESS ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL  
WASHINGTON, D.C. 20416**

October 16, 2007

MEMORANDUM

TO: Steven C. Preston  
Administrator

FROM: Eric M. Thorson   
Inspector General

SUBJECT: Fiscal Year 2008 Report on the Most Serious Management and  
Performance Challenges Facing the Small Business Administration

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General's (OIG) Fiscal Year (FY) 2008 Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration (SBA). This report represents our current assessment of Agency programs and/or activities that pose significant risks, including those that are particularly vulnerable to fraud, waste, error, mismanagement, or inefficiencies. The Challenges are not presented in order of priority, as we believe that all are critical management or performance issues facing the Agency.

Our report is based on specific OIG, Government Accountability Office, and other official reports, as well as our general knowledge of SBA's programs and operations. Our analysis generally considers those accomplishments that SBA reported as of September 30, 2007.

The Agency continues to demonstrate substantial progress in resolving the Challenges. For example, SBA's efforts to identify and address the underlying causes of its financial management issues, improve the models for estimating the Agency's subsidy costs, strengthen controls over financial statement preparation, and adhere to all reporting deadlines has resulted in two successive unqualified audit opinions on its financial statements. Recognizing this accomplishment, our FY 2008 report reflects the elimination of one of the Challenges in last year's report: "SBA faces significant challenges in financial management and reporting, which affects its ability to provide reliable, timely, and accurate financial information" (formerly Challenge 2). The Challenges have been renumbered to reflect this change.

Within each Management Challenge there are a series of "recommended actions" to resolve the Challenge. Each recommended action is assigned a color "status" score, except for Management Challenge 3, which was substantially revised in May 2007 to reflect our current assessment of the difficult issues facing the Agency's human capital management program. The scores are as follows: Green for Implemented; Yellow for Substantial Progress; Orange for Some Progress; and Red for No Progress. An upwards arrow in the color box indicates that the color score improved over last year's report. As part of the OIG's continuing evaluation of the Management Challenges, certain Challenges have been updated or revised.

Actions that were scored Green last year, and which remained Green this year, have been moved up to the "history bar," which is located above the action items. The history bar helps to show any progress that the Agency has made on the Challenge over the past four fiscal years (or as long as

the Challenge has existed, if shorter) by reporting the number of actions that moved to Green each year.

Following is a summary of the FY 2008 report on the Agency's Most Serious Management and Performance Challenges.

	Topic	Status Score				Improved <sup>1</sup>
		Green	Yellow	Orange	Red	
1	Small Business Contracts		2	2		1
2	IT Security	2	5	1		4
3	Human Capital	n/a	n/a	n/a	n/a	
4	Loan Guaranty Purchase		3	1		2
5	Lender Oversight	1	5	5		4
6	8(a) BD Program	1	1	4	1	3
7	SBIC Program	1	3	2		5
8	Loan Agent Fraud	1	2	3		3
9	Directives System	3		1		3

We would like to extend our appreciation to SBA's management and staff for their courtesy and cooperation in providing us with the information needed to complete this report in a timely manner.

I want to thank you, and Deputy Administrator Carranza, for your dedicated efforts in promoting agency actions to address the Management Challenges. I think that the Agency's considerable progress this past year reflects the emphasis that you have placed on the OIG Challenges.

Please let me know if you have any questions.

Attachment

cc: Deputy Administrator

<sup>1</sup> "Improved" refers to a recommended action that showed progress this year over last year's score (as denoted by an "up" arrow).



**Table of Contents**

	Page
Challenge 1. Procurement flaws allow large firms to obtain small business awards and agencies to count contracts performed by large firms towards their small business goals .....	1
Challenge 2. Information systems security needs improvement.....	2
Challenge 3. Effective human capital strategies are needed to enable SBA to successfully carry out its mission and become a high-performing organization .....	3
Challenge 4. SBA’s National Guaranty Purchase Center needs better controls over the 7(a) loan guaranty purchase process .....	4
Challenge 5. SBA needs to further strengthen its oversight of lending participants .....	5
Challenge 6. The 8(a) program needs enhanced business development processes, objectively defined eligibility standards, upgraded training and information systems, improved graduation procedures, and better oversight of contractor compliance with program regulations .....	6
Challenge 7. Insufficient and outdated SBA controls continue the excessive risk of the SBIC program .....	7
Challenge 8. Effective tracking and enforcement would reduce financial losses from loan agent fraud.....	8
Challenge 9. SBA needs to continue its efforts to update its system of directives to provide proper guidance and control over its operations.....	9
Appendix: Relevant Reports .....	10

**Challenge 1: Procurement flaws allow large firms to obtain small business awards and agencies to count contracts performed by large firms towards their small business goals.**

The Small Business Act establishes a Government-wide procurement goal that 23 percent of the total value of all prime contract awards for each fiscal year (FY) be awarded to small businesses. As the advocate for small business, the Small Business Administration (SBA) should strive to ensure that only small firms obtain small business awards and agencies only receive small business credit for awards to small firms.

Large companies improperly obtain small business contracts due to a variety of problems. Some contractors obtain small business contracts for which they are not eligible by misrepresenting their size or by not diligently verifying whether they meet size criteria. In other cases, improper awards result from errors by contracting personnel, such as accepting questionable size self-certifications or possible unfamiliarity with small business contracting procedures. Although a new database, Online Representations and Certifications Application (ORCA), allows contractors to maintain current certification information electronically, it is unclear whether contracting officers are required to review on-line certifications prior to awarding contracts. SBA needs to do more to promote contractor accuracy, ensure that government contracting personnel receive adequate training on small business procurement procedures, and encourage greater accuracy in Federal agency small business contracting reports.

The Agency also needs to address a loophole with General Services Administration Multiple Awards Schedule (MAS) contracts that contain multiple industrial codes. A company awarded such a contract can identify itself as small on individual task orders awarded under that contract even though it does not meet the size criteria for the specific industrial code for the applicable contract. Thus, agencies may obtain small business credit for using a firm classified as small even if the firm is not small for the specific goods or services procured through a particular task order under such a MAS contract.

