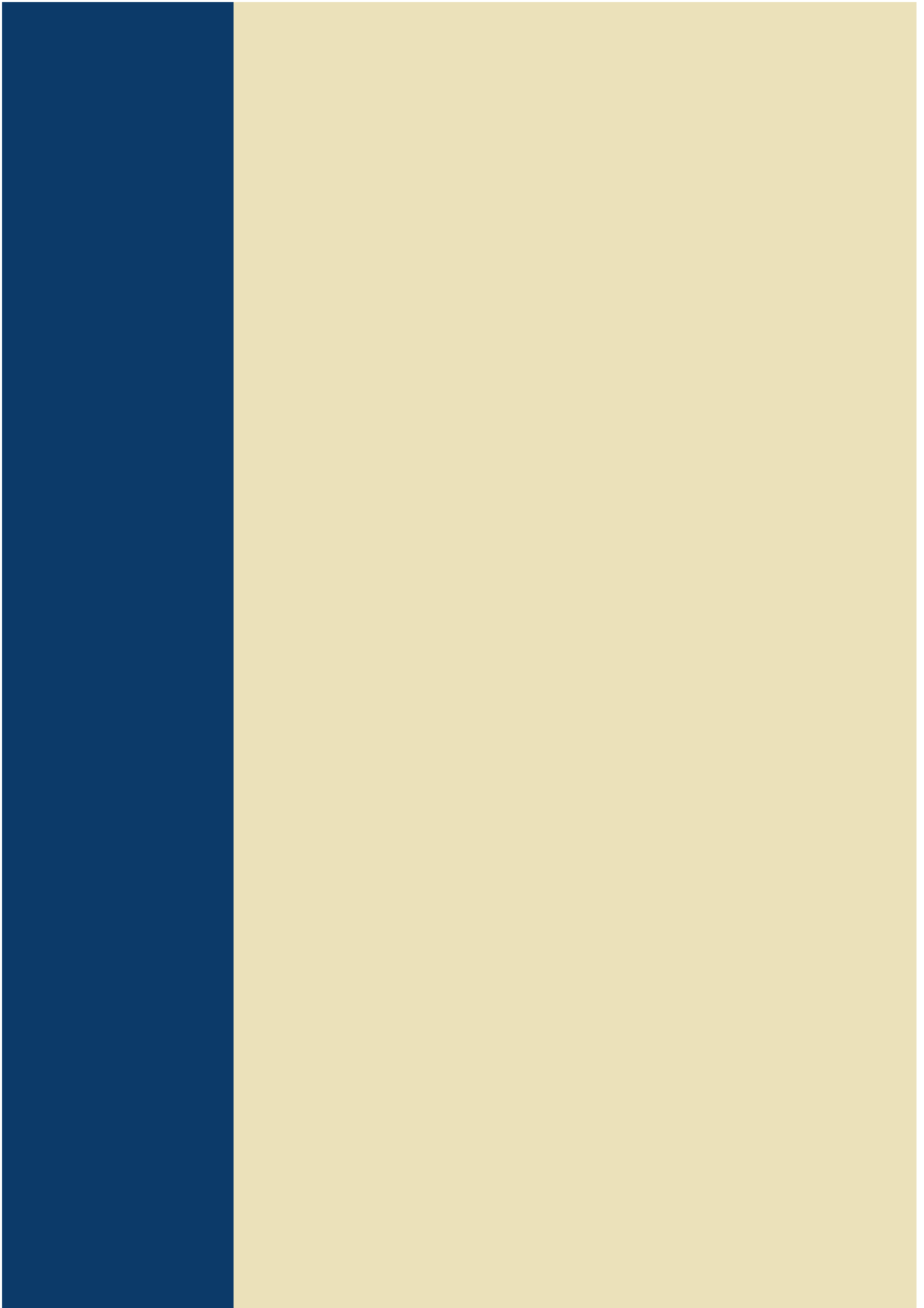


U.S. Small Business Administration



Your Small Business Resource

Office of the Inspector General Reports



OFFICE OF THE INSPECTOR GENERAL AUDIT FOLLOW-UP

Summary of OIG Follow-up

Throughout the year, the OIG conducts audits of the SBA's processes, procedures and programs, and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on the SBA's financial and administrative operation, but are very beneficial to the 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 183 final actions during FY 2008. Of these final actions, 15 were monetary and 168 were non-monetary.

The following two charts depict the 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. Please refer to Appendix 4 Table III, for the detail of Final Action Activity, which lists each report and analysis of the decisions.

