



United States Government Accountability Office  
Washington, DC 20548

September 29, 2010

The Honorable Mitch McConnell  
Republican Leader  
United States Senate

Subject: *Participants in SBA's Microloan Program Could Provide Additional Information to Enhance the Public's Understanding of Recovery Act Fund Uses and Expected Outcomes*

Dear Senator McConnell,

This letter formally transmits and summarizes an oral briefing we gave on July 29, 2010, in response to your request that we assess the extent to which the descriptions of the uses of American Recovery and Reinvestment Act of 2009 (Recovery Act) funds—published on Recovery.gov—enhance the public's understanding of how funds are being spent and what outcomes are expected.<sup>1</sup> Our briefing focused on activities funded through the Small Business Administration (SBA). We also updated the enclosed briefing slides after the date of our briefing.

The Recovery Act, enacted in response to the economic crisis facing the nation, appropriated a total of \$275 billion in funding for distribution by federal departments and agencies through contracts, grants, and loans.<sup>2</sup> The Recovery Act contains numerous provisions to increase transparency and accountability over spending. Accordingly, Congress and the administration have emphasized the need for accountability and transparency in the expenditure of Recovery Act funds. In particular, Section 1512 of the act requires nonfederal recipients of Recovery Act funds through grants, contracts, or loans to provide quarterly reports containing certain information. For example, nonfederal recipients are required to report information on each project or activity, including descriptive information on the uses of Recovery Act awards. The Office of Management and Budget (OMB) and federal departments are responsible for issuing guidance to assist recipients fulfill the reporting requirements. Information recipients report, as well as other required information, can be found at Recovery.gov. This Web site was designed to track large sums of Recovery Act funds that are being disbursed to thousands of recipients, while also making these efforts more transparent to the public than previous efforts.

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<sup>1</sup>The Recovery Act established the Recovery Accountability and Transparency Board to coordinate and conduct oversight of Recovery Act funds. Furthermore, the act directed this board to establish and maintain a user-friendly, public Web site (i.e., Recovery.gov) to foster greater accountability and transparency in the use of Recovery Act funds.

<sup>2</sup>Pub. L. No. 111-5, 123 Stat. 115 (2009).

Implementing this system was an extensive undertaking across the federal government that needed to be designed and implemented under tight time constraints.

While the SBA received \$705 million in Recovery Act appropriations to expand and support initiatives facilitating small business lending, no more than \$75 million (about 10 percent) is subject to the recipient reporting requirements. Specifically, the Recovery Act appropriated \$30 million for SBA's microloan program, which is subject to the reporting requirements. Under this program, SBA makes direct loans to qualified community-based nonprofit intermediary lenders (microlenders). The maximum loan amount to a microlender is \$750,000 in the first year. The act appropriated \$6 million for this activity, and according to SBA, it can finance about \$50 million in lending to microlenders with this appropriation.<sup>3</sup> As of March 31, 2010, SBA had awarded 61 direct loans to microlenders totaling about \$35 million. More than half of these loans totaled \$750,000, and the average of the remaining loans was \$317,931. Microlenders then use these funds to provide microloans to eligible small businesses. These loans cannot exceed \$35,000 and small businesses must use these loans for working capital and acquisition of materials, supplies, furniture, fixtures, and equipment. SBA's microloan program also makes grants to microlenders to provide marketing, management, and technical assistance to microloan borrowers and prospective microloan borrowers. The act appropriated \$24 million for such assistance. As of March 31, 2010, SBA had not awarded any grants. Further, the Recovery Act appropriated \$45 million to SBA to improve its information systems and to support other activities. To the extent that these appropriations are used to obtain goods and services from contractors, these funds are also subject to the act's recipient reporting requirements. As of March 31, 2010, SBA had awarded 38 contracts to vendors, totaling about \$8.3 million.

SBA's loan guarantee programs, such as the 7(a) and 504 programs, received \$630 million in appropriations under the Recovery Act but are not subject to the recipient reporting requirements. Under these programs, SBA, in exchange for fees, provides guarantees on a portion of the loan to lenders against potential losses on qualifying small business loans to encourage them to extend such financing.<sup>4</sup> In general, the Recovery Act appropriations temporarily reduced or eliminated certain program fees and increased the guarantees.<sup>5</sup> Of the \$630 million that the Recovery Act appropriated to

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<sup>3</sup>SBA can finance about \$50 million in lending to microlenders with an appropriation of \$6 million because, under credit reform procedures, the cost of SBA's loans to microlenders is the net present value of all expected cash flows, excluding administrative costs. For loans to microlenders, cash flows may include loan disbursements, borrower repayments of principal, and other payments adjusted for estimated defaults. When the net present value of estimated cash outflows exceed estimated cash inflows, the program is said to have a positive credit subsidy rate—and therefore requires appropriations. For fiscal year 2010, SBA assumed a positive credit subsidy rate of 12.04 percent for loans to microlenders. ( $\$49,833,887 \times .1204 = \$6,000,000$ ).

<sup>4</sup>Under the 7(a) loan program, SBA guarantees loans made by commercial lenders to small businesses that cannot otherwise obtain credit on reasonable terms from nonfederal sources and that do not have the resources to provide financing themselves. Loan proceeds may be used for working capital and other general business purposes. To offset some of the costs of the program, SBA assesses 7(a) lenders an up-front guarantee fee that may be passed on to the borrower and an annual servicing fee. The 504 loan program provides long-term, fixed-rate financing to small businesses for expanding or modernizing, primarily of real estate. Financing is delivered through certified development companies, which are private nonprofits established to contribute to the economic development of their communities. Like the 7(a) program, lenders, small business borrowers, and certified development companies in the 504 program are required to pay various fees to offset program costs.

