SMALL BUSINESS ADMINISTRATION 1953

Agency Financial Report • Fiscal Year - 2015

Today's SBA: Smart, Bold & Accessible

ABOUT THIS REPORT

The U.S. Small Business Administration's Agency Financial Report (AFR) for FY 2015 provides an overview of the Agency's financial and performance data to help Congress, the President, and the public assess SBA's stewardship over the resources entrusted to it. The AFR is the first in a series of three annual financial and performance reports for federal agencies choosing to produce a separate AFR. An Annual Performance Report (APR) and a Summary of Performance and Financial Information (SPFI) make up the other two reports. The FY 2015 APR is included as part of the FY 2017 Congressional Budget Justification (CBJ), which is the Agency's budget request to Congress. The FY 2015 SPFI is a summary of the financial, performance, and budgetary information presented in the AFR and the CBJ/APR. Both the SPFI and the CBJ/APR are scheduled for publication in February 2016. All three reports can be found at www.sba.gov/performance.

ABOUT THE COVER

The cover includes photos that represent SBA clients in the construction, grocery, pharmaceutical, and solar technology industries.

FY 2015 HIGHLIGHTS

(Dollars in Thousands)	**FY 2012**	**FY 2013**	**FY 2014**	**FY 2015**
Loan Portfolio(1)	**$ 104,442,586**	**$ 109,757,990**	**$ 114,433,669**	**$ 118,767,451**
Regular FTE Employees	2,089	2,148	2,137	2,115
Disaster FTE Employees	1,145	1,628	991	991
Total Employees(2)	3,234	3,776	3,128	3,106
Total Assets	$ 14,014,855	$ 13,846,170	$ 13,184,251	$ 12,020,867
Total Liabilities	$ 13,640,581	$ 12,462,316	$ 11,695,803	$ 10,682,837
Total Net Position	$ 374,274	$ 1,383,854	$ 1,488,448	$ 1,338,030
Total Net Cost of Operations	$ 1,274,805	$ 524,086	$ (466,394)	$ (644,590)
Total Budgetary Resources	$ 14,400,162	$ 14,059,594	$ 10,826,659	$ 10,296,788

(1) The total portfolio consists of guarantied business loans outstanding, guarantied debentures, direct business loans, and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged off. Prior to the FY 2014 Agency Financial Report the SBA did not include ARC 506, Dealer Floor Plan, 504 First Lien, and 504 Refi in the portfolio total. The SBA has updated the data for FY 2012-2013 to include these programs in the totals.

(2) The total does not include employees in the Offices of Advocacy or Inspector General.

FOR MORE INFORMATION

Information about SBA's programs is available at: www.sba.gov

SBA's plans and reports are available at: www.sba.gov/performance

Para información acerca de los programas de la SBA: www.sba.gov →"Translate" →"Select Language"

Questions and comments regarding the content, presentation and usefulness of this report are welcome and may be addressed to: performance@SBA.gov

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SBA'S MISSION

Maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.

HOW THIS REPORT IS ORGANIZED

The U.S. Small Business Administration's FY 2015 Agency Financial Report (AFR) provides financial and performance information for the fiscal year beginning October 1, 2014 and ending September 30, 2015. This report presents SBA's operations, accomplishments, and challenges. It begins with a message from SBA Administrator Maria Contreras-Sweet, followed by three principal sections — *Management's Discussion and Analysis, Financial Reporting, Other Information, and Appendices*. "Success Stories" that highlight small business entrepreneurs appear throughout the report, along with interesting "*Did You Know?*" facts about the SBA and its work.

Management's Discussion and Analysis

The Management's Discussion and Analysis section provides a report of the Agency's overall financial position, program performance, and results of operations. It presents SBA's history, organization, and principal programs. This section highlights financial results and analysis; performance results and analysis; and analysis of systems, controls, and legal compliance.

Financial Reporting

The Financial Reporting section provides a detailed report of SBA's finances. It includes the message from the Chief Financial Officer, the Audit and Financial Management Advisory Committee's report, the audit transmittal memorandum from the Inspector General, the independent auditors' report, and the audited financial statements and notes. The required supplementary information provides a combining statement of budgetary resources, and the required supplementary stewardship information provides a report on stewardship investments in human capital.

Other Information

The Other Information section includes a schedule of spending and the Inspector General's report on the Agency's most serious management and performance challenges along with recommended actions. Also included in this section is a summary of financial statement audit and management assurances, and a detailed report on improper payments.

Appendices

The Appendices provide supporting information — a contact list of useful web sites and telephone numbers; a glossary; and a detailed report on audit follow-up activity.

MESSAGE FROM THE ADMINISTRATOR

November 16, 2015

Under my tenure, one motto has driven our work at the SBA: "Smart, Bold and Accessible." That means we support our nation's 28 million small businesses through smart systems. We help them reach bold new markets. And we serve entrepreneurs of every age, ethnicity, and background. An important piece of that work is to detail the performance of our finances and our programs. In that spirit, I am pleased to present the U.S. Small Business Administration's FY 2015 Agency Financial Report.

In the pages to follow, we have highlighted some of our key accomplishments during the fiscal year. These accomplishments cover our work in the areas of capital, contracts, counseling, and disaster relief. SBA financial and performance data in this report are reliable and complete. Our auditors issued an unmodified opinion on our FY 2015 financial statements and found no material weaknesses.

It was a big year for capital. In FY 2015, the SBA supported nearly $33 billion in lending through our 7(a) and 504 loan programs. These loans supported over 680,000 jobs across the country. The SBA did not require a credit subsidy appropriation for the 7(a) loan program. Instead, we utilized fees to cover the costs of our most popular credit offering. We accomplished this despite zeroing out fees for 7(a) loans of $150,000 or less, beginning in FY 2014 and extending to FY 2015, to boost loan approvals to women, minorities, veterans, and business owners in distressed urban and rural areas.

In FY 2015, we made significant progress in our ongoing efforts to modernize the Agency's capital access programs. Our goal was 100 percent electronic submission of loan applications, which we met this past year. We continued development work with our Fiscal Transfer Agent to construct and implement further enhancements to SBAOne, our newly-created online lending platform. This system provides significantly more data on 7(a) loans and makes available additional information that enhances program risk management, streamlines payment and reporting, and improves efficiency of secondary market functions. This builds on previous capability that implemented a predictive credit scoring model on smaller dollar loans to create an underwriting system that promotes more equitable distribution of capital and speeds our response time on 7(a) loan applications.

The Small Business Investment Company (SBIC) Debenture program had another record year of growth. Investment funds licensed as SBICs provided more than $6 billion in capital to small businesses, a 15 percent increase over last fiscal year. In FY 2015, the SBA licensed 25 new SBIC funds, and licensing times averaged 8.4 months. This helped the SBIC program execute more than $2.5 billion in commitments, one-quarter of which helped capitalize companies that are minority-owned, women-owned, veteran-owned, or located in low-to-moderate income areas.

As with our work in capital, the SBA also reached an important milestone promoting greater federal contracting opportunities for small businesses. For the second consecutive year, in FY 2014, the federal government surpassed its statutory prime contracting goal, and the Agency achieved its priority goal by awarding 24.99 percent of federal prime contracts to small businesses. This achievement occurred despite the fact that overall federal contract spending has been reduced over the past several years. In FY 2014, the federal government also exceeded its small business contracting goals for businesses owned by service-disabled veterans (3.68 percent) and businesses considered socially or economically disadvantaged (9.46 percent).

Many of these achievements are the result of SBA's efforts to provide mentoring, business advice, and training assistance to more than 1 million entrepreneurs and small businesses each year. These efforts help entrepreneurs create viable business plans, acquire capital, and access numerous supply chains. This year, we recognized the 35th anniversary of America's Small Business Development Center network, an SBA resource partner that provides high quality advising, mentoring, and training to hundreds of thousands of businesses in more than 900 centers each year.

This business counseling made an especially big impact in the veteran community. In FY 2015, the SBA trained more than 14,000 transitioning service members at 184 military installations nationwide through our Boots to Business program. This program, coupled with veteran's loan advantage, provides the needed support to our hardworking military service members interested in starting their own business.

Finally, the SBA reaffirmed its commitment to aid Americans in their hours of greatest need by continuing to improve and streamline our disaster assistance programs. In FY 2015, the SBA approved more than 11,400 disaster loans totaling more than $371.6 million and worked 255 active declarations across the country. While our disaster assistance loan volume was down from previous years, we continued to make strides in processing payments more quickly and efficiently. The SBA exceeded its priority goal for disaster loan applications returned, with a return rate of 98 percent. This higher application return rate means a greater number of disaster survivors received SBA's assistance in rebuilding or recovering from an economic injury. We also made process improvements by adding multiple points for disaster survivors to apply for SBA loans.

SBA services continue to be a vital resource for small businesses and an important driver of America's economic growth. In FY 2016, we plan to build upon these accomplishments in order for more small businesses to expand, create jobs, and help America's economy thrive.

Sincerely,

Maria Contreras-Sweet
Administrator

Management's Discussion & Analysis

SUCCESS STORY

Brother and Sister Team Are SBA Small Business Persons of the Year

Missouri Star Quilt Company
Hamilton, Missouri

Alan Doan took out a loan to buy a quilting machine and a small building to house it, and in 2008 he and his sister **Sarah Galbraith** launched Missouri Star Quilt Company. An SBA 504 loan in 2013 enabled the business to build a 45,000 square-foot facility for warehousing and shipping, customer service, sales, and a photo/catalog studio. Missouri Star Quilt is a unique combination of e-commerce and a bustling brick and mortar operation that has brought new life to the city of Hamilton.

Quilting tutorials posted on YouTube and hosted by Alan and Sarah's mother Jennie were widely viewed, boosting the company's image and engaging potential customers. The company now ships hundreds of packages every day to customers all over the globe. The brick and mortar shop has become a quilting destination.

Missouri Star Quilt now owns 15 buildings that encompass 116,365 square feet. With 148 employees, it is the largest employer in Caldwell County, Missouri. The net worth of the operating company has grown from \$60,576 in 2011 to \$206,608 in 2013.

In a May 2015 ceremony and reception in Washington, D.C., SBA Administrator Maria Contreras-Sweet recognized Alan Doan and Sarah Galbraith as SBA's *2015 National Small Business Persons of the Year.*

PRIMER OF SBA'S PRINCIPAL PROGRAMS

CAPITAL (www.sba.gov/financialassistance)

The SBA has a total business loan portfolio of $102.4 billion.[1]

7(a) Loan Guaranties — The SBA offers government guaranties on loans (up to $5.0 million) made by commercial lenders to help expand access to capital for business owners who face challenges in getting approved for financing. The SBA guarantees a portion of 7(a) loans made and administered by commercial lending institutions. Loans can be guaranteed for a variety of general business purposes.

504 CDC Loan Guaranties — These long-term, fixed-rate loans (up to $5.5 million) support investment in major assets such as real estate and heavy equipment. Loans are delivered by certified development companies (CDC) which are private, non-profit corporations. CDCs work with the SBA and private lenders to provide the financing. The SBA guarantees the CDC's portion of these loans.