Although more remains to be done, in FY 2007 SBA took a number of significant steps to begin to address this Challenge: (1) issuing final regulations requiring contractor size recertification on a regular basis on MAS and Government Wide Acquisition Contracts and when a firm has merged or been acquired; (2) issuing a Small Business Procurement Scorecard which grades agencies on their efforts to ensure accurate reporting, (3) issuing a letter jointly with the Office of Federal Procurement Policy to all procuring agencies emphasizing the importance of accurate contract reporting; (4) working to implement new governmental procedures to improve the validity and reliability of procurement data reporting, (5) developing small business procurement training course materials and conducting numerous training sessions for procuring agency personnel; and (6) working to establish requirements for procurement personnel to review on-line certifications.

Challenge History Fiscal Year Issued: 2005	Actions Accomplished (Green Status) during Past 4 FYs (Green actions move from "remaining actions" to this row after one year)			
			05-0	06-0
<b>Remaining Actions Needed for FY 2008</b>				<b>Status at end of FY 2007</b>
1. Develop and take steps to provide reasonable assurance that agencies are providing adequate basic and continuing education training to all contracting personnel on small business contracting procedures.				Orange
2. Develop and implement a program that promotes accurate contractor certifications, and which ensures that contracting personnel review contractor certifications.				Yellow↑
3. Develop and implement a plan that ensures that Federal agencies accurately report the number of contracts they award to small businesses.				Yellow
4. Issue regulations that require firms to meet the size standard for each specific order they receive under a GSA schedule contract.				Orange

Green-Implemented Yellow-Substantial progress Orange-Limited Progress Red-No progress

**Challenge 2. Information systems security needs improvement.**

The confidentiality, integrity, and availability of SBA’s information systems are vital to the continued successful operation of the Agency. While information technology (IT) can result in a number of benefits, such as information being processed more quickly and communicated almost instantaneously, it can also increase the risk of fraud, inappropriate disclosure of sensitive data, and disruption of critical operations and services. SBA’s computer security program is a dynamic program requiring management attention and resources as weaknesses are identified.

In FY 2007, SBA demonstrated considerable progress in improving the security of its information systems. SBA centralized administration of its network accounts, revised SOP 90-47 to strengthen controls over access granted to contractors, established an Enterprise Change Control Board (ECCB), and standardized change control requests. It also converted a large number of its servers and desktop computers to Windows 2003 and Windows XP, which improved system controls and the control environment, and secured remote network access with two-factor authentication. Additionally, SBA improved the tracking of security weaknesses, centralized the tracking of IT security training, and demonstrated that technical training for individuals with significant security duties has improved. SBA is also to be commended for closing 71 of 104 OIG audit recommendations. To show further progress, SBA will need to install encryption access controls, and implement a process to more timely mitigate system risks that are identified as “high.” SBA will also need to identify users of the Loan Accounting System who have incompatible system access rights, demonstrate that service continuity controls over its contractor-operated systems are in place, address OIG audit recommendations more timely, and increase staff participation in computer security training.

Challenge History Fiscal Year Issued: 1999	Actions Accomplished (Green Status) during Past 4 FYs (Green actions move from “remaining actions” to this row after one year)			
	03-5	04-4	05-2	06-0
<b>Remaining Recommended Actions for FY 2008</b>				<b>Status at end of FY 2007</b>
<b><i>SBA needs to improve its Information Technology general and application control environment.</i></b>				
1. Access controls are in place and operating effectively ( <i>previously action #2</i> ).				Yellow↑
2. Application software development and program change controls are in place and operating effectively ( <i>previously action #3</i> ).				Green↑
3. System software controls are in place and operating effectively ( <i>previously action #4</i> ).				Orange↑
4. Segregation of duty controls are in place and operating effectively ( <i>previously action #5</i> ).				Yellow
5. Service continuity controls are in place and operating effectively ( <i>previously action #6</i> ).				Yellow
6. The SBA Certification and Accreditation (C&A) process is in compliance with NIST 800-37 ( <i>previously action #7</i> ).				Green↑
7. The Plan of Actions and Milestones (POA&M) accurately reports all computer security weaknesses and corrective actions ( <i>previously action #8</i> ).				Yellow
8. SBA ensures adequate and up-to-date computer security program training ( <i>previously action #11</i> ).				Yellow

Green-Implemented Yellow-Substantial progress Orange-Limited Progress Red-No progress

**Challenge 3. Effective human capital strategies are needed to enable SBA to successfully carry out its mission and become a high-performing organization.**

Between 2001 and 2006, SBA's staffing (excluding Disaster) decreased by more than 25 percent while virtually all of its programs grew significantly. For example, the number of loans made to small businesses doubled and the Agency's oversight responsibilities over government contracting to small businesses increased as the value of these Federal contracts rose by more than 50 percent. In response to budget cuts, SBA restructured key Agency operations, reengineered its largest loan programs, and downsized personnel through attrition and directed transfers. While these actions transformed the way SBA does business, the Agency did not adequately analyze priorities and allocate resources consistent with those priorities and its new business processes. As a result, there has been no assurance that adequate procedures and resources, in terms of both staffing levels and the knowledge and skills possessed by staff, have been put in place and appropriately deployed to perform critical functions. For example, audits have shown that inadequate staffing of key functions resulted in limited oversight of lenders and inadequate monitoring of 8(a) program requirements. The Agency also did not communicate to its employees a transformation strategy or "blueprint" that would have helped them better understand the changes that were taking place. As a result, many employees have not been adequately informed about their future roles and how their work contributes to accomplishment of the Agency's mission and strategic goals.