<sup>5</sup>For example, the Recovery Act temporarily increased the maximum 7(a) guarantee from 85 percent to 90 percent.

expand and support SBA's loan guarantee programs, \$375 million went to the 7(a) and 504 programs.<sup>6</sup> Further, the Recovery Act established a new temporary loan guarantee program—which SBA calls the American Recovery Capital (ARC) program—that received \$255 million in appropriations. Under the ARC program, SBA guarantees loans of up to \$35,000 to small businesses that are suffering immediate financial hardship. The loans must be used to make payments on an existing small business loan. According to SBA and OMB officials, small businesses that receive loans guaranteed by SBA are not subject to the recipient reporting requirement because they are not receiving Recovery Act funds. Instead, SBA uses the funds appropriated to these programs to cover its costs to guarantee the loans. However, OMB requires agencies to report aggregated information about their use of Recovery Act funds. For example, SBA must submit weekly reports that include funds it obligates to support its loan guarantee and microloan programs, as well as its contracting activities.

In response to your request, we (1) determined the extent to which information reported by SBA's microloan recipients on Recovery.gov fosters a basic understanding of award activities and expected outcomes, (2) determined the extent to which information reported by SBA's contractors on Recovery.gov fosters a basic understanding of award activities and expected outcomes, and (3) identified information available on Recovery.gov about SBA's 7(a), 504, and ARC loan guarantee programs that were supported by Recovery Act funds. To address these objectives, we did the following:

- We reviewed data available on Recovery.gov as of March 31, 2010, as well as data available on [www.USAspending.gov](http://www.USAspending.gov) and SBA's Web site.<sup>7</sup>
- We utilized a methodology developed for our May 2010 report on Recovery Act transparency.<sup>8</sup> We further reviewed the Recovery Act, the Federal Funding Accountability and Transparency Act of 2006, OMB guidance, and the Federal Acquisition Regulation and identified expectations for transparency in SBA activities.<sup>9</sup> Based on these documents and professional judgment we developed transparency criteria for SBA, which consisted of seven attributes, including: the project's purpose, activities, cost, scope, and expected outcomes, as well as, location of the award recipient and the status of work.
- We conducted an assessment of all recipient reports submitted by SBA microlenders and contractors for the third round of reporting (i.e., January 1 through March 31, 2010).<sup>10</sup> To do so, we

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<sup>6</sup>Subsequent to the Recovery Act, SBA received supplemental appropriations, totaling \$305 million, to support and expand Recovery Act initiatives for SBA's 7(a) and 504 loan guarantee programs. Recently enacted legislation provided an additional \$505 million to further support SBA's 7(a) and 504 loan guarantee program; these funds are available through December 31, 2010.

<sup>7</sup>The Web site [www.USAspending.gov](http://www.USAspending.gov) includes information about all federal awards, such as the name of the entity receiving the award as well as the amount of the award. The Federal Funding Accountability and Transparency Act of 2006 directed OMB to establish this Web site.

<sup>8</sup>GAO, *Recovery Act: Increasing the Public's Understanding of What Funds Are Being Spent on and What Outcomes Are Expected*, [GAO-10-581](#) (Washington, D.C.: May, 27, 2010)

<sup>9</sup>Federal Funding Accountability and Transparency Act of 2006, Pub. L. No. 109-282, 120 Stat. 1186 (2006).

<sup>10</sup>As of June 30, 2010, SBA had awarded 73 grants to microlenders (all awarded after March 31, 2010) which ranged from \$81,220 to \$843,939. SBA awarded these grants (and the reports became available) after we completed our transparency assessment.

compared these recipient reports to the transparency criteria.

- We reviewed SBA documents, and interviewed agency officials at SBA and its Office of Inspector General.
- We interviewed officials from OMB and the Recovery Accountability and Transparency Board.

We conducted this performance audit from February through July 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. As part of our work, we assessed the reliability of certain Recovery Act data that were pertinent to our effort. We determined that the data elements were sufficiently reliable for our purposes.

In summary, only a small portion of SBA microlender recipient reports included clear and complete information on how they were spending Recovery Act funds and the outcomes they expected. Specifically, GAO determined that 13 percent (8 of 61) of the descriptions in microlenders' recipient reports contained sufficiently clear and complete information on the project's purpose, activities, scope (the geographic areas in which businesses can apply for the microloans), cost, and expected outcomes, as well as the location of the award recipient and the status of the microlending. The following paragraph provides an example of narrative in a microlender recipient report that met our transparency criteria:

“To provide Microloan[s] to small businesses in Charleston, Dorchester, and Berkeley counties of South Carolina. Funds are expected to fund approximately twenty loans over the next two years resulting in the establishment of new businesses and the support of existing businesses. Total job impact should result in approximately 60 positions being either created or retained.”

About 33 percent of microlender recipient reports partially met the criteria for providing useful information about the use of funds and expected outcomes. These recipient reports contained reasonably clear and specific information for some attributes. However, 54 percent of the microlender recipient reports did not meet the criteria for promoting public understanding of award activities and expected outcomes due to the brevity of the narrative descriptions. For example, many of these narrative descriptions simply stated “microloans” or “microloan program.” Recipients likely provided such basic descriptions because SBA guidance, which was developed in consultation with OMB and issued in July 2009, directed microlenders to report “microloan” when describing the award. In developing the guidance, SBA officials told us that they had been trying to minimize the burden on microlenders, which generally are small nonprofit organizations. However, a senior SBA official said that the guidance to microlenders could be revised to direct recipients to include more specific information about the purpose and expected outcomes of the award. Until SBA microlenders are more clearly directed to provide this information, many such entities will likely continue to report information on their use of Recovery Act funds which does not foster public understanding of award activities and expected outcomes.

In contrast, information on 35 percent (8 of 23) of SBA contractor's recipient reports met the criteria, 43 percent partially met them, and only 22 percent did not meet the criteria. Generally, contractors effectively described how they were spending the funds and the outcomes they expect—for example, “...Provide web and print ads,.. to publicize Recovery Act programs for entrepreneurs and small

business owners...”. SBA provided guidance to contractors that contains specific directions on reporting purposes and outcomes or results, as well as significant services and supplies provided—guidance that may have helped recipients report complete and clear information.