Microloans — The SBA provides loans to non-profit intermediary lenders, which are community-based organizations with experience in lending and technical assistance, that in turn make these loans (up to $50,000) to small businesses needing small-scale financing and technical assistance for start-up or expansion.

Surety Bonds — A surety bond is a type of insurance that guarantees performance of a contract. If one party does not fulfill its end of the bargain, then the surety bond provides financial compensation to the other party. The SBA guarantees bonds issued by a surety company in order to encourage the surety company to provide bonds to small businesses.

CONTRACTING (www.sba.gov/contracting)

The SBA leads federal efforts to deliver 23 percent of contracts to small businesses, 5 percent to women-owned and small disadvantaged/8(a) businesses, and 3 percent to HUBZone and service-disabled veteran small businesses.

Procurement Assistance to Small Businesses — Small business contracts represent the largest form of direct monetary support for small business in the federal government. Within this goal are four sub-goals:

> **Small Disadvantaged Businesses —** This program supports assistance through 8(a) Business Development and set-aside contracting for businesses owned and controlled by socially and economically disadvantaged individuals. Over the course of nine years, a firm is assisted in gaining resources to compete for federal contracts and for contracts in the private sector.
>
> **HUBZone Small Businesses —** This program supports sole-source and set-aside contracting for firms located in economically disadvantaged geographical areas.
>
> **Service-Disabled Veteran-Owned Small Businesses —** This program allows federal agencies to set-aside contracts for competition only among service-disabled veteran-owned small businesses.
>
> **Women-Owned Small Businesses —** This program allows federal agencies to set-aside certain contracts for competition only among small businesses owned and controlled by women.

1 The total portfolio of $118.8 billion consists of all performing loans and defaulted loans that have not been charged off, including guarantied business loans outstanding, guarantied debentures, direct business loans and direct disaster loans, ARC 506, Dealer Floor Plan, 504 First Lien, and 504 Refi.

ADVISING, MENTORING, AND TRAINING (www.sba.gov/local-assistance)

The SBA and its partners serve over 1 million small business clients a year through the following programs.

Small Business Development Centers — SBDCs provide advising and training services to small businesses and prospective business owners using an extensive network of 63 lead centers managing more than 900 service delivery points throughout the U.S. and the insular territories.

Women's Business Centers — WBCs provide advising and training through more than 100 non-profit educational centers across the nation. They provide services on a vast array of topics, from how to write a business plan to programs specifically for veterans. Many WBCs provide multilingual services, and a number offer flexible hours allowing for mothers with children to attend training classes.

Veterans Business Outreach Centers — SBA's 15 VBOCs provide counseling and training services to veteran-owned and service-disabled veteran-owned small businesses and entrepreneurs, along with reserve component members starting new small businesses or expanding established small businesses.

SCORE — SCORE is a non-profit association comprised of nearly 11,000 volunteer business mentors that serve entrepreneurs with in-person mentoring and local training workshops. As the largest volunteer business mentor network in the federal government, SCORE adapts its structure and services to meet the needs of the small business.

EXPORTING (www.sba.gov/oit)

The SBA provides loans to exporters and training assistance to small businesses.

Export Loans — The SBA provides several different types of export loans, including SBA Export Express loans (up to $500,000), Export Working Capital loans (up to $5.0 million), and International Trade loans (up to $5.0 million) that provide small businesses with enhanced export financing options to develop foreign markets, fund their export transactions, and/or support business expansion due to exporting success. The SBA provides technical assistance on trade finance and funding questions through staff located in U.S. Export Assistance Centers.

U.S. Export Assistance Centers — USEACs are staffed by professionals from the SBA, the Department of Commerce, and the Export-Import Bank. Together, their mission is to help small and medium-sized businesses compete in today's global marketplace by providing export marketing and finance assistance.

HIGH-GROWTH SMALL BUSINESSES (www.sba.gov/inv)

The SBA supports high-growth investments through a portfolio of $10 billion in outstanding leverage.

SBIC — Small Business Investment Companies are privately owned and managed investment funds that use their own capital plus funds borrowed with an SBA guaranty to make equity and debt investments in qualifying small businesses.

SBIR/STTR — The Small Business Innovation Research and State Technology Transfer Research programs are highly competitive funding agreements program that stimulate high-tech innovation by reserving a specific percentage of federal research and development funds for small business. SBIR/STTR enables the small business to compete on the same level as larger businesses.

DISASTER ASSISTANCE (www.sba.gov/disaster)

The SBA has a portfolio of $6.3 billion in direct disaster loans to businesses, homeowners, and renters.

Disaster — The SBA is the federal government's primary source of financing for the long-term repair and rebuilding of disaster-damaged private property for homeowners, renters, businesses of all sizes, and private non-profit organizations. It is the only form of SBA assistance that is not limited to small businesses.

EXECUTIVE SUMMARY

America's 28 million small businesses play a critical role in job creation and retention. During the last two decades, small businesses have been responsible for creating two out of every three net new jobs. In turn, the U.S. Small Business Administration's assistance to those firms and entrepreneurs helps drive a healthy economy.

The SBA employs a variety of methods to support America's small businesses. These methods include promoting access to capital; federal contracting; advising, mentoring, and training; and disaster assistance.

Throughout FY 2015, three goals from the SBA's *FY 2014-2018 Strategic Plan* guided the Agency's actions:

1. *Growing businesses and creating jobs*
2. *Serving as the voice for small business*
3. *Building an SBA that meets the needs of today's and tomorrow's small businesses*

The following sections highlight financial and performance results for the Agency, including the four Agency Priority Goals and federal Cross-Agency Priority (CAP) Goals. In-depth analysis can be found in the Analysis of Financial Results and Analysis of Performance Results sections. The complete set of performance results will be reported in the Annual Performance Report to be released in February 2016.

Financial Results

For FY 2015, SBA's total budgetary resources used for staffing, operations, and subsidy costs were $2.8 billion and $7.5 billion in nonbudgetary resources for loan financing used to purchase guarantied loans in default and to make direct loans. SBA's guarantied portion of the outstanding loan principal rose 5.8 percent in FY 2015, to $88.3 billion. New guaranties disbursed by SBA participating banks during FY 2015 were $19.8 billion, a 9.9 percent increase this year that resulted in the 5.8 percent increase in outstanding guaranties. Purchases of defaulted guarantied loans dropped again, falling from $1.4 billion last year to $1.1 billion this year. This encouraging trend is expected to continue in upcoming years as the nation moves further into economic recovery. The loan receivables portion of the SBA credit program portfolio continued to decline from $6.9 billion to $6.5 billion in FY 2015. The drop in loan receivables was caused by the decrease in purchases of defaulted guaranties, the liquidation and charge-off of existing defaulted guaranties, a decrease in new disaster direct loan disbursements, and collections on existing disaster loans

Performance Results

Capital: In FY 2015, the dollar amount of SBA's 7(a) loans increased by 23 percent, leading to a record year of approvals. Additionally, the 504 loan program met its FY 2015 target of $4.3 billion. The SBA saw a net increase of gross approvals over the prior year by 20 percent. In all, the SBA approved more than 69,000 loans, supported 61,000 businesses, and provided nearly $33.2 billion in both business and disaster loans.

FY 2015 reflected the sixth consecutive year of growth in the financing of businesses by small business investment companies (SBICs). SBIC is a zero subsidy guaranty debenture program underpinned by a portfolio of public-private partnerships investing in small and typically technology-oriented high-growth businesses. More than $6 billion was invested in 1,210 small businesses. Capital deployments increased 15 percent year-over-year and increased 95 percent since FY 2012.

Contracts: The SBA continues to work with agencies across the federal government to expand small business contracting opportunities. Between FY 2011 and FY 2014, small businesses accessed more than $356 billion in federal contracts (FY 2015 contracting numbers continue to be collected and certified).

Counseling: The SBA provides mentoring, business advice, and training assistance to more than 1 million entrepreneurs and small businesses each year. In FY 2015, these efforts helped entrepreneurs obtain $4.7 billion in capital for their businesses.

Disaster Assistance: Disaster loan applications and approvals declined compared to prior years, which included the second costliest disaster in U.S. history, Hurricane Sandy. In FY 2015, the Agency worked on 255 active disaster declarations and approved more than 11,400 disaster loans to homeowners and small businesses totaling more than $371.6 million.

Agency Priority Goals and Outcomes

The Government Performance and Results Modernization Act of 2010 (GPRAMA) requires federal agencies to establish a set of two-year Agency Priority Goals (APGs) that reflect the highest priorities of agency leadership. The SBA has established four APGs. The goals and outcomes from this fiscal year are as follows:

- **Increase active lender participation.**
    - **Goal:** *Expand access to capital by adding 325 new or returning lenders to SBA's flagship 7(a) loan program each year in FY 2014-2015.*
    - **Outcome:** The SBA increased small business access to capital by adding new and returning lenders to the 7(a) loan program. While the Agency missed its FY 2015 target by 10 percent, 292 new lenders provided more than $260 million in new loans to small businesses.
- **Maximize small business participation in government contracting.**
    - **Goal:** *Maximize small business participation in federal government contracting to meet the statutory goals and reduce participation by ineligible firms.*
    - **Outcome:** The SBA will continue to collect and certify FY 2015 contracting numbers through the third quarter of FY 2016. The Agency exceeded its FY 2014 target, making 24.99 percent of contracting dollars across the federal government available to small businesses.
- **Expand the base of lenders for small business exporters.**
    - **Goal:** *Increase access to export financing by raising the number of export finance lenders to 555 and the number of participating small business exporters to 1,480 by FY 2015.*
    - **Outcome:** The SBA met 93 percent (514 lenders) of its FY 2015 export lender goal and exceeded its FY 2015 target of small businesses assisted by 2 percent (1,513 small businesses assisted).
- **Increase the disaster loan application rate.**
    - **Goal:** *By September 30, 2015, increase the return rate of disaster survivor applications by 10 percentage points (from a 24 percent to a 34 percent return rate).*
    - **Outcome:** This year, the SBA had a return rate of 98 percent due to process improvements and improving customer service touch points. Due to the successful impact of these efforts, this goal will be retired after FY 2016.

Cross-Agency Priority Goals

The SBA also participates in many of the government-wide federal Cross-Agency Priority (CAP) goals. The CAP goals are Presidential priorities and are complemented by other cross-agency coordination and goal-setting efforts. A brief description of the CAP goals to which the SBA contributes follows.