The results of the 2002, 2004, and 2006 Federal Human Capital Surveys (FHCS), which were administered by the Office of Personnel Management (OPM), illustrate the serious human capital challenges SBA is facing. These surveys, which measured Federal employees' perceptions about how effectively agencies have managed their workforces, have shown significant problems at SBA. For example, in the most recent survey, positive responses to 36 of 80 questions were far below the government-wide average, and 7 items trended significantly downward since the previous survey. Out of 36 agencies, SBA ranked near the bottom on all four human capital indices measured by the FHCS: Leadership and Knowledge Management (33rd); Results-Oriented Performance Culture (32nd); Talent Management (35th); and Job Satisfaction (34th). Individual survey questions for which SBA's scores were particularly low included those concerned with the adequacy of job-related knowledge and skills, the reasonableness of workload, sufficiency of information needed to go a good job, and employee morale. These results clearly demonstrate a need for SBA to develop, communicate, and implement immediate and ongoing measures to address the serious human capital issues that are affecting the Agency's ability to successfully carry out its mission.

Challenge History Fiscal Year Issued: 2001 (Completely Revised: 2007)	Actions Accomplished (Green Status) during Past 4 FYs (Green actions move from "remaining actions" to this row after one year)			
	03-0	04-1	05-0	06-0
<b>Remaining Recommended Actions for FY 2008</b>				<b>Status at end of FY 2007</b>
1. Allocate appropriate staffing toward Agency priorities – perform an analysis of Agency priorities and develop, communicate, and implement a comprehensive plan (including responsibilities, metrics, and timeframes) for allocating appropriate staffing (in terms of staffing levels and requisite knowledge, skills, and abilities) toward those priorities.				New
2. Take steps to correct problems identified by the FHCS – develop, communicate, and implement a corrective action plan (including priorities, responsibilities, metrics, and timeframes) to address the underlying causes of SBA's poor results on the FHCS.				New
3. Plan for the future of SBA – develop and implement an effective succession planning program to ensure that there are qualified staff available to perform SBA's mission-critical functions and meet identified priorities for the foreseeable future.				New

**Green**-Implemented **Yellow**-Substantial progress **Orange**-Limited Progress **Red**-No progress

**Challenge 4. SBA’s National Guaranty Purchase Center needs better controls over the 7(a) loan guaranty purchase process.**

The majority of loans made under the 7(a) loan-guaranty program are made with little or no review by SBA prior to loan approval because SBA has delegated most of the credit decisions to lenders originating these loans. SBA’s review of lender requests for guaranty purchases on defaulted loans is, therefore, the Agency's primary tool for assessing lender compliance on individual loans and protecting SBA from making erroneous purchase payments. However, OIG audits of early defaulted loans and SBA’s guaranty purchase process have shown that reviews made by the National Guaranty Purchase Center (NGPC) have not consistently detected lender failures to administer loans in full compliance with SBA requirements and prudent lending practices, resulting in improper payments.

SBA has taken actions to correct many of the deficiencies identified by the OIG, such as centralizing the 7(a) loan guaranty purchase process to improve the efficiency of the program. SBA has also revised Standard Operating Procedures on loan servicing and loan liquidation, developed training modules, and trained individuals responsible for making purchase decisions. Further, the Agency recently completed a reengineering study of the NGPC to determine the appropriate staffing levels for operational effectiveness and developed a statistical sampling methodology to identify improper payments in accordance with OMB requirements. While improvements have been made, additional actions are needed to strengthen the guaranty purchase decisions and effectively reduce improper payments, such as fully staffing the NGPC at the appropriate level, fully implementing the new sampling methodology, and ensuring corrective actions are taken when deficiencies in the purchase review process are identified. Also, the Agency needs to implement policies and procedures that are required in recommended action 4 below, including: (1) review of the entire lender loan file for early-defaulted loans; (2) verification of financial information; (3) identification of collateral at loan inception and after loan default; and (4) verification of borrower equity injections.

Challenge History Fiscal Year Issued: 2001	Actions Accomplished (Green Status) during Past 4 FYs (Green actions move from “remaining actions” to this row after one year)			
	03-4	04-0	05-2	06-0
<b>Remaining Recommended Actions for FY 2008</b>				<b>Status at end of FY 2007</b>
1. Devote adequate resources to the purchase process.				Yellow ↑
2. Determine the level of improper payments for the entire loan portfolio in compliance with the Improper Payments Information Act of 2002 and OMB guidance.				Yellow ↑
3. Establish a process to identify and address the risks of improper payments.				Orange
4. Implement effective policies and procedures governing the guaranty purchase process (previously action #5).				Yellow

**Green**-Implemented **Yellow**-Substantial progress **Orange**-Limited Progress **Red**-No progress

### Challenge 5. SBA needs to further strengthen its oversight of lending participants.

Since its inception in 1953, SBA has loaned or guaranteed billions of dollars to finance and spur investment in small business concerns, and over the years has shifted from being an organization that processes loans to one that relies on program participants to originate, service and liquidate loans. This reliance requires an effective participant oversight program to monitor participant noncompliance with SBA policies and procedures and take corrective action when material noncompliance is detected.

The Agency improved its oversight process by establishing a Loan and Lender Monitoring System (L/LMS) that identifies potential and actual financial risks at the portfolio, lender and loan levels. L/LMS uses internal and external information to develop credit scores for each loan, aggregates the scores by lender, and produces ratings that measure lender loan portfolio performance. In addition, the Agency has established the responsibilities and authorities of the Office of Credit Risk Management (OCRM), established Portfolio Analysis and Lender Oversight committees to assess the portfolio and individual lender performance, commenced on-site reviews of large lenders and 504 program certified development companies (CDCs) and established a corrective action process for lenders requiring improved performance. OCRM also issued guidance for on-site lender and CDC reviews, including fees to be charged to support the oversight process.

To further improve the oversight program, among other things, the Agency needs to revise the lender rating process to ensure it accurately reflects each lender's risk to SBA, conduct all required on-site reviews and examinations, identify and satisfy the staffing needed by OCRM to fully support the participant oversight mission, issue and abide by guidance designed to achieve the objectives of the lender oversight process, and demonstrate that corrective actions required of participants address the deficiencies noted.