While recipients of SBA’s loan guarantees are not required to report award level information on Recovery.gov, SBA does report some aggregate financial information about these programs on the Web site. As of June 30, 2010, SBA had obligated about \$557 million of the \$630 million of Recovery Act appropriations to support and expand its 7(a), 504, and ARC loan guarantee programs, according to Recovery.gov. On November 23, 2009, SBA exhausted the \$375 million appropriated to its 7(a) and 504 programs and, since then, it received \$305 million in supplemental appropriations. However, as of May 26, 2010, SBA had exhausted these funds as well.<sup>11</sup> We calculate that, the Recovery Act funds remaining, which total about \$73 million, are to support SBA’s ARC program.

The administration faced an extensive undertaking in simultaneously putting in place ways to spend large sums of Recovery Act funds, while also seeking to make these efforts more transparent to the public than previous efforts. The administration expects that achieving this degree of visibility will be an iterative process in which the reporting process and information improve over time. Although recipient reporting under the Recovery Act represents a step forward in federal spending transparency, opportunities exist to further improve the public’s understanding of how Recovery Act funds are being spent and what outcomes are expected. We recommend that the Administrator of SBA, in consultation with OMB, remove the standard language in the guidance to microlenders and instruct them to include, as appropriate, more descriptive information on how the funds are being used and potential project outcomes or results.

We provided a draft of the correspondence to SBA for its review and comment. We received written comments from SBA’s Associate Administrator of the Office of Capital Access, which are reprinted in enclosure II. SBA also provided technical comments, which we incorporated as appropriate.

In its letter, SBA stated that it worked with OMB to develop guidance designed to assist microlenders report on their use of Recovery Act funds. SBA also stated that our work indicates that 100 percent of microloan intermediaries met the reporting requirements developed by OMB and SBA. In one of its technical comments, SBA stated that all of the microloan intermediaries met the reporting requirements. Further, SBA stated that GAO established additional reporting criteria that went beyond existing reporting requirements, and summarized our findings that 13 percent of microlenders reports fully met our criteria, 33 percent partially met the criteria, and 54 percent did not meet the criteria. Finally, SBA commented that all microlender reports that partially met or failed to meet our criteria did not contain extra information that GAO deemed necessary to help ensure that such reporting is clear and complete.

Our review did not include an assessment of microlenders’ compliance with SBA’s supplemental reporting guidance or OMB’s reporting requirements, and therefore, we are not in a position to comment on SBA’s view that all microlenders complied with existing guidance and reporting requirements. As described in the draft correspondence, two of the key objectives of our review were to determine the extent to which information reported by microlenders and SBA contractors on Recovery.gov fosters public awareness about the uses of Recovery Act funds. To conduct our work, we reviewed the Recovery Act, OMB guidance, the Federal Funding Accountability and Transparency Act of 2006, and the Federal Acquisition Regulation and identified expectations for transparency in

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<sup>11</sup>Recently enacted legislation provided an additional \$505 million to further support SBA’s 7(a) and 504 loan guarantee program; these funds are available through December 31, 2010.

SBA activities. Based on these documents and professional judgment, we developed transparency criteria for SBA, which consisted of seven attributes, including: the project’s purpose, activities, cost, scope, and expected outcomes, as well as, location of the award recipient and the status of work. In our view, these criteria provide a reasonable basis for assessing the extent to which information in the recipient reports enhances the public’s understanding of the use of Recovery Act funds to support SBA’s microloan program. In contrast, we determined that SBA’s supplemental guidance is of limited value because, among other things, it only directs microlenders to report the word “microloan” to describe the award and does not direct microlenders to report information about the award’s purpose and expected outcomes. As a result, even if all microlenders complied with SBA’s supplemental guidance, such uniform compliance would not necessarily have fostered the public’s understanding about the use and expected outcomes of Recovery Act funds used to support the microloan program. We further note that, using our criteria, we concluded that many SBA contractors either fully or partially included clear and complete information that facilitates understanding about their use of Recovery Act funds and expected outcomes. SBA’s guidance to contractors, unlike its guidance to microlenders, is more consistent with our criteria and clearly directs contractors to report information which fosters public awareness about the uses of Recovery Act funds. For example, SBA’s guidance to contractors directs them to report on the contracts’ purpose and expected outcomes.

SBA further stated that in implementing the Recovery Act, the SBA Administrator intended to be fully transparent throughout the process. In that regard, SBA said it appreciated our recommendations to improve the clarity and completeness of microloan intermediary recipient reports. However, SBA did not specifically agree with our recommendation to issue new guidance directing microlenders to include, as appropriate, more descriptive information on how the funds are being used and potential project outcomes or results, which would improve the clarity and completeness of microlender reports. Instead, SBA said that it plans to share best practices, regarding recipient reporting, with its microloan intermediaries, which will begin with the reporting period ending on September 30, 2010. SBA stated that the sharing of best practices among microlenders will help ensure the transparency of microlender reports as contemplated in our recommendation.

We acknowledge that SBA has faced challenges in assisting recipients of Recovery Act funds to fulfill the reporting requirements. Further, SBA’s plans to share best practices with microlenders has the potential to enhance the clarity and completeness of information available on Recovery.Gov regarding SBA’s microloan program. The potential exists that some microlenders will review the information provided by SBA and revise their recipient reports to be consistent with the best practices that the agency identifies. However, in the absence of new guidance that applies to all microlenders, the variability in microlenders’ recipient reports in terms of their clarity and completeness is likely to continue. As a result, we continue to believe that SBA, in consultation with OMB, should remove the standard language in the guidance to microlenders and instruct them to include, as appropriate, more descriptive information on how the funds are being used and potential project outcomes or results.

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As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issuance date. At that time, we will send copies of this report to the appropriate congressional committees, Administrator of SBA, Director of OMB, and to other interested parties. This report will also be available at no charge on GAO’s Web site at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at 202-512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report were Wesley Phillips, Assistant

Director; Anne Akin; Emily Chalmers; Tania Calhoun; and Carl Ramirez.