- **Job Creating Investment:** Improve federal investment tools and resources, while also increasing interagency coordination to encourage job growth through foreign investment.
- **Cybersecurity:** Improve cybersecurity performance through ongoing awareness of information security, vulnerabilities and threats impacting the operating information environment. Ensure that only authorized users can access resources and information, and implement technologies and processes to reduce the risk of malware.
- **Customer Service:** Deliver world-class customer service to citizens by making it faster and easier for individuals and businesses to complete transactions and have a positive experience with government.
- **Smarter IT Delivery:** Improve outcomes and customer satisfaction with federal services through smarter IT delivery and stronger agency accountability for success.
- **Strategic Sourcing:** Expand the use of high quality, high value strategic sourcing solutions through this goal in order to improve the government's buying power and reduce contract duplication.
- **Benchmark and Improve Mission-Support Operations:** Improve administrative efficiency and increase the adoption of effective management practices. Agencies will do this by establishing cost and quality benchmarks of mission support operations, as well as by empowering decision-makers with better data to compare options, allocate resources, and improve processes.
- **Open Data:** Fuel entrepreneurship and innovation. They will improve government efficiency and effectiveness by unlocking the value of government data and adopting management approaches that promote the interoperability and openness of this data.
- **Lab to Market:** Increase the economic impact of federally funded research and development by accelerating and improving the transfer of new technologies from the laboratory to the commercial marketplace.
- **People and Culture:** Innovate by unlocking the full potential of the workforce of today and building the workforce needed for tomorrow.

SBA BY THE NUMBERS

(Dollars in Millions)

		FY 2012	FY 2013	FY 2014	FY 2015
Total Portfolio (1)	**Outstanding Principal Balance**	**$ 104,443**	**$ 109,758**	**$ 114,434**	**$ 118,767**
Capital (2)					
7(a) Loans	Dollars of Gross Loans Approved	$ 15,153	$ 17,868	$ 19,191	$ 23,584
504 Loans	Dollars of Gross Loans Approved	$ 6,712	$ 5,227	$ 4,199	$ 4,298
Microloans	Dollars of Gross Loans Approved to Microborrowers	$ 45	$ 53	$ 54	$ 51
Surety Bond	Dollars of Bid and Final Bonds Guaranteed	$ 3,920	$ 6,150	$ 6,413	$ 6,348
Contracting (3)					
Prime Contracting	Dollars of Contracts Awarded to Small Businesses	$ 89,923	$ 83,143	$ 91,682	N/A
HUBZone Small Businesses	Dollars of Contracts Awarded to HUBZone Small Businesses	$ 8,140	$ 6,245	$ 7,000	N/A
Small Disadvantaged Businesses	Dollars of Contracts Awarded to Disadvantaged Small Businesses	$ 32,334	$ 30,616	$ 34,700	N/A
Women-Owned Small Businesses	Dollars of Contracts Awarded to Women-Owned Small Businesses	$ 16,180	$ 15,365	$ 17,200	N/A
Service-Disabled Veteran-Owned Small Businesses	Dollars of Contracts to Awarded to Service-Disabled Veteran-Owned Small Businesses	$ 12,256	$ 12,023	$ 13,500	N/A
Advising, Mentoring, and Training (4)					
Small Business Development Centers (SBDCs)	Number of Clients Advised and Trained	543,512	532,377	485,487	449,964
Women's Business Centers (WBCs)	Number of Clients Advised and Trained	136,951	133,765	140,037	140,716
SCORE	Number of Clients Mentored and Trained	458,773	345,902	442,374	339,521
SBA Learning Center	Number of Clients Trained Online	220,596	150,355	182,002	139,719
Veteran's Business Outreach Centers (VBOCs)	Number of Clients Advised and Trained	88,614	73,062	75,393	55,899
Exporting					
Export Loans	Dollars of Gross Loans Approved	$ 926	$ 1,191	$ 1,341	$ 1,454
High-growth Small Businesses					
SBIC	Dollars of SBA Debenture Leverage Committed to SBICs	$ 1,924	$ 2,156	$ 2,549	$ 2,553
	Dollars of SBIC Debenture Capital to Small Businesses	$ 2,950	$ 3,256	$ 5,465	$ 6,286
Disaster					
Disaster Assistance (2) (5)	Dollars of Gross Loans Approved	$ 690	$ 2,797	$ 332	$ 372

(1) The total portfolio consists of guarantied business loans outstanding, direct business loans, and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged off. In previous Agency Financial Reports, the SBA has not included ARC 506, Dealer Floor Plan, 504 First Lien, and 504 Refi in the portfolio total. The SBA has updated the data for FY 2012-2015 to include these programs in the totals.

(2) The SBA tracks loan data in three ways: Gross Loans Approved (the total loans approved); Net Loans Approved (gross loans approved plus any loan increases minus any cancellations); and Disbursed Loans (the amount that is actually given to the borrower). Gross Loans Approved is presented in the Capital and Disaster Assistance sections because it is the only loan data that remain constant over time.

(3) FY 2015 contracting numbers will continue to be collected and certified through the third quarter of FY 2016. Therefore, FY 2014 numbers are reported per OMB Circular A-11.

(4) Counseling is now referred to as "advising" and "mentoring." The way these numbers are calculated has not changed. Resource partners may input data up to 45 days after the close of the fiscal year.

(5) The significant increase in FY 2013 disaster loan approvals is attributable to Hurricane Sandy.

SBA'S HISTORY AND ORGANIZATION

In 1953, Congress created the U.S. Small Business Administration to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns." SBA's headquarters is located in Washington, D.C. while its business products and services are delivered with the help of field personnel and a vast network of private sector and non-profit partners in each U.S. state and territory. SBA's *FY 2014-2018 Strategic Plan*[2] includes the following strategic goals:

SBA Mission Statement

The mission of the U.S. Small Business Administration is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.

Strategic Goal 1

Growing Business and Creating Jobs

1.1 Expand access to capital
1.2 Ensure federal contracting goals are met or exceeded
1.3 Strengthen entrepreneurial ecosystems
1.4 Enhancing exporting abilities to succeed in global markets
1.5 Fuel high-growth small businesses and start-ups to drive innovation
1.6 Ensure disaster assistance can be deployed quickly, effectively, and efficiently.

Strategic Goal 2

Serving as the Voice of Small Business

2.1 Ensure inclusive entrepreneurship
2.2 Provide useful information through digital and in-person outreach
2.3 Foster a small business-friendly environment by reducing unfair regulatory burdens

Strategic Goal 3

Building an SBA that Meets the Needs of Today's and Tomorrow's Small Business

3.1 Streamline, simplify, and strengthen program operation
3.2 Invest in SBA's employees
3.3 Mitigate risk to taxpayers and improve oversight across programs

Major SBA offices fall under one of these three strategic goals:

STRATEGIC GOAL ONE – Growing businesses and creating jobs

The Office of Capital Access Access assists small businesses in obtaining capital via the 7(a), 504, and Microloan programs, and bonds through the Surety Bond Guarantee program.

The Office of Disaster Assistance provides affordable, timely, and accessible financial assistance to homeowners, renters, and businesses following a disaster. The Disaster Loan program is the only form of SBA assistance that is not limited to small businesses. Disaster funding is deployed quickly, effectively, and efficiently in order to preserve jobs and help return small businesses back to operation.

The Office of Entrepreneurial Development provides business advising, mentoring, and training assistance through its resource partner network composed of small business development centers, women's business centers, and SCORE, as well as through the Regional Innovation Clusters, Entrepreneurship Education, SBA Learning Center, and Emerging Leaders programs. In addition, SBA's district offices support coordination between SBA resource partners and local small business communities.

The Office of Government Contracting and Business Development provides assistance to small businesses in competing for federal contracting opportunities through the government-wide prime and subcontracting programs. This includes HUBZone, 8(a) business development, 7(j) technical assistance, women-owned, and veteran-owned small businesses. The office also sets size standards for small businesses, which determine the size a business must be to be considered a small business

The Office of International Trade enhances the ability of small businesses to export and compete in the global marketplace by facilitating access to capital, providing technical assistance, ensuring the consideration of small business interests in trade negotiations, and contributing to the U.S. government's international commercial and economic agenda.

The Office of Investments and Innovation assists high-growth small businesses through the Small Business Investment

2 SBA's Strategic Plan is located at: www.sba.gov/about-sba/sba-performance/strategic-planning/sba-strategic-plan-fiscal-years-2014-2018.

Company, Small Business Innovation Research, Small Business Technology Transfer, and other tailored programs that drive innovation and competitiveness.

STRATEGIC GOAL TWO — Serving as the voice for small business

Strategic Goal Two focuses on underserved communities and outreach to ensure that all small businesses receive equal representation in the marketplace. SBA's Office of Capital Access, Office of Entrepreneurial Development, and Office of Government Contracting and Business Development (all defined under Strategic Goal One) each have programs that support underserved communities.

The Office of Communications and Public Liaison communicates the Agency's programs and priorities to small businesses, SBA resource partners, and the public at large by working with media outlets, developing social media content, creating user-friendly online resources, crafting high quality marketing materials, organizing events to gain feedback from small businesses, coordinating strategic partnerships, and overseeing faith-based initiatives.

The Office of Field Operations is the SBA's front-line operating team. Most SBA programs and services are executed when small businesses connect with their regional, district, and branch offices, which are located in each state and territory.

The Office of the National Ombudsman works with all federal agencies that regulate small business to provide a means for businesses to comment on federal government enforcement activity. This includes audits, on-site inspections, compliance assistance efforts, and other enforcement efforts. The office also maintains a five-member Regulatory Fairness Board in each of SBA's ten regions to hold public hearings on small business concerns.

The Office of Intergovernmental Affairs facilitates continuous and bilateral communications between the SBA and state and local governments, American Indian, Alaska Native, and Native Hawaiian tribal governments, as well as insular governments. This office gains knowledge of the various governments' actions, concerns, issues, and supporting programs.

The Office of Veterans Business Development ensures availability, applicability, and usability of all Administration small business programs for veterans, service-disabled veterans, reserve component members, and their dependents or survivors. The office accomplishes its work through veterans business outreach centers, the Boots to Business program, Entrepreneurship Boot Camp for veterans with disabilities, and partnerships with other federal and non-profit agencies.

The National Women's Business Council is a nonpartisan federal government council created to serve as an independent source of advice and policy recommendations to the President, Congress, and the SBA Administrator on issues of economic importance to women business owner.

STRATEGIC GOAL THREE — Building an SBA that meets the needs of today's and tomorrow's small businesses

SBA's management offices primarily support Strategic Goal Three. Each program office, discussed in Strategic Goals 1 and 2, maintains a key role ensuring that the Agency mitigates risk in its programs.

The Office of the Chief Information Officer provides information technology leadership, product services, and operational support for the SBA in order to maximize internal efficiency and responsiveness to small businesses.

The Office of Credit Risk Management focuses on mitigation of risk to taxpayers through ever-improving risk management and oversight of SBA lending programs.