Challenge History Fiscal Year Issued: 2001	Actions Accomplished (Green Status) during Past 4 FYs (Green actions move from "remaining actions" to this row after one year)				
	03-7(a)-3 03-SBIC-2 03-504-4	04-7(a)-7 04-504-7	05-7(a)-0 05-504-3	06-7(a)-2 06-501-1	
Remaining Recommended Actions for FY 2008				Status at end of FY 2007	
				7(a)	504
1. Implement a process that effectively assesses the level of financial risk of the portfolio, of participants, and of loans.	Yellow	Yellow			
2. Implement a program to review lenders and CDCs for compliance risks ( <i>previously action #3</i> ).	Yellow	Yellow			
3. Provide adequate personnel resources for the Office of Credit Risk Management ( <i>previously action #4</i> ).	Orange	Orange			
4. Implement a formal training program for SBA and contractor personnel ( <i>previously action #5</i> ).	n/a	Green↑			
5. Implement guidance providing for effective oversight of lending programs ( <i>previously action #6</i> ).	Orange↑	Orange↑			
6. Ensure that effective corrective actions are implemented, monitored and result in improvement in the performance of participants with unacceptable performance ( <i>previously action #7</i> ).	Yellow↑	Orange			

Green-Implemented Yellow-Substantial progress Orange-Limited Progress Red-No progress

**Challenge 6. The 8(a) program needs enhanced business development processes, objectively defined eligibility standards, upgraded training and information systems, improved graduation procedures, and better oversight of contractor compliance with program regulations.**

SBA has not placed adequate emphasis on business development to enhance 8(a) firms’ ability to compete, and does not adequately ensure that only 8(a) firms with economically disadvantaged owners in need of business development remain in the program. Allowing companies that are “business successes” to remain in the program and continue to receive 8(a) contracts can be a reason why a few companies receive most of the 8(a) contract dollars and many receive none. Recent data has shown that only a limited number of 8(a) firms are receiving a large percentage of dollars obligated against 8(a) contracts. Additionally, the program’s primary database is ineffective and inefficient, and does not contain the information needed to successfully manage the program. Finally, while SBA has delegated its contract execution authority to 26 Federal procuring agencies, it has not conducted regular surveillance reviews to ensure that agencies were effectively monitoring compliance with program regulations on awarded contracts.

In FY 2007, SBA took the following steps to address this Challenge: (1) developed a process under which 8(a) firms would receive an individualized business development plan and SBA would track the level of assistance firms received from SBDCs and other entities; (2) drafted proposed regulations and internal procedures to improve graduation procedures; (3) provided regular training to SBA 8(a) employees; (4) revised its partnership agreements with procuring agencies to identify responsibilities for monitoring contract compliance with 8(a) regulations; and (5) clarified the responsibilities for SBA to undertake surveillance reviews to ensure that procuring agencies are monitoring compliance. However, much more work is needed.

Challenge History Fiscal Year Issued: 2003	Actions Accomplished (Green Status) during Past 4 FYs (Green actions move from “remaining actions” to this row after one year)				Status at end of FY 2007
	03-0	04-0	05-0	06-1	
<b>Remaining Actions Needed for FY 2008</b>					
1. Develop and implement a plan, including Standard Operating Procedure (SOP) provisions, which ensures that the 8(a) program identifies the business development needs of the program participants on an individualized basis.					Orange↑
2. Develop and implement SOP provisions to ensure that participants are graduated once they reach the levels defined as “business success.”					Orange↑
3. Establish criteria for reasonably redefining “economic disadvantage” using objective and reasonable criteria that effectively measures capital and credit opportunities, and implement the new definition.					Red
4. Provide sufficient financial and analytical training to business development specialists (BDS) to enable them to evaluate a company’s business profile and competitive potential.					Yellow↑
5. Determine data needs to support and manage the 8(a) program and implement a management information system (MIS) that will support the program mission and objectives, provide useful information, and enable SBA to measure program results.					Orange
6. Revise the partnership agreements with procuring agencies to clearly require agencies to (1) monitor 8(a) companies compliance with program requirements, and (2) take steps to ensure that contracting officers and technical representatives are adequately advised of their responsibilities concerning 8(a) compliance.					Green
7. On a regular basis, conduct surveillance reviews of procuring agencies to ensure they are effectively monitoring and enforcing compliance with specified 8(a) regulations on the contracts they administer.					Orange

Green-Implemented Yellow-Substantial progress Orange-Limited Progress Red-No progress

### Challenge 7. Insufficient and outdated SBA controls continue the excessive risk of the SBIC program.

The Small Business Investment Company (SBIC) Program is designed to stimulate and supplement the flow of private equity capital and long-term debt to small business concerns. SBA uses both guaranteed debt (debentures) and equity interest (participating securities) to provide government-backed financing to SBICs. No new participating security SBICs have been licensed since funding for this program ended on September 30, 2004. As of September 2007, SBA had about \$10 billion of such financings at risk. The financial performance of the program for FY 1993 to FY 2004 resulted in about \$2 billion in higher costs to the Federal Government than originally anticipated. Government Accountability Office and Office of Inspector General (OIG) audits attributed these unanticipated costs to the structure of the SBIC program, the funding process, and the lack of focus on limiting costs when liquidating SBICs. The audits determined that: (1) the subsidy model underestimated the cost of the program; (2) SBA's profits were not proportional to its investments in the participating security SBICs; (3) insufficient incentives existed to encourage participating security SBICs to repay principal debt as quickly as possible; (4) SBA allowed too much time for financially troubled SBICs to attempt rehabilitation; (5) better performance goals and indicators were needed to show how well and how timely recoveries were maximized for liquidated SBICs; (6) Standard Operating Procedures (SOPs) for SBIC operations and liquidations were outdated; and (7) existing guidance did not provide a systematic approach for estimating the level of financial risk, implementing restrictive operations, transferring capitally-impaired SBICs to liquidation status, liquidating SBICs with participating securities, and monitoring the liquidation of SBIC receiverships.