Sincerely yours,

A handwritten signature in cursive script that reads "William B. Shear".

William B. Shear  
Director, Financial Markets and  
Community Investment

Enclosures-2



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# Information on Recovery Act Awards Made by the Small Business Administration

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**July 29, 2010**

**Note: slides have been updated since the July briefing.**

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# Introduction

- The American Recovery and Reinvestment Act of 2009 (Recovery Act) appropriated \$705 million to the Small Business Administration (SBA) to expand and support initiatives that facilitate small business lending.
  - \$630 million to SBA loan guarantee programs
    - \$375 million to expand and support the 7(a) and 504 loan guarantee programs<sup>1</sup>
    - \$255 million to create the new American Recovery Capital (ARC) loan program
  - \$30 million to expand and support the microloan program
  - \$20 million to improve the agency's information systems related to lender processes and lender oversight
  - \$25 million to support other activities

<sup>1</sup>On November 23, 2009, SBA had exhausted the \$375 million appropriated to its 7(a) and 504 programs. Since then, SBA has received \$305 million in supplemental appropriations. Recently enacted legislation provided an additional \$505 million to further support SBA's 7(a) and 504 loan guarantee program; these funds are available through December 31, 2010.

## Introduction (continued)

- **Recipient Reporting:** The Recovery Act requires certain nonfederal recipients of funds to report specific information about their use of funds.
  - Recipients of direct loans and contracts are subject to this reporting requirement. For example, participants in SBA's microloan program and SBA contractors must submit reports that include descriptive information on the purpose and expected outcomes of their loans or contracts funded by the Recovery Act. Information that recipients report can be found at [Recovery.gov](http://Recovery.gov).<sup>2</sup>
  - However, recipients of loan guarantees as well as individuals awarded contracts and grants are not subject to this reporting requirement.
  - Of SBA's \$705 million in appropriations to expand and support Recovery Act initiatives, up to \$75 million (about 10 percent) is subject to the recipient reporting requirements. (see table on next slide)
- **Agency Reporting:** The Office of Management and Budget (OMB) requires agencies to report aggregated information about their use of Recovery Act funds. For example, SBA must submit weekly reports of its obligations and expenditures of funds used to support its loan guarantee and microloan programs as well as its contracting activities.

<sup>2</sup>The Recovery Act established the Recovery Accountability and Transparency Board to coordinate and conduct oversight of Recovery Act funds. The act also directed this board to establish and maintain a user-friendly, public Web site (i.e., [Recovery.gov](http://Recovery.gov)) to foster greater accountability and transparency in the use of Recovery Act funds. Implementing this system was an extensive undertaking across the federal government.

# Introduction (continued)

SBA program or activity	Description		Recovery Act funds	Recipient reporting	Agency reporting
7(a)	SBA guarantees a portion of a loan to a small business.	Loans may be used for working capital and other general business purposes.	\$375 million <sup>3</sup>	Not required	Required <sup>4</sup>
504		Loans may be used to finance expansion or modernization, primarily of real estate.		Not required	
ARC		Loans may be used to make payments on an existing small business loan.	\$255 million	Not required	
<b>Microloan</b>	SBA makes direct loans to microlenders, who then make microloans to small businesses, and provides grants to microlenders to provide business counseling to borrowers.		\$30 million	Required	Required
<b>Contracting</b>	Improve SBA's information systems and support other activities.		Up to \$45 million <sup>5</sup>	Required	Required

<sup>3</sup>The Recovery Act appropriated \$375 million, however, subsequently, Congress appropriated an additional \$810 million.

<sup>4</sup>Although Recovery Act appropriations are subject to OMB's weekly agency reporting requirements, agencies are not to include supplemental appropriations in their weekly reports, according to OMB officials.

<sup>5</sup>To the extent that these funds are used to obtain goods and services from contractors, they are subject to the Act's recipient reporting requirements.

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## Objectives

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- Determine the extent to which information reported by SBA's microloan recipients on [Recovery.gov](http://Recovery.gov) fosters a basic understanding of award activities and expected outcomes.
- Determine the extent to which information reported by SBA's contractors on [Recovery.gov](http://Recovery.gov) fosters a basic understanding of award activities and expected outcomes.
- Identify information available on [Recovery.gov](http://Recovery.gov) about SBA's 7(a), 504, and ARC loan guarantee programs supported by Recovery Act funds.

## Summary

- Information on a small portion (13 percent) of SBA loans to microlenders met criteria for providing clear and complete information about award activities and expected outcomes.<sup>6</sup> About a third (33 percent) partially met and more than half (54 percent) did not meet the criteria. The fact that more than half of microlenders did not meet the criteria is likely due to the guidance provided to microlenders, which did not clearly direct them to report key information about the use of the direct loans, such as their expected outcomes (e.g., the number of new jobs expected).
- In contrast, information on about a third (35 percent) of SBA contractors' recipient reports met criteria for providing clear and complete information, almost half (43 percent) partially met, and about a fifth (22 percent) did not meet the criteria. SBA has provided guidance to contractors about the reporting requirements, including that they report on the expected outcomes of the use of such funds.
- While recipients of SBA's loan guarantee programs are not required to report award level information on [Recovery.gov](http://Recovery.gov), per OMB requirements, SBA does report some aggregate financial information about these programs on the Web site. As of June 30, 2010, SBA had obligated about \$557 million (of the \$630 million appropriated) to support and expand its loan guarantee programs. We calculate that the funds remaining, which total about \$73 million, are to support SBA's ARC program.<sup>7</sup>

<sup>6</sup>Based on information posted on [Recovery.gov](http://Recovery.gov) on the use of Recovery Act funds from Jan. 1 2010 through March 31, 2010

<sup>7</sup>On November 23, 2009, SBA had exhausted the \$375 million appropriated to its 7(a) and 504 programs. We calculate that the Recovery Act funds remaining, which total about \$73 million, are to support SBA's ARC program.

