



STATEMENT OF
HANNIBAL “MIKE” WARE
ACTING INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE
SUBCOMMITTEE ON INVESTIGATIONS, OVERSIGHT, AND
REGULATIONS
&
SUBCOMMITTEE ON ECONOMIC GROWTH, TAX, AND
CAPITAL ACCESS

COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

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INTRODUCTION

Chairmen Kelly and Brat, Ranking Members Adams and Evans, and distinguished members of the Subcommittees, thank you for the opportunity to be here today and for your continued support of the Office of Inspector General (OIG). We recently published the results of our audit of the Small Business Administration's (SBA's) management of the Microloan Program. I am happy to discuss our findings with you today.

OIG's ROLE

OIG was established within SBA by statute to promote economy, efficiency, and effectiveness and to deter and detect waste, fraud, abuse, and mismanagement in the Agency's programs and operations. During fiscal year (FY) 2016, OIG achieved nearly \$145 million in monetary recoveries and savings—an almost sevenfold return on investment relative to our FY 2016 operating budget—and made 81 recommendations for improving SBA's operations and reducing fraud and unnecessary losses in the Agency's programs. Already in FY 2017, through March 31, 2017, OIG achieved monetary recoveries and savings of over \$22 million.

OIG audits are conducted in accordance with Federal audit standards established by the Comptroller General, and other reviews generally are conducted in accordance with standards established by the Council of the Inspectors General on Integrity and Efficiency. In addition, we coordinate with the Government Accountability Office to avoid duplicating Federal audits. We also establish criteria to ensure that the non-Federal auditors that OIG uses (typically, certified public accountant firms) comply with Federal audit standards.

OIG's FINDINGS PERTAINING TO THE MICROLOAN PROGRAM

OIG report 17-19, titled *Audit of SBA's Microloan Program*, presents the results of our audit of SBA's Microloan Program. The Microloan Program assists women, low-income, veteran, and minority entrepreneurs, as well as other small businesses in need of financial assistance. Under the program, SBA makes direct loans to intermediaries that, in turn, use the proceeds to make small short-term loans (microloans) up to \$50,000 to eligible small businesses. SBA also awards grants to intermediaries to provide training and technical assistance to microloan borrowers. From FYs 2014 to 2016, intermediaries closed 12,168 microloans totaling approximately \$170 million.

Our objectives were to determine (1) whether SBA effectively implemented actions to improve oversight of the Microloan Program and (2) the extent that SBA oversight is sufficient to measure program performance and ensure program integrity.

What OIG Found

OIG last conducted an audit of SBA's Microloan Program in 2009 and made several recommendations to SBA to improve its program oversight.¹ However, SBA management did not effectively implement all prior audit recommendations to improve oversight. Furthermore,

¹ ROM 10-10, *SBA's Administration of the Microloan Program under the Recovery Act*

SBA management did not conduct adequate program oversight to measure program performance and ensure program integrity. These internal control weaknesses were due to SBA not having an overall site visit plan, an adequate information system, available funding for system improvements, or clear Standard Operating Procedures (SOPs). Additionally, SBA management focused on output-based performance measures instead of outcome measures.

In our review of a statistical sample of 52 microloan files, we found that data contained in SBA's information system for 27 of the loans did not match the information included in the intermediaries' loan files. In addition, we found that intermediaries did not have sufficient documentation to support that it originated and closed 44 of the 52 microloans, or 85 percent, totaling approximately \$910,000, in accordance with SBA's requirements. These deficiencies affect the reliability of the data reported to SBA by the intermediaries. When projecting these findings to the microloan population, we estimated that intermediaries did not have adequate documentation for at least 9,196 microloans approved from FY 2014 to FY 2016 for approximately \$137 million.

As a result, SBA's ability to validate microloan data, conduct analyses across multiple programs and systems, and capture outcome-based measures was impaired, and there was no way to ensure program integrity or measure program success. These internal controls over the Microloan Program are critical as Congress considers expanding the program.

It is important to note that during the period of the current audit, SBA took steps to improve its oversight of the Microloan Program. Those steps included the following:

- Developed a justification to request funds for technology improvements.
- Conducted a time study to evaluate staff time spent on tasks in support of technology improvements.
- Developed a module within the program information system for new loan request analysis which replaced the use of spreadsheets.

OIG Recommendations

To improve SBA's oversight of the Microloan Program, we recommended the Associate Administrator for the Office of Capital Access (1) continue efforts to improve the information system for effective monitoring of the Microloan Program, (2) develop a site visit plan to further monitor microloan portfolio performance, (3) update SOP 52 00A to clarify requirements regarding evidence for use of proceeds and credit elsewhere, and (4) update the microloan reporting system manual to reflect current technology capabilities.

Agency Response

SBA management agreed with the four recommendations offered by OIG. Specifically, SBA plans to study and recommend solutions to replace its microloan information system. SBA also will develop a comprehensive site visit review program and will update SOP 52 00A to clarify

requirements regarding evidence for use of proceeds and credit elsewhere. Additionally, SBA will update the microloan reporting system user's manual to reflect current technology capabilities.

CONCLUSION

The Microloan Program's mission is to integrate microlevel financing with training and technical assistance for start-up, newly established, existing, and growing small businesses. Improvements are needed in SBA's oversight to validate microloan data, conduct analyses across multiple programs and systems, and capture outcome-based measures. Furthermore, because Congress introduced two bills to expand the program, adequate oversight is necessary to sufficiently measure program performance and ensure the integrity of the program. The exceptions we identified on the microloans demonstrate that SBA must continue to improve its oversight to ensure the program is meeting its intended purpose. When projecting our findings in the 44 microloans to the microloan population, we estimate that at least 9,196 of 12,157 microloans, totaling \$137 million, had deficiencies.

I am proud of the work performed by our auditors to shine the light on the Microloan Program, appreciating it is timely in context of the congressional debate to expand participation in the program. As noted in the Congressional Research Service's report titled Small Business Administration 7(a) Loan Guaranty Program, dated September 15, 2017, inadequate performance metrics are a persisting concern with SBA's lending programs. OIG believes the recommendations offered in this report will strengthen the management of the Microloan Program and ultimately, facilitate a capacity to capture and analyze data in a manner that SBA can effectively measure performance of the program.

OIG will continue to provide independent, objective oversight to improve the integrity, accountability, and performance of the SBA and its programs for the benefit of the American people. Our focus is to keep SBA leadership, our congressional stakeholders, and the public currently and fully informed about the problems and deficiencies in the programs as identified through our work. We value our relationship with these Subcommittees, the Committee on Small Business, and the Congress at large, and we look forward to working together to address identified risks and the most pressing management challenges facing SBA.