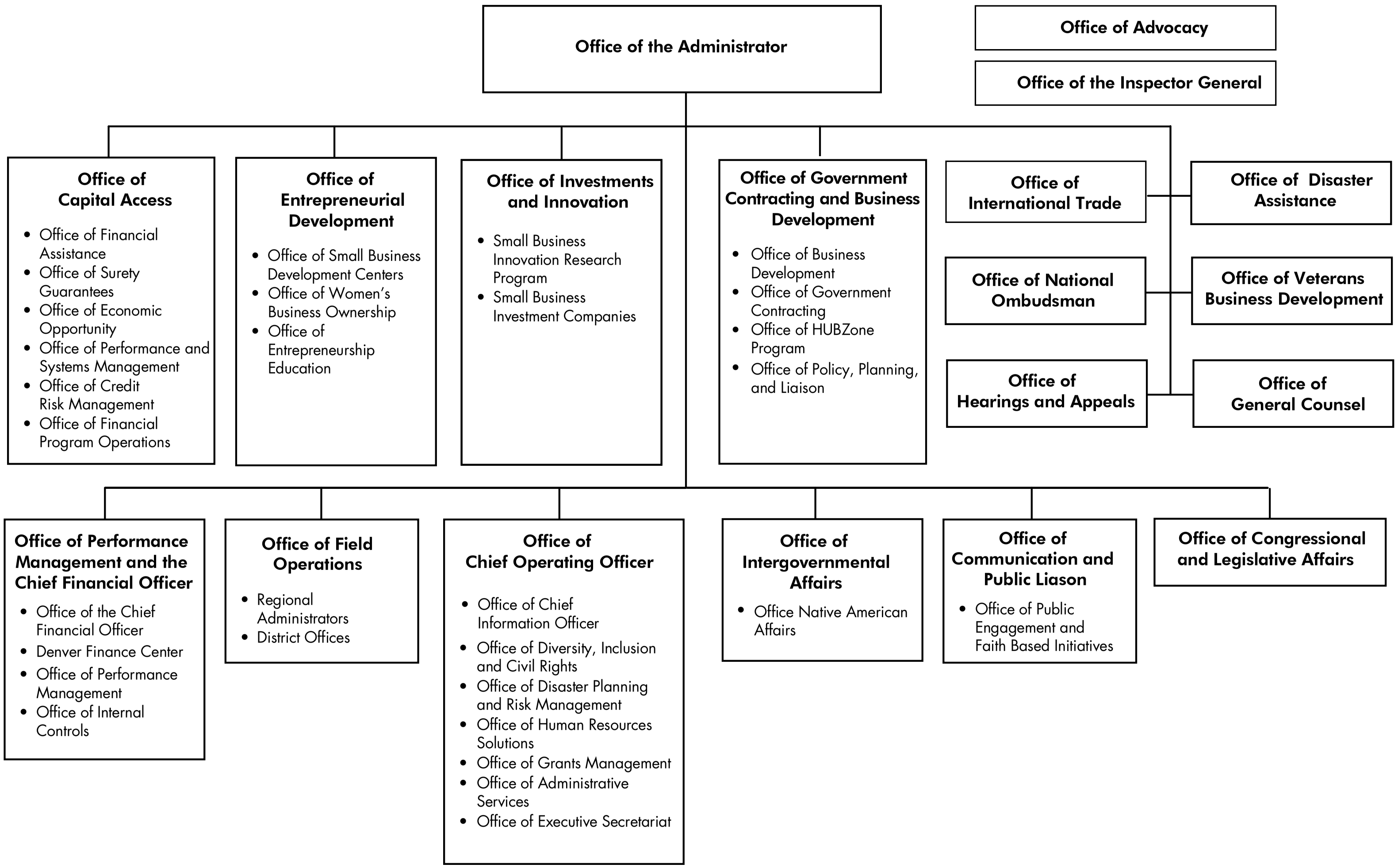
The Office of Diversity, Inclusion, and Civil Rights serves a diverse workforce by maintaining an inclusive culture and ensuring equal access and equitable treatment regarding employment and entrepreneurial endeavors.

The Office of Human Resources Solutions provides strategic human capital solutions to workforce issues and strives to create a work environment that attracts and retains a talented and high-performing workforce.

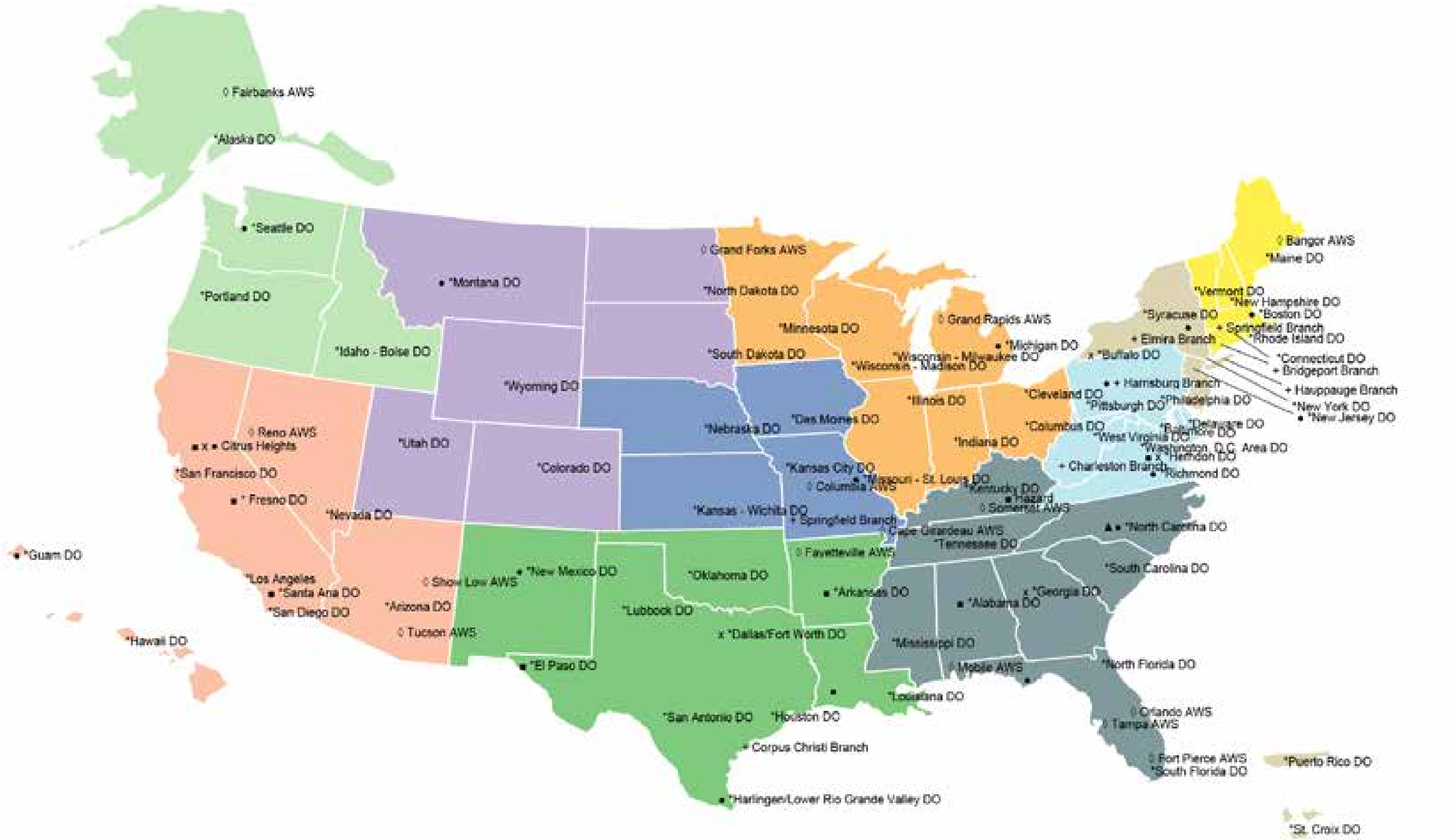
The Office of Performance Management and Chief Financial Officer provides Agency performance management, financial, and acquisition oversight. The office is responsible for Agency disbursements, management, and coordination of Agency planning, budgeting, analysis, and accountability processes.

Other support offices include the *Office of Congressional and Legislative Affairs, Office of General Counsel,* and *Office of Hearings and Appeals* that support the strategic goals and objectives.

SBA ORGANIZATION CHART



SBA REGIONS AND FIELD OFFICES



	Location Type
■	Processing Center
●	Veterans Center
▲	Call Center
x	Disaster Center
*	District Office (DO)
+	Branch Office
◊	Alternative Work Site (AWS)

Region	Regional Office	Region	Regional Office
Region New England	Boston	Region South Central	Dallas
Region Atlantic	New York	Region Great Plains	Kansas City
Region Mid-Atlantic	Philadeplhia	Region Rocky Mountains	Denver
Region Southeast	Atlanta	Region Pacific	Los Angeles
Region Great Lakes	Chicago	Region Pacific Northwest	Seattle

ANALYSIS OF PERFORMANCE RESULTS

Analysis of Performance and Agency Priority Goals

The following section presents key SBA FY 2015 performance data, including the four FY 2014-2015 Agency Priority Goals identified by SBA leadership that are critical to the success of SBA's mission. While the Agency Priority Goals are two-year goals, the FY 2015 results are measured against FY 2015 targets.

The presentation of the performance data and analysis is organized by strategic objective, which follows SBA's *FY 2014-2018 Strategic Plan*. The following measures and analysis represent SBA's three strategic goals. Detailed performance information on all SBA programs will be presented, and all variances explained, in the FY 2017 Congressional Budget Justification and FY 2015 Annual Performance Report to be published in February 2016.

STRATEGIC OBJECTIVE 1.1: Expand access to capital through SBA's extensive lending network.

Priority Goal: Expand access to capital by adding 325 new or returning lenders to SBA's flagship 7(a) loan program in FY 2014 and FY 2015.

Performance Analysis: New and returning lenders are a major component of SBA's lending portfolio and are essential to growth in the quantity of loans approved and small businesses assisted. Attaining a high volume of new and returning lenders from one fiscal year to the next creates a consistent pipeline of SBA loans for small businesses. The SBA accomplished 90 percent of its FY 2015 target (292 new lenders) (see **Chart I**). These new and returning lenders made 752 loans totaling $260.0 million. The number of new or returning lenders recruited slowed in the fourth quarter, particularly as fewer active lenders remain in business each year. However, the lending community has been responsive to SBA's strategy of fee relief for lower- dollar loans and loan program improvements.

Performance Goal: Support 688,650 jobs through capital assistance programs in FY 2015.