To address the Management Challenge, the Agency developed a new subsidy estimation methodology, issued a revised SOP for SBIC operations, is revising the SOP for SBIC Liquidations, revised contracts for receivership agents, and is filling personnel vacancies. Additional Agency actions required include demonstrating that SBICs are timely transferred into liquidation in accordance with revised guidance, ensuring quarterly risk assessments are performed and documented, and demonstrating timely and consistent implementation of restrictive operations. The Agency also must issue performance goals and indicators for the SBIC liquidation process and implement procedures for the liquidation of participating security SBICs and monitoring of SBICs in receivership.

Challenge History Fiscal Year Issued: 2004	Actions Accomplished (Green Status) during Past 4 FYs (Green actions move from "remaining actions" to this row after one year)			Status at end of FY 2007
	04-2	05-0	06-1	
<b>Remaining Recommended Actions for FY 2008</b>				
1. Provide documented analysis justifying the capital impairment percentages (CIP) ( <i>previously action #2</i> ).				Green↑
2. Develop systematic criteria and implement a timely approach for transferring SBICs to liquidation status ( <i>previously action #3</i> ).				Yellow↑
3. Revise SOP 10 06 to include a process to perform and document quarterly risk assessments, including an analysis of repayment potential, and recommended actions ( <i>previously action #4</i> ).				Yellow↑
4. Incorporate into SOP 10 06 a requirement for the timely and consistent implementation of restrictive operations ( <i>previously action #5</i> ).				Yellow↑
5. Develop and implement performance goals and indicators that address the efficiency, cost-effectiveness, and timeliness of the SBIC liquidation process ( <i>previously action #6</i> ).				Orange
6. Develop and implement procedures, to be included in a revised version of SOP 10 07, that address the liquidation of participating security SBICs, and SBA monitoring of the liquidation of SBICs in receivership ( <i>previously action #7</i> ).				Orange↑

Green-Implemented Yellow-Substantial progress Orange-Limited Progress Red-No progress



**Challenge 8. Effective tracking and enforcement would reduce financial losses from loan agent fraud.**

For years, OIG investigations have revealed a pattern of fraud in the 7(a) business loan guaranty program by loan packagers and other for-fee agents. Fraudulent schemes have involved hundreds of millions of dollars. Yet, SBA oversight of loan agents is limited, putting taxpayer dollars at risk. The Agency could reduce this risk if it established effective loan agent disclosure requirements, a database or equivalent means to track loan agent involvement with its loans, and a more effective agent enforcement program.

In response to this Challenge, SBA revised its E-Tran system, which is designed to collect loan data electronically from participating lenders as to whether a loan agent was involved with a loan. However, this process has proven to be an inefficient method of capturing data on loan agent involvement due to limitations in the E-Tran system and communication issues between the lender personnel that are involved in the loan decisions and those performing E-Tran data entry. Using E-Tran also did not resolve the issue of capturing data on loan agent activity from those lenders that did not use the system. Late in FY 2007, SBA proposed a new approach to address the Challenge. The Agency intends to integrate the collection of data from the Form 159 (which asks for information about loan agents) into the Form 1502 process. The Form 1502 is an electronically submitted report that lenders submit to describe the status of all SBA-guaranteed loans in their portfolio. This method of capturing the data is superior to using the E-Tran system because the 1502 is first submitted after the initial loan disbursement, so the lender should be aware of and able to report on loan agent activity, and because it is submitted by all 7(a) lenders. The approach is in the early planning stages, and the Agency will have to do a lot of work to make this an effective method of tracking loan agents.

The Agency has also made progress by issuing its Lender Oversight SOP and by previously revising the guaranty purchase checklist (which lists the records that lenders need to provide when requesting SBA to pay a guaranty) to include the submission of the Form 159. However, SBA needs to formally issue this checklist to make this official. The Agency must also make certain that it captures loan agent information electronically and links it to individual loans. SBA could then identify patterns of loan agent fraud and assess the various risks that loan agents present to the SBA’s portfolio of guaranteed loans. SBA also needs to establish a more effective enforcement program to deter fraudulent loan agent activity.

Challenge History Fiscal Year Issued: 2000	Actions Accomplished (Green Status) during Past 4 FYs (Green actions move from “remaining actions” to this row after one year)			
	03-0	04-0	05-0	06-0
<b>Remaining Recommended Actions for FY 2008</b>				<b>Status at end of FY 2007</b>
1. Ensure that the E-Tran system’s data fields require adequate disclosure of loan agent involvement and identity to track agent participation.				Orange
2. Ensure that SBA Form 159 or another SBA form requires disclosure of loan agent involvement and sufficient loan agent identity information to track agent participation.				Green↑
3. Provide guidance to lenders to ensure they enter correct loan agent data.				Orange
4. Compile loan agent information obtained from lenders <b>not using E-Tran</b> in a database or equivalent means that can link loan agents with individual loans.				Orange↑
5. Formally issue the guaranty purchase checklist to require that lenders submit the Form 159 to SBA at the time the Agency purchases a loan.				Yellow
6. Review loans for irregularities that could indicate loan agent fraud and abuse, and show that SBA is promptly and effectively exercising its regulatory authority to deter loan agent misconduct when warranted.				Yellow↑

**Green**-Implemented **Yellow**-Substantial progress **Orange**-Limited Progress **Red**-No progress

**Challenge 9. SBA needs to continue updating its system of directives to provide proper guidance and control over its operations.**

SBA's system of directives – used to implement policies and procedures that govern Agency programs – continues to need revision. SBA rules require that all long-term policies and procedures be implemented through permanent directives known as Standard Operating Procedures (SOPs). Yet, over the years, a number of Agency program offices had issued dozens of temporary notices to manage their programs either in lieu of SOPs or in conflict with existing SOPs, and had relied upon these notices even after they had expired. In other cases, obsolete directives (some dating back to the 1970s) had been neither cancelled nor updated even though they applied to programs that no longer exist or that had been substantially altered. The result has been an often incoherent and inefficient system that generated confusion and uncertainty in both SBA employees and the resource partners that rely on these directives, leading to uneven and potentially arbitrary application of policies and procedures, and reducing the effectiveness of the Agency's internal controls system.