## Background: Reporting Requirements

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- Recipient Reporting
    - OMB and federal departments are responsible for issuing guidance to assist recipients in fulfilling the reporting requirements. OMB issued general guidance and SBA issued guidance tailored to its Recovery Act activities.
    - The Recovery Act and OMB guidance require prime recipients to provide:
      - A detailed list of all projects or activities for which recovery funds were obligated.
      - Information on sub awards.
    - Descriptions must be sufficiently clear to facilitate the general public's understanding.
    - As of August 2010, recipients have submitted four reports covering the following periods:
      - 1<sup>st</sup> round: February 17 through September 30, 2009
      - 2<sup>nd</sup> round: October 1 through December 31, 2009.
      - 3<sup>rd</sup> round: January 1, 2010 through March 31, 2010.
      - 4<sup>th</sup> round: April 1, 2010 through June 30, 2010
  - Agency Reporting
    - OMB requires agencies to submit weekly reports on the obligation and expenditure of Recovery Act funds.
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## Background: Microloan Program

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- SBA makes direct loans to microlenders, which are community-based, nonprofit intermediary lenders.
  - Maximum loan amount to an intermediary is \$750,000 in the first year.
  - Microlenders use SBA funds to make microloans to eligible small businesses.
    - Maximum loan amount is \$35,000.
    - Loans must be used for working capital and acquisition of materials, supplies, furniture, fixtures and equipment.
- SBA also awards grants to microlenders to provide marketing, management, and technical assistance to microloan borrowers or prospective borrowers.

## Background: Microloan Program (continued)

- SBA received \$6 million in Recovery Act funds to support direct loans to microlenders.
  - These appropriated funds can finance up to \$50 million in loans, according to SBA.<sup>8</sup>
  - As of March 31, 2010, SBA had awarded 61 direct loans to microlenders totaling about \$35 million.
  - Regarding the award amounts, more than half (37) totaled \$750,000, and the average of the remaining awards (24) was \$317,931.
  - Microlenders are required to submit the quarterly recipient reports for 3 years after obtaining the loan from SBA.
- SBA received \$24 million in Recovery Act funds to provide grants to microlenders. As of June 30, 2010, SBA had awarded 73 grants to microlenders to provide business counseling to borrowers. These grants ranged from \$81,220 to \$843,939.

<sup>8</sup>SBA can finance about \$50 million in lending to microlenders with an appropriation of \$6 million because, under credit reform procedures, the cost of SBA's loans to microlenders is the net present value of all expected cash flows, excluding administrative costs. For loans to microlenders, cash flows may include loan disbursements, borrower repayments of principal, and other payments adjusted for estimated defaults. When the net present value of estimated cash outflows exceed estimated cash inflows, the program is said to have a positive credit subsidy rate—and therefore requires appropriations. For fiscal year 2010, SBA assumed a positive credit subsidy rate of 12.04 percent for loans to microlenders. ( $\$49,833,887 \times .1204 = \$6,000,000$ ).



## Background: Contracts

- SBA received \$20 million in Recovery Act funds to improve, streamline, and automate its information systems and \$25 million to support other activities.
  - As of March 31, 2010, SBA had awarded 38 contracts to vendors, totaling about \$8.3 million.
    - Regarding the award amounts, awards averaged \$224,364, and ranged between \$151 and \$1.95 million.<sup>9</sup>
  - As of June 30, 2010, about \$19 million of the original appropriation remained.

<sup>9</sup>This smallest contract, for \$151.00, was for "office supplies," according to Recovery.gov.

# Background: SBA's Loan Guarantee Programs

SBA program	Description	Purpose of loan	Recovery Act provisions	2009 and 2010 Loan volume <sup>10</sup>
7(a)	SBA guarantees loans made by commercial lenders to small business borrowers for whom credit is not otherwise available. SBA's guarantee assures the lender that if a borrower defaults on a loan, the lender will receive an agreed-upon portion of the outstanding balance, generally between 50 percent and 85 percent.	Provide working capital and other general business purposes.	Reduced the fees associated with these loans, and increased the amount SBA guarantees.	\$8.7 billion
504	Financing is delivered through certified nonprofits. In a typical 504 loan project, a third-party lender provides 50 percent or more of the financing; a nonprofit provides up to 40 percent of the financing through a debenture that is fully guaranteed by SBA; and a borrower contributes at least 10 percent of the financing.	Finance expansion or modernization, primarily of real estate.	Reduced the fees associated with these loans, and increased the amount SBA guarantees.	\$3.6 billion
ARC	SBA guarantees loans made by commercial lenders to small businesses that in the past were profitable but are currently struggling. These loans can be up to \$35,000 and are interest-free to the borrower. SBA's guarantee assures the lender that if a borrower defaults on a loan, the lender will receive 100 percent of the outstanding balance.	Make payments on an existing small business loan.	New program	\$355 million

<sup>10</sup>The loan volume equals the amount supported by Recovery Act appropriations. The 7(a) and 504 programs have additional, non-Recovery Act appropriations. In fiscal years 2009 and 2010, non-Recovery Act appropriations supported \$18.8 billion of 7(a) loans and \$11.4 billion of 504 loans. Source: OMB, *Federal Credit Supplement: Budget of the U.S. Government Fiscal Year 2010* (Washington, D.C.).