Performance Analysis: The number of jobs supported is an important outcome measure of the effectiveness of SBA financing. The measure tracks the number of jobs supported through the 7(a), 504, Microloan, and Surety Bond Guarantee programs. In FY 2015, the SBA supported 728,820 jobs, which is 6 percent above the target and an increase of 18 percent from FY 2014 (see **Chart II**). While the 504 loan program did not meet the FY 2015 target, continued streamlining of the loan process and

CHART I CUMULATIVE NUMBER OF 7(a) NEW OR RETURNING LENDERS

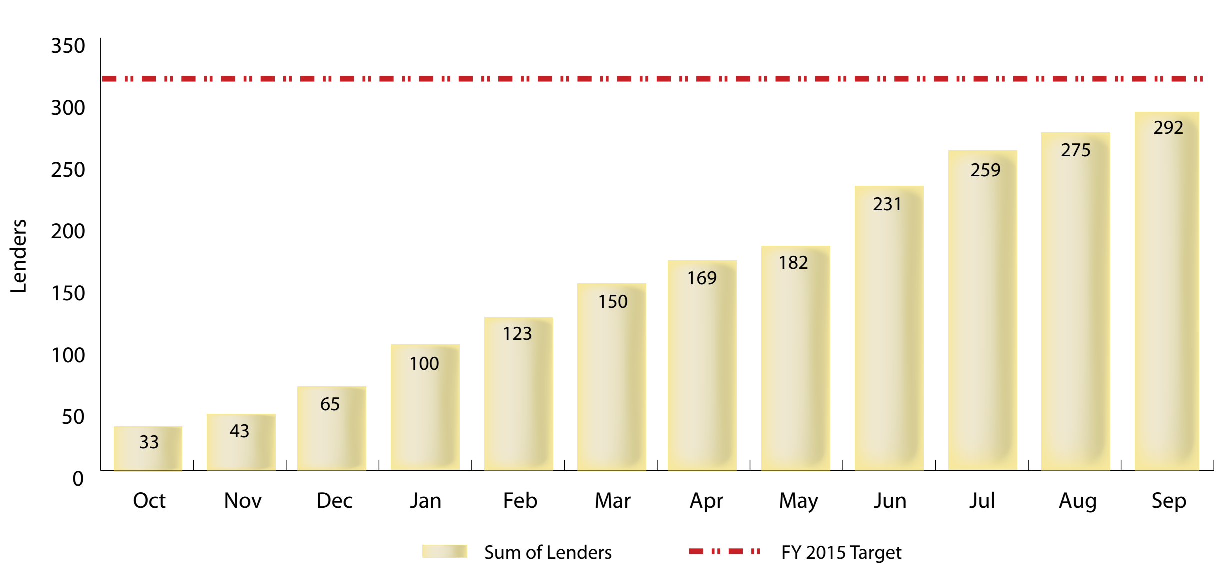
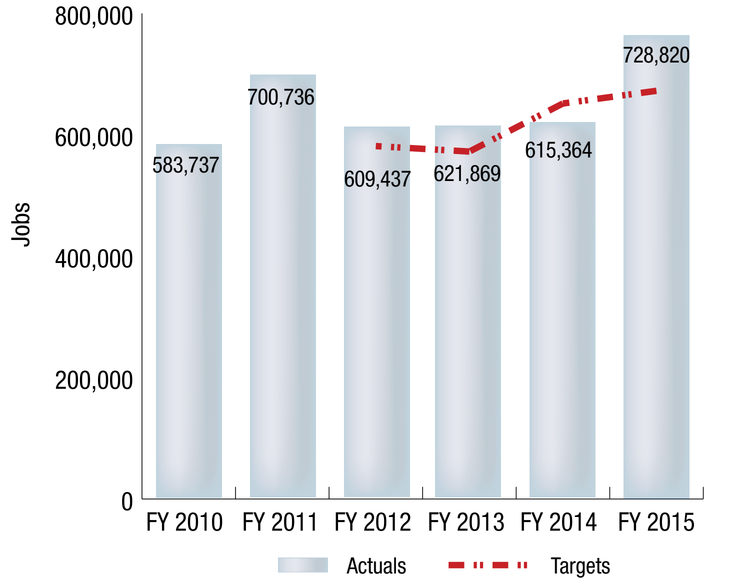


CHART II 7(a), 504, MICROLOAN, AND SURETY BOND GUARANTEE JOBS SUPPORTED



to HUBZone small businesses and service-disabled veteran-owned small businesses (see **Chart III**). In FY 2014 (the latest year of data available), the federal government surpassed its prime contracting goal; small businesses were awarded $91.7 billion in contracting dollars, the highest percentage of contracting dollars awarded to small businesses since the 23 percent goal was established in 1997. Performance in all the small business prime contracting and socio-economic categories showed significant improvement, with increases in performance against statutory goals. The goal for service-disabled veterans was surpassed (FY 2014 result was 3.68 percent) for the third time, and small disadvantaged businesses exceeded the goal (FY 2014 result was 9.46 percent) due in part to the successful Mentor-Protégé program that fosters relationships between successful firms and disadvantaged small businesses. The number of small business contracting dollars going to women-owned small businesses increased from 4.3 percent in FY 2013 to 4.68 percent in FY 2014. Although HUBZone continues to recruit new firms, the

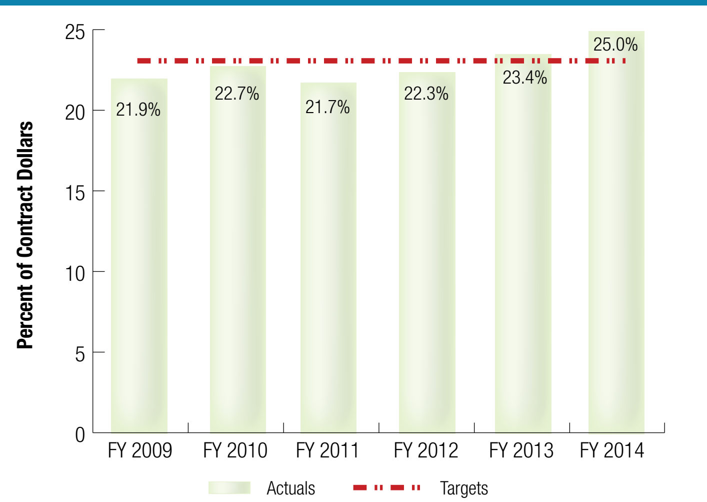
ensuring effective certified development companies should have a positive impact on future results.

STRATEGIC OBJECTIVE 1.2: Ensure federal contracting goals are met and/or exceeded by collaborating across the federal government to expand opportunities for small businesses and strengthen the integrity of the federal contracting certification process and data.

Priority Goal: Maximize small business participation in federal government contracting to meet the statutory goals and reduce participation by ineligible firms.

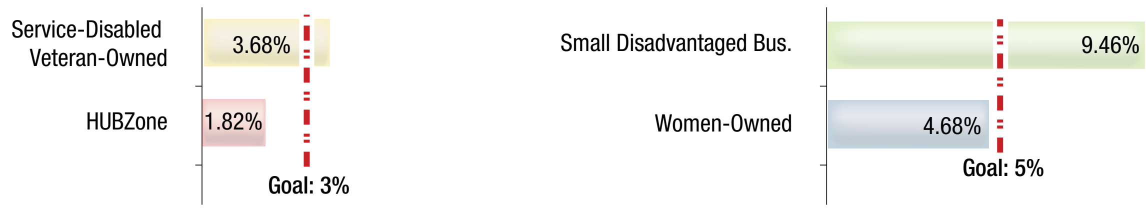
Performance Analysis: By law, 23 percent of federal government prime contracting dollars are set-aside for small businesses, including 5 percent of prime and subcontracts to small disadvantaged businesses and women-owned small businesses, and 3 percent of prime and subcontracts

CHART III PERCENT OF FEDERAL PRIME CONTRACT DOLLARS AWARDED TO SMALL BUSINESSES



Note: FY 2015 contracting numbers will continue to be collected and certified through the 3rd quarter of FY 2016.

CHART IV FY 2014 DISADVANTAGED SMALL BUSINESS GOALS



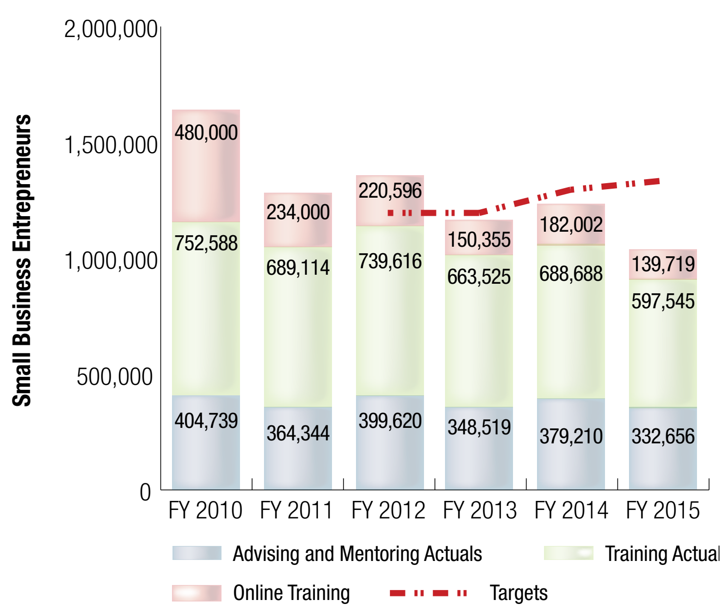
portfolio has not recovered from the loss of firms due to re-designation of areas from the 2010 census (see **Chart IV**). The SBA is collaborating with the White House and senior officials at each agency to ensure accountability for the government-wide small business contracting goals. This unprecedented amount of collaboration has ensured top-level leadership commitment to use small business across the federal government. FY 2015 contracting numbers will continue to be collected and certified through the third quarter of FY 2016. Therefore, FY 2014 numbers are reported, per OMB Circular A-11.

STRATEGIC OBJECTIVE 1.3: Strengthen entrepreneurial ecosystems[3] through a variety of strategic partnerships to provide tailored training, mentoring, and advising services that support entrepreneurs during every phase of their business growth.

Performance Goal: Reach 1.35 million clients with online and in-person advising, mentoring, and training in FY 2015.

Performance Analysis: The SBA accomplished 79 percent of its performance target for advising, mentoring, and training assistance (see **Chart V**). Although FY 2015 data trended below FY 2014 levels, a greater emphasis was placed on increasing the quality of services including the number of long-term clients served. To improve performance, the SBA standardized online courses to reduce cost and ensure consistent learner experiences. Furthermore, the WBC program streamlined its grant process, which helped WBCs spend more time delivering advising and training services.

CHART V SMALL BUSINESS ENTREPRENEURS ADVISED, MENTORED, AND TRAINED



3 The entrepreneurial ecosystem refers to external elements which contribute to the likelihood that a small business will be successful. This includes: access to markets, access to capital, technical support, finding and hiring qualified employees, making connections to suppliers, and infrastructure. The SBA addresses these needs through a variety of strategic partnerships with our resource partners.

STRATEGIC OBJECTIVE 1.4: Enhance the ability of current and future small business exporters to succeed in global markets by expanding access to financing, counseling, training, and other export tools.

Priority Goal: Expand small business access to export financing by increasing the number of lenders providing export financing solutions to 555 and the number of small business exporters receiving financing through SBA loan programs to 1,480 by FY 2015.