Table I

Final Action On Audit Recommendations With Disallowed / Questioned Costs		
October 1, 2007 – September 30, 2008		
	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.	15	\$ 29,595
B. Recommendations on which management decisions were made during the period.	4	\$ 15,917
C. Total recommendations pending final action during period.	19	\$ 45,509
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	3	\$ 326
(b) Property	0	\$ 0
(c) Other	0	\$ 0
2. Write-Offs	9	\$ 37,757
3. Total	12	\$ 38,083
E. Recommendations needing final action at the end of the period.	7	\$ 7,429

Table II

Final Action On Audit Recommendations With Funds Put To Better Use October 1, 2007 – September 30, 2008		
	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.	2	\$ 436
B. Recommendations on which management decisions were made during the period.	3	\$ 36,400
C. Total recommendations pending final action during period.	5	\$ 36,836
D. Recommendations on which final action was taken during the period.		
1. Value of recommendations implemented (completed).	2	\$ 436
2. Value of recommendations that management concluded should not or could not be implemented or completed.	1	\$ 29,200
3. Total	3	\$ 29,636
E. Recommendations needing final action at the end of the period.	2	\$ 7,200

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

Report No. 09-02

*Fiscal Year 2009 Report
on the Most Serious Management and
Performance Challenges Facing the
Small Business Administration*

October 20, 2008



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

October 20, 2008

MEMORANDUM

TO: Sandy K. Baruah
Acting Administrator

FROM: Peter L. McClintock *Peter J. McClintock*
Acting Inspector General

SUBJECT: Fiscal Year 2009 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 (OIG) Fiscal Year (FY) 2009 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.

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, 2008.

The Agency has continued to make progress in resolving the Management Challenges, as illustrated by the large number of color scores that have improved since last year (see table below). SBA has continued to improve the security of its information systems by improving the tracking of security weaknesses, performing periodic service continuity testing, centralizing and implementing a process to track IT security training, and improving technical training for individuals with significant information security duties. The Agency has also made good progress in addressing its human capital management issues and lender oversight duties. Finally, the Agency completed the remaining recommended action for one of the Challenges in last year's report: "SBA needs to continue updating its system of directives to provide proper guidance and control over its operations" (formerly Challenge 9). Thus, this Challenge has now been eliminated.

Within each Management Challenge there are a series of "recommended actions" to resolve the Challenge. Each recommended action is assigned a color "status" score. 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 2009 report on the Agency's Most Serious Management and Performance Challenges.

	Topic	Status Score				Improved ¹
		Green	Yellow	Orange	Red	
1	Small Business Contracts	1	1	2		1
2	IT Security	2	4			3
3	Human Capital		3			
4	Loan Guaranty Purchase	2	1	1		2
5	Lender Oversight	4	2	4		4
6	8(a) BD Program	1	3	1	1	3
7	SBIC Program	1	4			3
8	Loan Agent Fraud	1				1
	TOTAL	12	18	8	1	17

We would like to extend our appreciation to SBA's management and staff for their cooperation in providing us with the information needed to complete this report, and their efforts to make progress in addressing these Challenges. We would especially like to thank you and Deputy Administrator Carranza for the commitment you have demonstrated in promoting agency actions to address the Management Challenges. The Agency's considerable progress this past year reflects the emphasis that the Agency has placed on resolving the Management Challenges.

Please let me know if you have any questions.

Attachment

cc: Deputy Administrator

¹ "Improved" refers to a recommended action that showed progress this year over last year's score (as denoted by an "up" arrow). Challenge 3, Human Capital, was revised in the OIG FY 2008 Management Challenges Report and, consequently, none of the actions in that report were graded with a color. Since the "Improved" column only records improvement in the color score from last year's report, it does not show progress in this Challenge during FY 2008. Nonetheless, earning three "Yellow" scores on this Challenge represents a significant achievement for the Agency.

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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 Governmentwide 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 that procuring agencies accurately report contracts awarded to small businesses when representing its progress in meeting small business contracting goals.

However, Office of Inspector General (OIG) audits and other governmental studies have shown widespread misreporting by procuring agencies; many contract awards recorded as going to small firms have actually been performed by larger companies. While some contractors may misrepresent or erroneously calculate their size, most incorrect reporting results from errors made by government contracting personnel. Noted errors include acceptance of questionable size self-certifications and misapplication of small business contracting rules. Also, it is unclear whether contracting officers always review the on-line certifications that contractors enter into the governmental Online Representations and Certifications Application (ORCA) prior to awarding contracts. SBA needs to do more to: (1) ensure that contracting personnel are adequately trained on small business procurement procedures and are reviewing ORCA data prior to awarding contracts, and (2) encourage greater accuracy in Federal small business contracting reports.

The Agency also needs to address a loophole within General Services Administration Multiple Awards Schedule (MAS) contracts that contain multiple industrial codes. Currently, 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 applicable task. Thus, agencies may obtain small business credit for using a firm classified as small, when the firm is not small for specific orders under such a MAS contract.

While more remains to be done, SBA made some progress on this challenge as it: (1) conducted some training on behalf of requesting agencies; (2) added language in the Federal Acquisition Regulations to require contracting personnel to check size in ORCA; and (3) coordinated with the Office of Management and Budget (OMB) on a directive that requires agencies to certify the accuracy of their FY 2008 procurement data in the Federal Procurement Data System (FPDS), including data on small business procurements.