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## Scope and methodology

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- We were asked to assess the extent to which the descriptions of the uses of funds, published on [Recovery.gov](http://Recovery.gov), enhance the public's understanding of how funds are being spent and what outcomes are expected.
    - Our briefing today focuses on activities funded through SBA.
  - To determine information available about SBA's microloan program and contracting activities supported with Recovery Act funds, we reviewed data available on [Recovery.gov](http://Recovery.gov) as of March 31, 2010, as well as data available on [www.USAspending.gov](http://www.USAspending.gov) and SBA's Web site.
  - To determine SBA's actions we reviewed agency documents, and interviewed agency officials at SBA and its Office of Inspector General (OIG).
  - To determine OMB's actions, we reviewed OMB memorandums and guidance, and interviewed agency officials at OMB and the Recovery Accountability and Transparency Board.
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## Scope and methodology (continued)

- To assess the descriptions in recipient reports for SBA loans to microlenders and contracts:
  - We utilized a methodology developed for our May 2010 report on Recovery Act transparency.<sup>11</sup> We further reviewed the Recovery Act, the Federal Funding Accountability and Transparency Act of 2006, OMB guidance, and the Federal Acquisition Regulation and identified expectations for transparency in SBA activities. Based on these documents and professional judgment we developed transparency criteria for SBA, which consisted of seven attributes, including: the project's purpose, activities, cost, scope, and expected outcomes, as well as, location of the award recipient (i.e., address of microlender or contractor) and the status of work.<sup>12</sup>
  - We identified all of the recipient reports submitted by SBA microlenders and contractors for the third round of reporting (i.e., January 1, 2010 through March 31, 2010).
  - Two analysts, using the criteria and their professional judgment, independently considered the information in the reports holistically and assessed the completeness and understandability of the descriptions. Each analyst decided whether the award description information met, partially met, or did not meet the criteria.
    - Met: Overall, contained complete and clear information.
    - Partially met: Contained reasonably clear and specific information for some attributes.
    - Did not meet: Overall, did not contain reasonably clear and specific information.
  - The analysts compared independent assessments, discussed discrepancies in assessments, and reached a consensus on which information was missing, unclear, or nonspecific as well as the overall score.
  - Our assessment did not determine compliance with the law, regulations or guidance.

<sup>11</sup>GAO, *Recovery Act: Increasing the Public's Understanding of What Funds Are Being Spent on and What Outcomes Are Expected*, GAO-10-581 (Washington, D.C.: May 27, 2010)

<sup>12</sup>For the purposes of this review, we defined scope for the microloan program as the geographic areas in which businesses can apply for the microloans. For SBA contracts, we defined scope as providing information about the SBA office (e.g., Division of Procurement and Grants Management), program (e.g., 7(a) and microloan), or function (e.g., information technology, internal controls) that obtained the contracting goods and/or services.

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## Scope and methodology (continued)

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- To determine information available about SBA's loan guarantee programs supported with Recovery Act funds, we
  - Reviewed data available on [Recovery.gov](http://Recovery.gov), [www.USAspending.gov](http://www.USAspending.gov), and SBA's website.
  - Interviewed SBA, OMB, and Recovery Accountability and Transparency Board officials.
  - Reviewed previous GAO reports.

## More than Half of Microloans Did Not Include Clear and Complete Information About Award Activities and Expected Outcomes

- Many recipient reports for SBA loans to microlenders did not meet the criteria.<sup>13</sup> Specifically,
  - Met: 13 percent (8 awards), totaling \$4,990,000
  - Partially met: 33 percent (20 awards), totaling \$10,550,000
  - Did not meet: 54 percent (33 awards), totaling \$19,840,333

<sup>13</sup>All of these recipient reports were associated with SBA direct loans to microlenders. As of March 31, 2010, SBA had not awarded any grants to microlenders, as such, none of the recipient reports we reviewed were associated with grants funded by Recovery Act appropriations.

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## Recipient Reports that Met the Criteria

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- Thirteen percent (8 awards) of SBA’s loans to microlenders included information describing the purpose and expected outcomes of the award, and geographic areas in which businesses could apply for the microloans. For example:
  - “To provide Microloan[s] to small businesses in Charleston, Dorchester, and Berkeley counties of South Carolina. Funds are expected to fund approximately twenty loans over the next two years resulting in the establishment of new businesses and the support of existing businesses. Total job impact should result in approximately 60 positions being either created or retained.”

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## Recipient Reports that Partially Met the Criteria

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- Almost a third, 33 percent (20 awards), of SBA’s loans to microlenders included some specific information, such as describing the purpose of the award. For example:
    - “...provide small business loans to businesses that would not otherwise have access to capital through conventional commercial financing”
    - “Loan to capitalize a microloan fund to provide capital to entrepreneurs to start, stabilize or expand their business ventures and create jobs”
    - “...funds will be lent to qualifying ... small businesses to assist in economic development and job creation”
  - However, these reports did not include some specific information, such as expected outcomes of the award and geographic areas in which businesses could apply for the microloans.
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## Recipient Reports that Did Not Meet the Criteria

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- A large portion, 54 percent (33 awards), of SBA's loans to microlenders did **not** include information about the purpose of the award, geographic areas in which businesses could apply for the microloans, and expected outcomes of the award. The following are examples of the limited descriptions of these microloans:
  - "Microloans"
  - "loan to microloan intermediary"
  - "Supplemental Loan under the U.S. SBA"
  - "Microloan Program"
  - "Microloan Program / loan for \$250,000.00"
  - "Loan"
  - "Microloan Revolving Loan Program"
  - "SBA Micro-Loan Intermediary"
  - "micro lending"

## Guidance Was Not Always Clear

- OMB issued guidance to assist recipients in fulfilling the Recovery Act's reporting requirements, however, as we reported in May 2010, the guidance on two narrative fields, "Award Description" and "Quarterly Activities / Project Description," was not always clear.<sup>14</sup>
- Similarly, SBA issued supplemental guidance, which was approved by OMB, to further assist microlenders in fulfilling the Recovery Act's reporting requirements.<sup>15</sup> This supplemental guidance, however, did not clearly direct microlenders to report certain descriptive information about the award.
  - The supplemental guidance, which was in the form of a "Procedural Notice" issued in July 2009, identified the new reporting requirements and provided guidance to assist microlenders in completing data entries.
  - However, the supplemental guidance directed microlenders to report standard language to describe the award. Specifically, it directed microlenders to enter "Microloans" in the "Award Description" field. In addition, this supplemental guidance did not clearly direct microlenders to provide information about the purpose of the award or expected outcomes. SBA officials told us that they had been trying to minimize the burden on microlenders, which generally are small non-profit organizations.