Performance Analysis: Increasing access to export financing, combined with trade counseling and training, contributes to the enhanced ability of current and future U.S. small business exporters to succeed in the global marketplace. The SBA met 93 percent of its FY 2015 target for lenders providing export financing solutions and exceeded its target for small businesses receiving export financing. The SBA assisted 1,513 small businesses in export financing, 2 percent above its target of 1,480 small businesses (see **Charts VI** and **VII**). Performance results were affected by staffing shortages in the field during the year. Fifteen percent of field trade

CHART VI CUMULATIVE NUMBER OF SMALL BUSINESSES ASSISTED

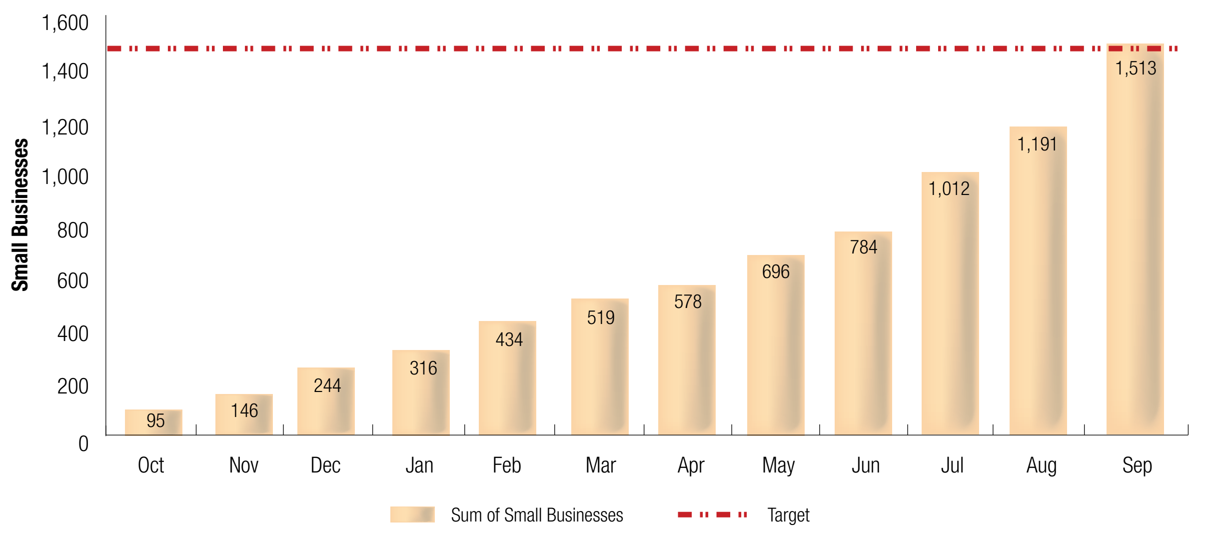
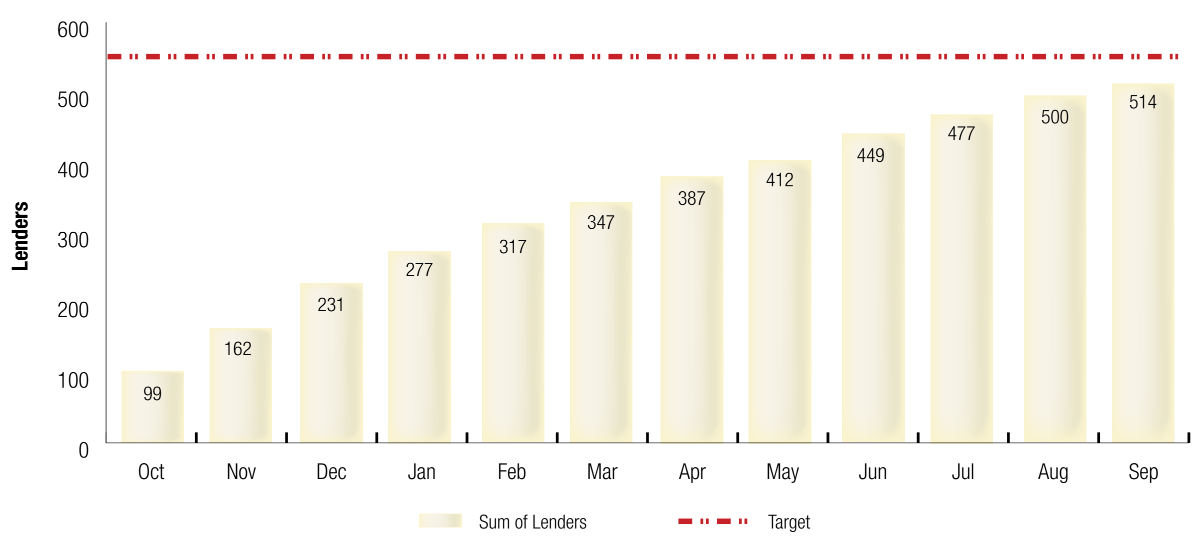


CHART VII CUMULATIVE NUMBER OF EXPORT LENDERS



finance positions were vacant for almost 9 months, impacting SBA's ability to increase the number of lenders active in supporting small business exporters with SBA financing. Also, the total number of active lenders is decreasing across the country each year due to bank consolidation, which means that there are fewer lenders to make export loans.

CHART VIII CUMULATIVE SBIC DEBENTURE LEVERAGE COMMITTED

STRATEGIC OBJECTIVE 1.5: Fuel high-growth entrepreneurship, innovation, and job creation by providing the tools small businesses need to start and grow their businesses.

Performance Goal: Issue $2.5 billion in debenture leverage to small business investment companies (SBIC) in FY 2015.

Performance Analysis: SBICs provide long-term loans and equity capital to small businesses. The SBICs are privately owned and managed investment funds that are licensed and regulated by the SBA. In FY 2015, the SBA exceeded its target for committing $2.5 billion in debenture leverage to SBICs. This allowed SBICs to invest more than $6 billion in 1,210 small businesses (see **Chart VIII**). At the same time that commitments for debenture leverage were increasing, the SBA licensed 25 new SBICs with an average time to license of 8.4 months.

STRATEGIC OBJECTIVE 1.6: Ensure that SBA's disaster assistance resources for businesses, non-profit organizations, homeowners, and renters can be deployed quickly, effectively, and efficiently in order to preserve jobs and help return small businesses to operation.

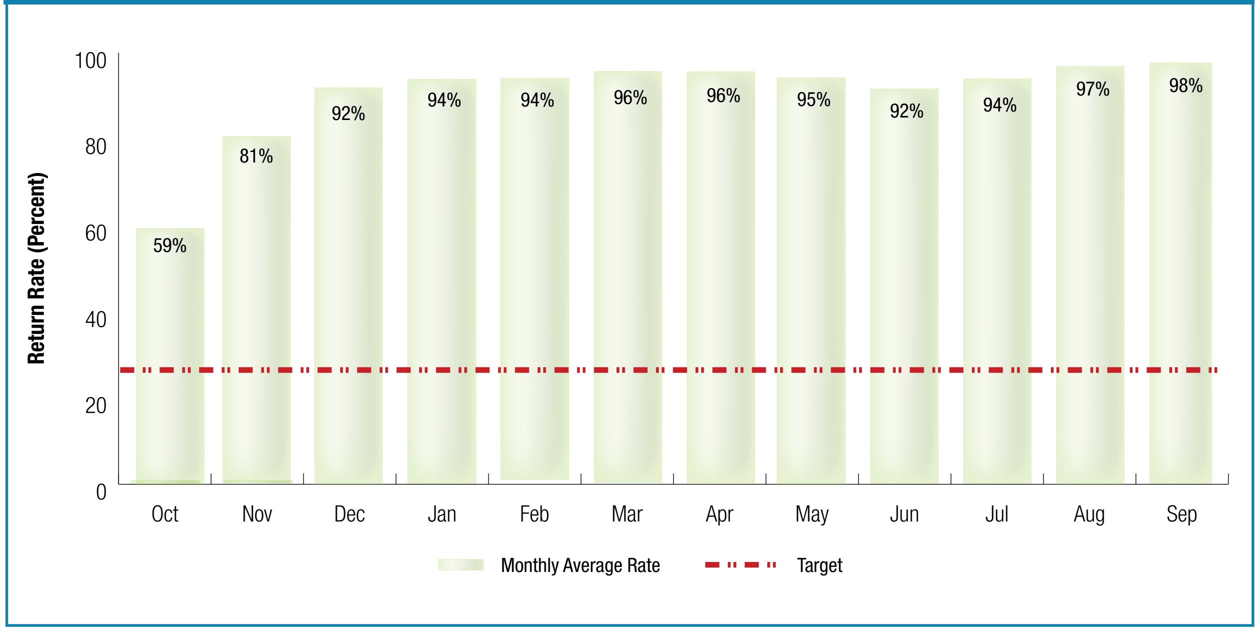
Priority Goal: By September 30, 2015, increase the return rate for disaster survivor applications by 10 percentage points (24 percent to 34 percent return rate).

Performance Analysis: Increasing the application return rate ensures that SBA's disaster assistance resources for businesses, non-profit organizations, homeowners, and renters are deployed quickly, effectively, and efficiently in order to preserve jobs and help return small businesses to operation. As a result of implementing a new process for issuing applications to disaster survivors, the SBA exceeded its target by 188 percent this year (see **Chart IX**). Each quarter the SBA successfully increased the disaster loan application return rate, going from 69 percent in FY 2014 to 98 percent in FY 2015. The SBA continues to improve disaster assistance by integrating user-friendly technology and streamlining the loan application process. For example, the electronic loan application rate increased to 84 percent in FY 2015, more than tripling the rate from FY 2011. Beyond this approach, the SBA has implemented several process improvements to its disaster response framework following the response to Hurricane Sandy, and new training has been developed to ensure consistent outreach across the country. Since implementing these improvements, the return rate for applications has significantly increased, leading to quicker loan processing for disaster survivors. Due to the successful impact of these efforts, this goal will be retired after FY 2016.

Performance Goal: Ensure the customer satisfaction rate for disaster loan approvals is 71 percent in FY 2015.