Fortunately, the Agency has made significant progress in resolving these issues. SBA revised its internal directive procedures to eliminate procedural deficiencies that contributed to these problems. The Agency has also implemented a system in which program managers must certify on an annual basis that SOPs for their respective programs are current or implement any needed update. Finally, the Agency is also methodically trying to keep SOPs current on both the internal and publicly available Web sites, although a limiting factor is the fact that a number of SOPs are still in the process of review and revision.

However, the remaining issue for the Agency is the update and revision of SOP 50 10, which governs SBA's multi-billion dollar business loan programs. This SOP is currently over 700 pages long (including appendixes) and has not been updated for over almost seven years despite the introduction of several new lending programs. This SOP often provides outdated and confusing guidance to SBA employees that administer the small business loan programs and lenders participating in those programs. Since the last revision of the SOP in 2000, the Agency issued dozens of temporary notices implementing new policies and procedures, which has made it difficult to determine which policy or procedure applies. SBA has begun a revision of SOP 50 10, with a projected completion date of 12/31/2007.

Challenge History Fiscal Year Issued: 2004	Actions Accomplished (Green Status) during Past 4 FYs (Green actions move from "remaining actions" to this row after one year)			Status at end of FY 2007
	04-0	05-0	06-1	
<b>Remaining Recommended Actions for FY 2008</b>				
1. Complete the updating of all SOPs and incorporate relevant temporary directives into the SOPs ( <i>previously action #2</i> ).				Green↑
2. Update SOP 50-10 so that it contains current and clear guidance and is applicable only to loan making policies ( <i>previously action #3</i> ).				Orange
3. Implement a regular review mechanism to maintain SOPs so that they are up-to-date ( <i>previously action #4</i> ).				Green↑
4. Make current versions of all SOPs available electronically on SBA's internal and publicly available Web sites and delete obsolete SOPs ( <i>previously action #5</i> ).				Green↑

Green-Implemented Yellow-Substantial progress Orange-Limited Progress Red-No progress

## Appendix: Relevant Reports

*Most of the SBA OIG reports listed can be found at: [www.sba.gov/ig/igreadingroom.html](http://www.sba.gov/ig/igreadingroom.html).*

### Challenge 1:

- SBA Advocacy, Analysis of Type of Business Coding for the Top 1,000 Contractors Receiving Small Business Awards in FY 2002, December 2004.
- The Center for Public Integrity, The Big Business of Small Business: Top defense contracting companies reap the benefits meant for small businesses, September 29, 2004.
- The Center for Public Integrity, The Pentagon's \$200 Million Shingle: Defense data shows billions in mistakes and mislabeled contracts, September 29, 2004.
- SBA OIG, Audit of SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders, Report #4-16, March 17, 2004, pp. 8-9.
- GAO, Contract Management: Reporting of Small Business Contract Awards Does Not Reflect Current Business Size, GAO-03-704T, May 7, 2003.
- The Small Business Committee, U.S. House of Representatives Hearing, Are Big Businesses Being Awarded Contracts Intended for Small Businesses? Testimony of Mr. Fred C. Armendariz, Associate Deputy Administrator, SBA, May 7, 2003.
- The Small Business Committee, U.S. House of Representatives Hearing, Are Big Businesses Being Awarded Contracts Intended for Small Businesses? Testimony of Mr. Felipe Mendoza, Associate Administrator, Office of Small Business Utilization, U.S. General Services Administration, May 7, 2003.
- SBA OIG, SBA Small Business Procurement Awards Are Not Always Going to Small Businesses, Report #5-14, February 24, 2005.
- SBA OIG, Review of Selected Small Business Procurements, Report #5-16, March 8, 2005.

### Challenge 2:

- SBA OIG, Results of KPMG Vulnerability Assessment, Report #7-16, March 6, 2007
- SBA OIG, FISMA Independent Evaluation for FY 2006, Report #7-14, February 9, 2007
- SBA OIG, Memorandum Advisory Report on SBA's Protection of Sensitive Information, Report #7-13, February 9, 2007
- Audit of SBA OIG, Audit of SBA's Financial Statements for FY 2006, Report #7-03, November 15, 2006
- SBA OIG, FISMA Independent Evaluation for FY 2005, Report #6-01, October 7, 2005
- SBA OIG, Memorandum Advisory Report on SBA needs to Implement a Viable Solution to its Loan Accounting System Migration Problem, Report #5-29, September 30, 2005.
- SBA OIG, Audit of SBA's Information System Controls for FY 2004, Report #5-12, February 24, 2005.
- SBA OIG, Audit of SBA's Exchange Email System, Report #4-42, September 10, 2004.
- SBA OIG, Audit of Selected SBA General Support Computer Operating Systems, Report #4-41, September 10, 2004.
- SBA OIG, Audit of SBA's Information System Controls for FY 2003, Report #4-19, April 29, 2004.
- SBA OIG, Audit of SBA's Information System Controls for FY 2002, Report #3-20, March 31, 2003.