<sup>14</sup>GAO-10-581

<sup>15</sup>SBA, *Procedural Notice: Recovery Act – Microloan Recipient Reporting*, Control No.: 5000-1119, (Washington, D.C.: July 31, 2009)

## Guidance Was Not Always Clear (continued)

- Our May 2010 report recommended that OMB (1) revise its recipient reporting guidance to provide recipients with clearer general instructions and examples for narrative fields and (2) work with executive departments and agencies to determine whether that supplemental guidance (like SBA's procedural notice) dealing with narrative descriptions of awards provides for transparent descriptions of funded activities.<sup>16</sup> OMB agreed with these recommendations and reported that they are developing plans to address these recommendations.
- As of July 2010, SBA and OMB do not have specific plans to clarify SBA's existing supplemental guidance or issue additional guidance to improve microlenders understanding about the Recovery Act's recipient reporting requirements.
- A senior SBA official said that the guidance to microlenders could be revised to direct recipients to include more specific information about the purpose of the award and expected outcomes.
- Until microlenders are more clearly directed to provide information about the purpose of the award and expected outcomes, many such entities will likely continue to report information on their use of Recovery Act funds which does not foster public understanding about award activities.

<sup>16</sup>GAO-10-581

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## Generally, SBA Contractors Either Fully or Partially Included Clear and Complete Information About Award Activities and Expected Outcomes

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- About a third of the recipient reports for SBA contracts met the criteria while about a fifth did not meet the criteria.<sup>17</sup> Specifically,
  - Met: 35 percent (8 awards), totaling \$2,976,309
  - Partially met: 43 percent (10 awards), totaling \$1,680,833
  - Did not meet: 22 percent (5 awards), totaling \$837,943

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<sup>17</sup>As of March 31, 2010 SBA had awarded 37 contracts funded with Recovery Act funds. We assessed the 23 recipient reports submitted for the March 31, 2010 reporting period. This assessment does not consider the final reports for 14 additional contracts which were submitted in a prior reporting period.

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## Recipient Reports that Met the Criteria

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- About a third (8 awards) of SBA’s contracts included information describing the purpose, scope, and expected outcomes of the award. For example:
  - “...provide training and technical assistance to SBA Microloan Intermediaries to help them report data to the major credit bureaus... . The training will enable ... Intermediaries to better assist entrepreneurs... .”
  - “Contractor shall verify if the Small Business Administration’s internal controls are effective for approving, servicing, and purchasing loans issued under the American Recovery and Reinvestment Act... .”
  - “Provide web and print ads, to publicize Recovery Act programs for entrepreneurs and small business owners,... .”

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## Recipient Reports that Partially Met the Criteria

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- Almost half, 43 percent (10 awards), of SBA's contracts included some specific information, such as describing the purpose of the award. For example:
  - “contract to install WAN technology”
  - “Microsoft BING software/services to the CRM suite of applications”
  - “Contract for the installation of new electrical distribution equipment”
  - “Maintenance & Repairs of Office Building”
- However, these reports did **not** include some specific information, such as expected outcomes and scope of the award.

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## Recipient Reports that Did Not Meet the Criteria

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- About a fifth (5 awards) of SBA’s contracts did ***not*** include information about the purpose, scope, and expected outcomes of the award. However, these reports did include a limited description of the activity, for example:
  - “Credit Bureau Reports”
  - “Loan Examination Technical Support Services”

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## SBA's Reporting Guidance to Contractors

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- As of October 2009, SBA had not issued guidance to its contractors regarding fulfilling the recipient reporting requirements.
- However, prior to the second and third round of reporting (December 31, 2009 and March 31, 2010, respectively), SBA sent letters to contractors outlining the reporting requirements. These letters directed contractors to describe the "...overall purpose and expected outcomes, or results of the contract..." as well as "significant services performed / supplies delivered...". This guidance may have increased recipients' awareness about providing this information, and helped recipients report complete and clear information.



# Loan Guarantee: Information Reported by SBA on Recovery.gov

- Pursuant to OMB’s agency reporting requirements, SBA submits weekly reports on aggregated financial information about its use of Recovery Act funds.
- The following table illustrates SBA’s use of funds at the end of each reporting round, on a cumulative basis.

		Reporting Round 1 (Feb. 1 – Sept. 30, 2009)	Reporting Round 2 (Oct. 1 - Dec. 31, 2009)	Reporting Round 3 (Jan. 1 – Mar. 31, 2010)	Reporting Round 4 (Apr. 1 – Jun. 30, 2010)
<b>Guaranteed loans</b> (including SBA’s 7(a), 504, and ARC loan programs)	Total obligations	\$311,444,659	\$520,910,875	\$535,043,951	\$557,139,598 <sup>18</sup>
	Total gross outlays	\$111,991,072	\$242,656,715	\$362,705,382	\$437,439,417
<b>Direct loans</b> (including SBA’s microloan program)	Total obligations	\$1,795,290	\$3,318,350	\$4,110,983	\$5,043,552
	Total gross outlays	\$0	\$320,009	\$805,845	\$1,432,239
<b>Contracts</b>	Total obligations	\$6,160,968	\$6,546,722	\$8,098,879	\$14,123,417
	Total gross outlays	\$2,508,567	\$4,679,326	\$6,246,448	\$7,839,223

<sup>18</sup>The Recovery Act appropriated a total of \$630 million to SBA’s loan guarantee programs. On November 23, 2009, SBA had exhausted the \$375 million appropriated to its 7(a) and 504 programs. As a result, we calculate that the Recovery Act funds remaining, which total about \$73 million, are to support SBA’s ARC program. 26

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## Loan Guarantee: Information about Recipients is on Recovery.gov's Agency Data Portal