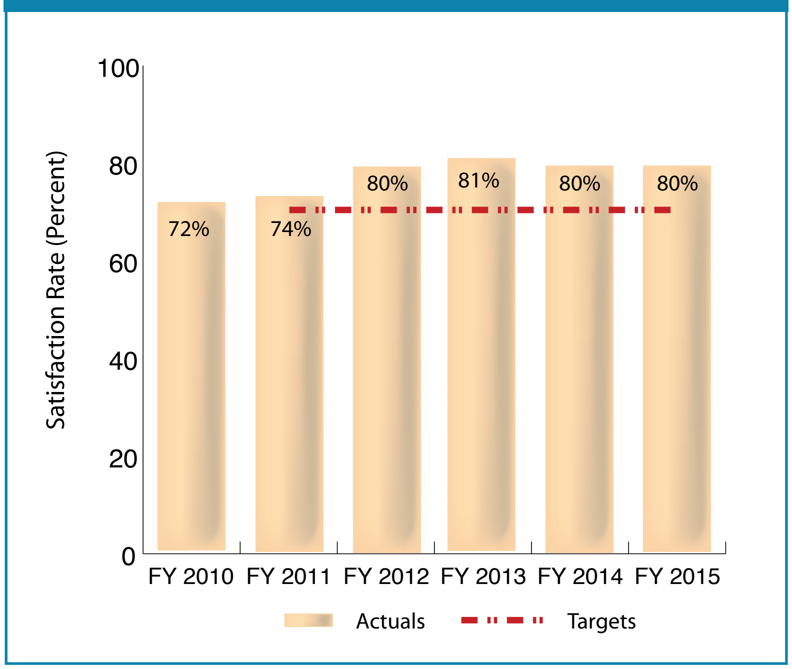
Performance Analysis: The SBA tracks customer satisfaction through an annual survey that uses the American Customer Satisfaction Index. The index synthesizes key points in the loan process, including the application, final

CHART IX RETURN RATE FOR DISASTER SURVIVOR APPLICATIONS



decision, and closing of the loan. The SBA had a customer satisfaction rate of 80 percent this year, 13 percent above the 71 percent target (see **Chart X**). The high satisfaction rate is attributable in part to the streamlined process for issuing applications to disaster survivors (i.e. using call centers to promote the use of electronic loan applications) and the use of electronic loan applications. This approach is having a direct, positive impact on disaster survivors by increasing customer attention and service, resulting in improved customer satisfaction ratings.

CHART X CUSTOMER SATISFACTION RATE FOR DISASTER LOAN APPROVALS



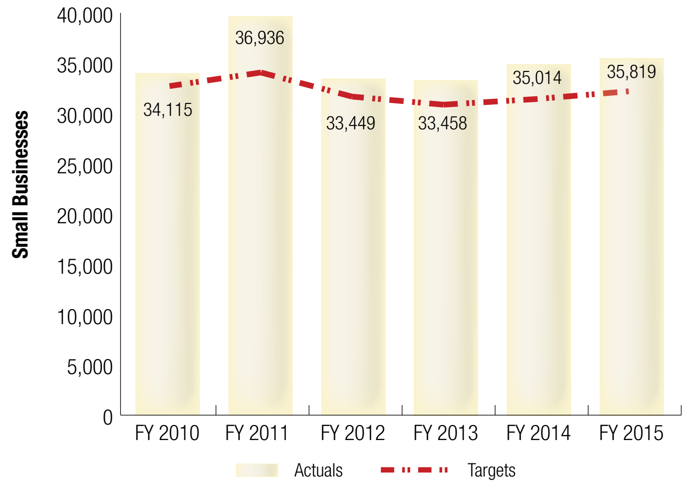
STRATEGIC OBJECTIVE 2.1: Ensure inclusive entrepreneurship by expanding access and opportunity to small businesses and entrepreneurs in communities where market gaps remain.

Performance Goal: Assist 32,250 underserved small businesses through capital assistance programs and 18,025 underserved small businesses through contracting programs.

Performance Analysis: Underserved communities – including women, low-income, minority, and veteran entrepreneurs – often have difficulty accessing capital and federal contracts. For capital assistance programs, including 7(a), 504, and Microloans, the SBA assisted 35,819 underserved small businesses – exceeding the FY 2014 result by 2 percent (see **Chart XI**). The elimination of the fees on small dollar loans ($150,000 or less) was extended to FY 2015, attributing to the increase in number of small businesses assisted. Also, the streamlined application process that uses credit scores instead of a personal cash flow history analysis has greatly incentivized new lenders and made the loan application process more efficient.

For contracting programs, including 8(a) and HUBZone, the SBA assisted 15,437 underserved small businesses (see **Chart XII**). While the results improved from FY 2014, the increase can be attributed to program and process improvements with the 8(a) program. Anticipated regulatory changes to expand the successful Mentor-Protégé program under the 8(a) program to other underserved markets will support more small businesses in FY 2016.

CHART XI SMALL BUSINESSES IN UNDERSERVED MARKETS ASSISTED BY 7(a), 504, AND MICROLOANS

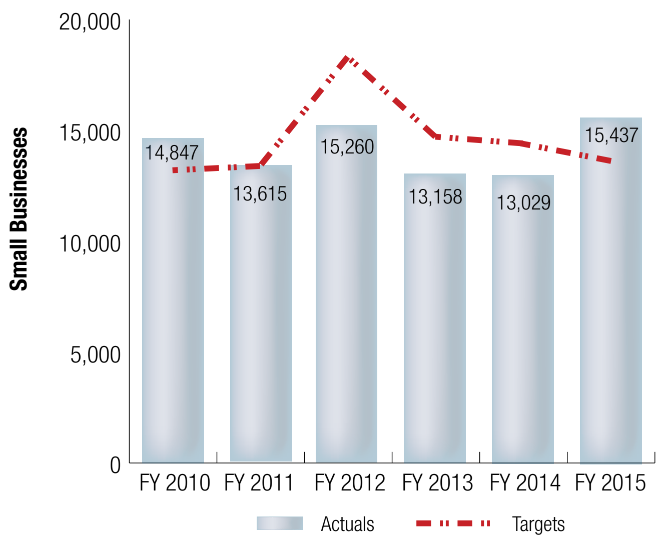


STRATEGIC OBJECTIVE 2.2: Provide timely, instructive, and useful information to the small business community through SBA's extensive digital and in person outreach efforts.

Performance Goal: Reach 2,300,000 average monthly SBA.gov site visits.

Performance Analysis: In FY 2015, SBA.gov averaged 2.2 million monthly site visits. This number is lower than the 2.4 million visitors in FY 2014 and below the 2.3 million target for visits in FY 2015 (see **Chart XIII**). While the SBA monitors this data using cookies, more site visitors used a Do Not Track feature that the SBA chose to respect, which caused the numbers to decline. To serve the one in four website visitors who access the website from a mobile device, the SBA launched the first phase of its mobile site in FY 2015. The Agency also launched a Spanish language website with mobile-accessible content to reach a more diverse small business community The SBA began tracking the number of average monthly SBA.gov site visits in January of FY 2011, therefore the data for FY 2011 is partial.

CHART XII SMALL BUSINESSES IN UNDERSERVED MARKETS ASSISTED BY 8(a), 7(j), AND HUBZONES



STRATEGIC OBJECTIVE 2.3: Foster a small business-friendly environment by encouraging federal agency awareness about the impact of unfair regulatory enforcement and compliance efforts and reducing burdens on small business.

Performance Goal: Maintain Regional Regulatory Fairness Board membership at 85 percent or higher.

Performance Analysis: SBA's Office of the National Ombudsman works with federal agencies and the small businesses they regulate to provide a confidential, impartial channel for small businesses to comment on enforcement activities, audits, on-site inspections, compliance assistance, or other types of communication. SBA's Regional Regulatory Fairness Board oversees small business challenges to federal agency regulatory processes, mandates, and enforcement actions. In FY 2015, due to internal process delays and difficulty in recruitment, the SBA maintained 74 percent membership on the Regulatory Fairness Boards, 9 percent below its target of 85 percent (see **Chart XIV**)

CHART XIII NUMBER OF AVERAGE MONTHLY SBA.GOV SITE VISITS

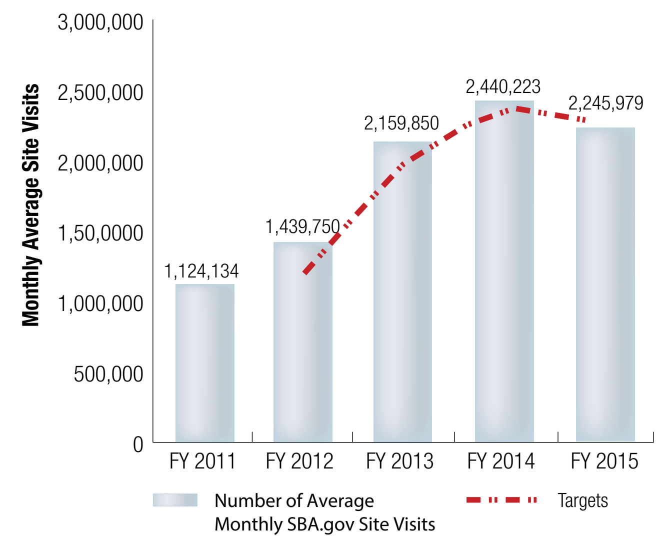


CHART XIV BOARD MEMBERSHIP RATE

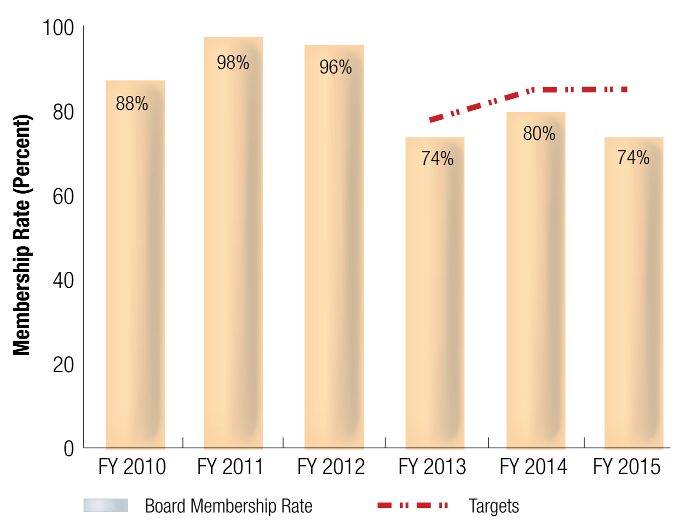
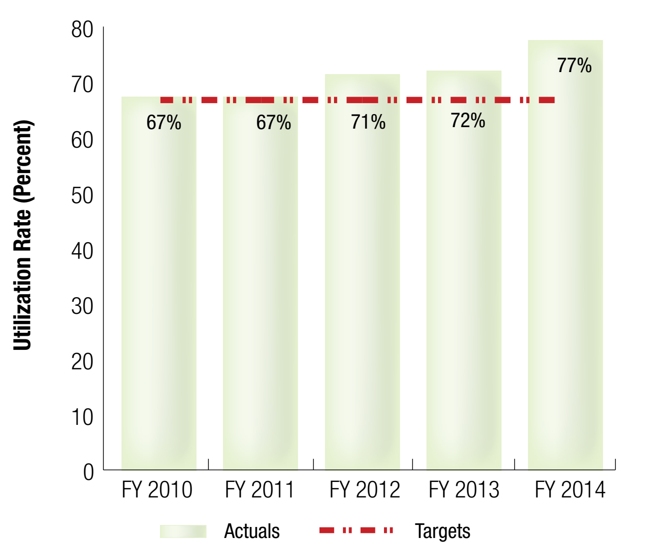


CHART XV SBA SMALL BUSINESS UTILIZATION RATE



STRATEGIC OBJECTIVE 3.1: Streamline, simplify, and strengthen SBA's core programs and operations to ensure that they are high performing, effective, and relevant to the needs of the small business community.