**Challenge 3:**

- OPM, 2006 Federal Human Capital Survey (FHCS), <http://www.fhcs2006.opm.gov/>
- SBA OIG, Audit of Two 8(a) Sole-Source Contracts Awarded to Contractors in SBA's Mentor
- Protégé Program, Report #7-19, March 30, 2007
- SBA OIG, Management Advisory Report on the Transfer of Operations to the National Guaranty Purchase Center, Report #4-39, August 31, 2004
- GAO, Small Business Administration: Progress Made, but Transformation Could Benefit from Practices Emphasizing Transparency and Communication, GAO-04-076, October 2003
- OMB, The President's Management Agenda and OMB's Human Capital Scorecard, <http://www.results.gov/agenda/fiveinitatives.html> <http://www.results.gov/agenda/departementupdates12.html>
- GAO, Results Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations, GAO-03-699, July 2003
- GAO, Small Business Administration: Workforce Transformation Plan is Evolving, GAO-02-931T, July 16, 2002
- SBA OIG, Modernizing Human Capital Management, Report #2-20, May 31, 2002
- GAO, Small Business Administration: Current Structure Presents Challenges for Service Delivery, GAO-02-17, October 2001
- GAO, Small Business Administration: Steps Taken to Better Manage its Human Capital, but More Needs to be Done, GAO/T-GGD/AIMD-00-256, July 20, 2000
- SBA OIG, A Framework for Considering the Centralization of SBA Functions, November 1996

**Challenge 4:**

- SBA OIG, Audit of the Guaranty Purchase Process for Section 7(a) Loans at the National Guaranty Purchase Center, Report 37-23, May 8, 2007
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-17, March 12, 2007
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-15, February 12, 2007
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-10, January 16, 2007
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-09, January 9, 2007
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-07, December 29, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-06, December 28, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-05, December 20, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-02, October 23, 2006
- SBA OIG, Audit of Deficiencies in OFA's Purchase Review Process for Backlogged Loans, Report #6-35, September 29, 2006
- SBA OIG, Survey of the Quality Assurance Review Process, Report #6-26, July 12, 2006
- SBA OIG, Audit of SBA's Implementation of the Improper Payments Information Act, Report #6-25, June 21, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #6-22, May 17, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #6-17, March 20, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #6-16, March 20, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #6-14, March 2, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #5-26, September 28, 2005
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #5-21, July 15, 2005
- SBA OIG, Management Advisory Report on the Transfer of Operations to the National Guaranty Purchase Center, Report #4-39, August 31, 2004
- SBA OIG, Audit of an Early Defaulted Loan, Report #4-38, August 24, 2004
- SBA OIG, Audit of an Early Defaulted Loan, Report #4-33, July 30, 2004
- SBA OIG, Audit of an Early Defaulted Loan, Report #4-28, July 9, 2004
- SBA OIG, Audit of an Early Defaulted Loan, Report #4-25, June 22, 2004
- SBA OIG, Audit of an Early Defaulted Loan, Report #4-06, January 8, 2004
- SBA OIG, Audit of an Early Defaulted Loan, Report #3-38, September 22, 2003
- SBA OIG, Audit of an Early Defaulted Loan, Report #3-30, June 19, 2003

- SBA OIG, Audit of an Early Defaulted Loan, Report #3-27, May 22, 2003
- SBA OIG, Audit of the Guaranty Purchase Process, Report #3-15, March 17, 2003
- SBA OIG, Audit of an Early Defaulted Loan, Report #3-07, January 23, 2003
- SBA OIG, Audit of an Early Defaulted Loan, Report #2-32, September 30, 2002
- SBA OIG, Audit of an Early Defaulted Loan, Report #2-30, September 24, 2002
- SBA OIG, Audit of an Early Defaulted Loan, Report #2-23, August 7, 2002
- SBA OIG, Audit of an Early Defaulted Loan, Report #2-15, March 29, 2002
- SBA OIG, Improvements are Needed in Small Business Lending Company Oversight Process, Report #2-12, March 21, 2002
- SBA OIG, Audit of an Early Defaulted Loan, Report #2-03, February 27, 2002
- SBA OIG, Audit of an Early Defaulted Loan, Report #2-05, February 27, 2002
- SBA OIG, Audit of an Early Defaulted Loan, Report #1-10, March 9, 2001
- GAO, Major Management Challenges and Program Risks, GAO-01-260, January 2001
- SBA OIG, Audit of an Early Defaulted Loan, Report #0-10, April 23, 2000
- SBA OIG, Audit of an Early Defaulted Loan, Report #0-12, March 28, 2000
- SBA OIG, Audit of an Early Defaulted Loan, Report #0-05, February 14, 2000

### Challenge 5:

- GAO, Small Business Administration: Additional Measures Needed to Assess 7(a) Loan Program's Performance, GAO-07-769, July 13, 2007
- SBA OIG, SBA's Oversight of Business Loan Center, LLC, Report #7-28, July 11, 2007.
- SBA OIG, SBA's Use of the Loan and Lender Monitoring System, Report #7-21, May 2, 2007.
- SBA OIG, Audit of the Office of Lender Oversight Corrective Action Process, Report #7-18, March 14, 2007.
- GAO, Small Business Administration: Improvements Made, But Loan Programs Face Ongoing Management Challenges, GAO-06-605T, April 6, 2006
- SBA OIG, SBA's Administration of the Supplemental Terrorist Activity Relief (STAR) Loan Program, Report #6-09, December 23, 2005
- GAO, Small Business Administration: New Service for Lender Oversight Reflects Some Best Practices, But Strategy for Use Lags Behind, GAO-04-610, June 8, 2004
- GAO, Continued Improvements Needed in Lender Oversight, Report #03-90, December 2002
- SBA OIG, Impact of Loan Splitting on Borrowers and SBA, Advisory Memorandum Report #2-31, September 30, 2002
- SBA OIG, Improvements needed in SBLC Oversight, Advisory Memorandum Report, #2-12, March 20, 2002
- SBA OIG, Preferred Lender Oversight Program, Report #1-19, September 27, 2001
- SBA OIG, SBA Follow-up on SBLC Examinations, Report #1-16, August 17, 2001

### Challenge 6:

- SBA OIG, Audit of Monitoring Compliance with 8(a) Business Development Regulations During 8(a) Business Development Contract Performance, Report #6-15, March 16, 2006.
- SBA OIG, Business Development Provided by SBA's 8(a) Business Development Program, Report #4-22, June 2, 2004.
- SBA OIG, SACS/MEDCOR: Ineffective and Inefficient, Report #4-15, March 9, 2004.
- SBA OIG, Section 8(a) Program Continuing Eligibility Reviews, Report #4-3-H-006-021, September 30, 1994.