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- SBA's Recovery Act appropriations that support its loan guarantee programs are not subject to the recipient reporting requirement.
    - According to SBA and OMB officials, recipients of loans guaranteed by SBA are not subject to the recipient reporting requirement because they never receive Recovery Act funds. Instead, Recovery Act funds are used by SBA to cover its costs to guarantee the loan.
  - However, the "Agency Data" portal of [Recovery.gov](http://Recovery.gov) contains information about recipients of SBA guaranteed loans.
    - The types of information available include, the recipient's name and address, as well as the "funding amount," which is the total value of loan financed by the private lending institution. For example, Ardmore Pharmacy in Los Angeles, California obtained a loan for \$373,000.
    - These data are on [Recovery.gov](http://Recovery.gov) because the Recovery Accountability and Transparency Board uses data agencies report to [www.USAspending.gov](http://www.USAspending.gov) on all Federal awards to populate the "Agency Data" portal of [Recovery.gov](http://Recovery.gov), which includes both direct and guaranteed loans. The board is able to use this data because the data agencies report identifies if the award is supported by Recovery Act funds.
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## Conclusions

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- The administration faced an extensive undertaking in simultaneously putting in place ways to spend large sums of Recovery Act funds, while also seeking to make these efforts more transparent to the public than previous efforts. The administration expected that achieving this degree of visibility would be an iterative process in which the reporting process and information improve over time.
  - Although recipient reporting under the Recovery Act represents a step forward in federal spending transparency, opportunities exist to further improve the public's understanding of how Recovery Act funds are being spent and what outcomes are expected.
  - OMB and SBA have joint responsibility for ensuring that recipients of Recovery Act funds, such as microlenders, understand what information they need to include in their recipient reports to ensure they contain clear and complete descriptions of funded activities and expected outcomes.
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## Recommendation

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- In order to provide the public with more useful information on how Recovery Act funds are being used, we recommend that SBA, in consultation with OMB, remove the suggested standard language for the “award description” field from its guidance and instruct microlenders to include, as appropriate, more descriptive information on how the funds are being used and potential project outcomes or results.

## Enclosure II: Comments from the Small Business Administration



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, DC 20416

September 19, 2010

Mr. William B. Shear  
Director, Financial Markets and Community Investment  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

RE: "Participants in SBA's Microloan Program Could Provide Additional Information to Enhance the Public's Understanding of Fund Uses and Expected Outcomes" (GAO-10-1032R)

Dear Mr. Shear:

Thank you for the opportunity to comment on your recent report, "Participants in SBA's Microloan Program Could Provide Additional Information to Enhance the Public's Understanding of Fund Uses and Expected Outcomes" (GAO-10-1032R). We appreciate your thoughtful review of the progress we have made in the implementation of Recovery Act programs.

As stated on page 2 of your draft letter, "the Office of Management and Budget (OMB) is responsible for issuing general guidance governing recipient and other reporting regarding the use of Recovery Act Funds, while federal departments and agencies, such as SBA, can issue guidance tailored to their specific programs."

SBA and OMB worked together to develop the SBA-related reporting requirements discussed in the report. SBA provided guidance to its Microloan Program intermediary lenders (intermediaries) in accordance with the resultant OMB Guidance. GAO indicates that one-hundred percent of the reports submitted by the microloan intermediaries met the reporting requirements developed by OMB and SBA. As part of its audit, GAO developed additional criteria for evaluating the report by SBA's microloan intermediaries that went beyond the OMB reporting requirements. While all of the intermediaries met the reporting requirements, 13 percent also fully met GAO's criteria for "clear and complete information," 33 percent met the requirements and partially provided information you deemed "clear and complete," and 54 percent met the requirements but did not add extra information to meet the "clear and complete" criteria.

The GAO recommends that to improve the public's understanding of how Recovery Act funds are being spent and what outcomes are expected, the standard reporting language in the reporting guidance be removed, and new requirements be provided to require the microlenders to be more descriptive of the ultimate beneficiaries.

In implementing the Recovery Act, the Administrator made clear SBA's intention to be fully transparent throughout the process. Pursuant to that goal, SBA appreciates the Draft Report and the suggestions made regarding possible improvements to the clarity and completeness of microloan intermediary Recovery Act reporting beyond the OMB requirements. SBA understands that the microlending intermediaries in our program exhibit a broad range of quality in reporting,

as demonstrated in the GAO findings. This reflects the range of capacity among our microlenders—which range from two-person operations to loan funds that manage hundreds of millions of dollars.

To address GAO’s concern and to encourage a higher level of reporting quality, SBA will share best practices regarding reporting with its microloan intermediaries. The sharing of best practices will begin for the reporting period ending September 30, 2010. This will provide the direction that GAO seeks for the microlenders as indicated in the Draft Report.

In addition, we appreciate GAO’s comments about contractor recipient reporting. GAO noted that “generally, contractors effectively described how they were spending the funds and the outcomes they expect,” reflecting compliance with requirements jointly developed by SBA and OMB. These requirements were distinct from those governing microlender reporting.

SBA would also like to suggest several corrections to the report, as follows:

- Page three of the Draft Report indicates that the microloan program “makes grants to microlenders and other qualified non-profit entities....” ARRA funding was provided to microlenders only. No grants were provided to “other qualified non-profit entities” under the Microloan Program during FY2009 or 2010.
- Slide four of the PowerPoint document states, in the Description of the Microloan Program, that SBA “provides grants to microlenders and potential microlenders....” The SBA Microloan Program does not provide grants to potential microlenders, only to microlenders participating in the program.
- Finally, we feel that slide 15 of the PowerPoint could be misleading and could be clarified. We feel it should be recognized that all of the microloan intermediaries met the reporting criteria established by OMB and communicated by SBA. There is an opportunity to further improve the clarity of reporting by expanding the reporting requirements, using the criteria established by GAO.

Sincerely,



Eric Zamikow  
Associate Administrator  
Office of Capital Access

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