### Challenge 7:

- SBA OIG, Audit of SBIC Liquidations Process, Report #5-22, July 28, 2005
- SBA OIG, The SBIC Program: At Risk for Significant Losses, Report #4-21, May 24, 2004
- OMB, Small Business Administration: PART Assessment on the SBIC Program, February 2, 2004
- SBA OIG, FY 2003 Financial Statement Audit in the SBA FY 2003 Performance and Accountability Report, January 30, 2004, pp. 230-60

- SBA OIG, Audit of SBIC Oversight, Report #3-33, July 1, 2003
- GAO, Small Business: Update on SBA's Small Business Investment Company Program, GAO/RCED-97-55, February 1997
- GAO, Small Business Administration: SBA Monitoring Problems Identified in Case Studies of 12 SBICs and SSBICs, GAO/OSI-96-3, April 1996
- GAO, Small Business Administration: Better Oversight of SBIC Programs Could Reduce Federal Losses, GAO/T-RCED-95-285, September 28, 1995
- GAO, Small Business Administration: Inadequate Oversight of Capital Management Services, Inc.-An SSBIC, GAO/T-OSI-95-19, August 7, 1995
- GAO, Small Business Administration: Prohibited Practices and Inadequate Oversight in SBIC and SSBIC Programs, GAO/OSI-95-16, May 28, 1995
- GAO, Small Business Administration: Inadequate Oversight of Capital Management Services, Inc.-An SSBIC, GAO/OSI-94-23, March 1994
- SBA OIG, Audit Report on the Small Business Investment Company (SBIC) Liquidation Function, Report #3-2-E-004-031, March 31, 1993

### **Challenge 8:**

- SBA OIG, Applicant Character Verification in SBA's Business Loan Program, Report #3-43, April 5, 2001
- SBA OIG, Summary Audit of Section 7(a) Loan Processing, Report #0-03, January 11, 2000
- SBA OIG, Loan Agents and the Section 7(a) Program, Report #98-03-01, March 31, 1998
- SBA OIG, Fraud Detection in SBA Programs, Report #97-11-01, November 24, 1997
- SBA OIG, Operation Cleansweep Memorandum, August 21, 1996

### **Challenge 9:**

- SBA OIG, Audit of SBIC Oversight, Report #3-33, July 1, 2003
- SBA OIG, Problems with SBA's Directives System, Advisory Memorandum #3-28, May 22, 2003
- SBA OIG, Guaranty Purchase Processing: Directors' Survey Responses and Loan Officers' Survey Responses, Report #3-16, March 18, 2003
- SBA OIG, Audit of the Guaranty Purchase Process, Report #3-15, March 17, 2003
- SBA OIG, The Microloan Program: Moving Toward Performance Management, Report #3-26, May 13, 2003
- SBA OIG, Standard Operating Procedure 00-11, Memorandum, December 17, 2002
- SBA OIG, Travel of SBA's Former Regional Administrator, Report #2-22, August 7, 2002


## Agency Response to the OIG Management Challenges



**U.S. SMALL BUSINESS ADMINISTRATION**  
WASHINGTON, D.C. 20416

**Date:** October 29, 2007

**To:** Eric M. Thorson  
Inspector General

**From:** Jovita Carranza   
Deputy Administrator

**Subject:** FY 2008 OIG-Identified Major Management Challenges

On October 12, 2007, the OIG published a report, entitled: "FY 2008 Report on the Most Serious Management Challenges Facing the Small Business Administration." Each Inspector General publishes annually in the Agency Performance and Accountability Report (PAR) a list and assessment of major Agency management challenges based on cost to taxpayer, visibility, impact on overall management, and other subjective factors. SBA's 9 major challenges fall into two major categories:

1. Those that pose risk of losing taxpayers' money (i.e., guarantee purchase process, lender oversight, loan agent fraud, SBIC liquidation); and
2. Those that pose risk of delivering inefficient programs (i.e., human capital, IT security, directives system, contracting loopholes, 8(a) program).

One of my primary functions as Deputy Administrator is to ensure that SBA exercises cost-effective stewardship over its resources and offers improved service to its customers. To increase our focus on improved stewardship through increased compliance and oversight, the Administrator launched his Initiative #9 early in 2007 and advanced two key objectives:

1. Create a strong program management integrity and control culture beginning with a clear "tone from the top" about the importance of transparency, accountability, and efficiency; and
2. Ensure an effective tracking and reporting process for demonstrating progress in improving management and reducing opportunities for waste, fraud, and abuse.

SBA appreciates the cooperation and work done by the OIG in helping the Agency to address these challenges. Increasing compliance with laws & regulations and instituting sound internal management processes lead to reduced government risk; lower cost to the taxpayer; and reduced potential for waste, fraud and abuse. The Agency concurs with the FY 2007 Report that reflects improvements gained from a more serious monthly monitoring process and more consistent focus on addressing the challenges. The report also reflects the following tangible results:

1. Improved ratings this year in all 9 challenges (i.e., in 24 of the 50 existing recommended actions), with no decrement in rating on any action.
2. Reduced the number of recommended actions from 68 to 53, down from 136 in FY 2004.
3. Eliminated 6 of 7 "no progress--reds" or 86%, down from 22 reds in FY 2004.

Only through our continued collaborative and creative problem solving can we partner with the OIG to create the high performing organization that the Congress asks, the President demands, and the taxpayers expect. Thank you for your continued help in improving our management environment.

*This page intentionally left blank*