Performance Goal: Award 69 percent of SBA contracts to small businesses in FY 2015.

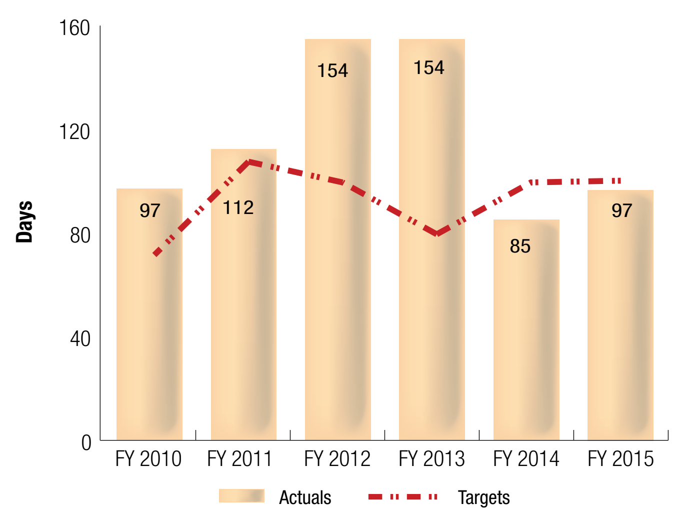
Performance Analysis: The SBA met its small business utilization goal by awarding 77.5 percent of contracts (in FY 2014) totaling $108.7 million to small businesses (see **Chart XV**) and exceeded its sub-goals for women-owned, small disadvantaged, HUBZones and service-disabled veteran-owned businesses. Although final performance numbers are not yet certified or official for FY 2015, the SBA reached its small business utilization goal of 69 percent, as well as each of the small business utilization rate sub-goals for contract awards. The SBA was able to exceed the small business utilization rate by maintaining a default Agency position of awarding contracts to small business concerns and only resorting to large vendors when all small business options were exhausted.

STRATEGIC OBJECTIVE 3.2: Invest in the Agency's employee recruitment, hiring, training, work-life programs, and performance management so staff is engaged to more effectively serve small businesses.

Performance Goal: Ensure that the average time to hire will be less than 100 days in FY 2015.

Performance Analysis: In FY 2015, the SBA continued to improve operational efficiencies which positively impacted the Agency's average number of days to hire. The SBA exceeded its FY 2015 target of 100 days by 3 percentage points (see **Chart XVI**). Fewer days to hire ensures SBA's competitiveness in recruitment efforts and ability to hire highly qualified individuals. Achievement of this goal is due to on-going enhancements to the "HR Stat 2.0" initiative. The system upgrades to recruitment e-tools (USA Staffing and USAJobs) further streamlined recruitment decisions and onboarding new SBA employees by the Office of Human Resource Solutions.

CHART XVI AVERAGE NUMBER OF DAYS TO HIRE

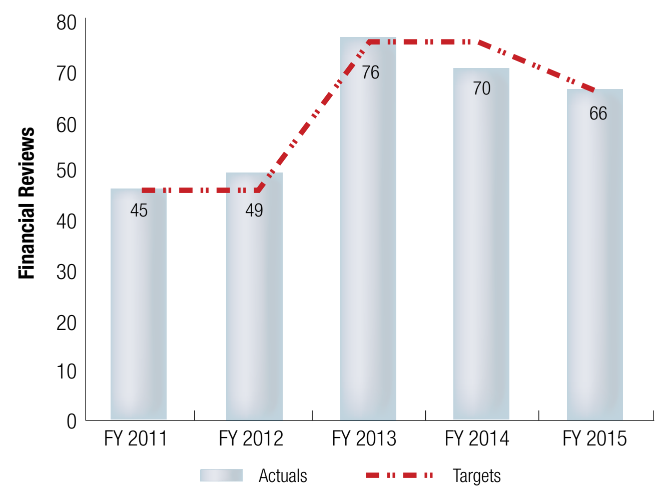


STRATEGIC OBJECTIVE 3.3: Mitigate risk to taxpayers and improve oversight across SBA programs.

Performance Goals: Perform 300 select analytical credit reviews, review 100 percent of 8(a) and 10 percent of HUBZone firms, and conduct 65 financial reviews of entrepreneurial development resource partners in FY 2015.

Performance Analysis: The SBA continued efforts to further mitigate risk this year. Regarding lender oversight, the Agency performed 378 analytical risk-based credit reviews which provided oversight of loan performance, credit scores, and compliance with SBA loan program requirements. The Agency conducted 66 financial reviews of entrepreneurial development resource partners (see **Chart XVII**) and an additional five financial reviews of veteran business outreach centers to review the accuracy in reporting and ensure finances were used properly. After the reviews, the SBA provided face-to-face feedback and training on issues and shared best practices. The SBA met its HUBZone and 8(a) reviews targets and ensured staff received training in order to provide small businesses with a better understanding of program eligibility requirements and compliance reviews. Unfortunately, the SBA continued to be challenged by ineligible HUBZone firms that increase risk for the small business community. Continued monitoring and enforcement will help mitigate risk to the Agency and taxpayers.

CHART XVII NUMBER OF FINANCIAL REVIEWS OF ENTREPRENEURIAL DEVELOPMENT RESOURCE PARTNERS



Verification and Validation of Performance Data

Managing for results and integrating performance, financial, and budgetary information require valid, reliable, and high-quality performance measures and data. Improving data quality continues to be a priority for the SBA, and is led by the Office of Performance Management within the Office of the Chief Financial Officer. SBA performance analysts work with programs across the Agency to acquire high quality data. In addition to using output data internally from its systems, the SBA relies on data from resource partners, other federal agencies, and local governments to assess its accomplishments and effectiveness. The SBA vigorously pursues the following strategies to ensure data quality:

- *Ensuring the validity of performance measures and data.* The SBA conducts an annual performance measure review to assess the validity of its measures and underlying data. SBA's performance analysts meet with each office for in-depth discussions about proposed externally reported measures. The meetings help determine whether the proposed measures and underlying data are useful for demonstrating program success, which is defined by the goals and objectives identified in the Agency's *FY 2014 - 2018 Strategic Plan*.
- *Fostering organizational commitment and capacity for data quality.* The SBA issues a monthly executive performance dashboard to apprise senior management on progress and holds quarterly performance review meetings with the Deputy Administrator, Chief of Staff, Performance Improvement Officer, and program offices. At these meetings, the Agency leadership reinforces its commitment to the performance metrics and works directly with the programs to identify best practices and mitigate challenges. Annually, each Associate Administrator must certify a program's data before it is externally reported with the certifications published online along with each measure's data quality record at www.sba.gov/performance.

- *Assessing the quality of existing data.* SBA's performance analysts work with the programs to reconcile data by creating independent performance reports and analyses and comparing the independently generated data with the data reported by the programs. These activities not only verify the data but the underlying processes used for reporting.
- *Responding to data limitations.* The SBA works with the Office of the Chief Information Officer, the Office of Financial Systems, and the programs to identify data limitations and specify the necessary steps to improve the data. In addition, some programs rely on data provided by third-party resource partners, who are responsible for collecting, storing, and reporting data to the SBA. The programs have internal processes for working closely with their resource partners to ensure that data is correctly reported.

DID YOU KNOW

Since 1953, the SBA has approved more than two million disaster loans for a total of **$53.8 billion** to homeowners, renters, businesses of all sizes, and nonprofit organizations.

Operational Portfolio Analysis

The Small Business Administration is the taxpayers' custodian of a small business loan guaranties and direct loans portfolio of $118.8 billion. During FY 2015, the portfolio grew by $4.3 billion, or 3.8 percent. Since existing loans are continually being paid, this growth implies that SBA's lending during FY 2015 was significantly greater than the $4.3 billion reflected in the portfolio growth. The Agency's 7(a) loan portfolio expanded by $4.8 billion. SBA's 504 loan portfolio contracted by $0.7 billion, while the SBIC portfolio grew by $1.0 billion. The Agency's Disaster loan and All Other portfolios declined $0.5 billion and $0.4 billion, respectively. From FY 2009 through FY 2015, nearly all (99 percent), of the portfolio's cumulative $28.3 billion growth came from 7(a), 504 and SBIC programs (see **Chart XVIII**).

NEW GUARANTIED LOANS

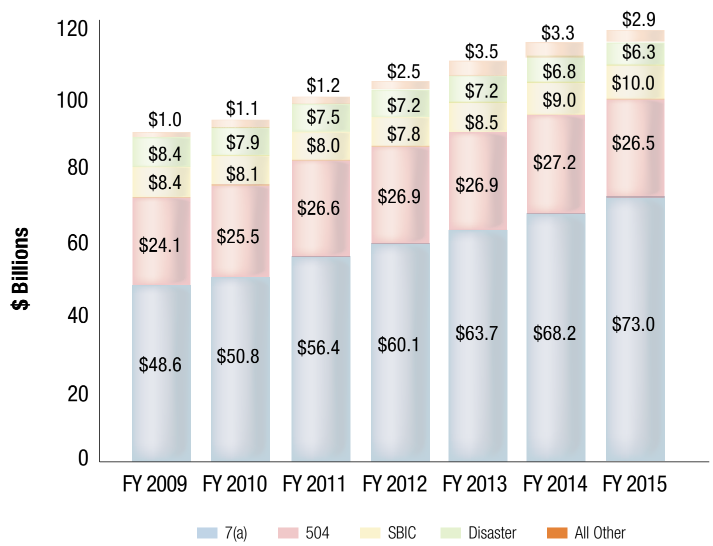
Three primary factors contributed to the loan guaranty portfolio's recent growth in outstanding balances:

Continuous Growth in the Economy – Real Gross Domestic Production (RGDP) in the United States grew at an average annual rate of 1.8 percent during 2013-2015. The first half of 2015 experienced a volatile but still positive economic environment, with second quarter RGDP posting a 3.9 percent annual growth rate. This rise in RGDP increased revenues and profits at all firms, small and large, which in turn increased their demand for credit.

Increase in Business Financial Stability – Corporate profits, reaching record highs in the third quarter of 2014, are the primary factor determining a business's overall financial strength, including its ability to incur more debt. Data indicate that gains in corporate profits have been broadly distributed across firms of all sizes, although profit gains at small firms trail the gains at large firms. The broadly distributed increases in corporate profits allowed existing firms to increase their borrowing.

Statutory Changes to SBA's Loan Programs – Two changes played a major role in the growth of SBA's loan portfolio. First, a series of legislative events permanently increased SBA loan limits and temporarily lowered fees and increased guaranties. These statutory changes increased SBA's capacity to supply greater credit to small businesses. The American Recovery and Reinvestment Act of 2009 temporarily lowered fees and raised guaranties for SBA's 7(a) and 504 loan programs, among many other provisions. Second, when the Recovery Act and the extensions ended in Q4 FY 2010, the Small Business Jobs Act of 2010 made permanent the higher loan limits and upwardly revised size standards that determine what qualifies as a small business. This in turn allowed the Agency to guarantee a greater dollar volume of loans which for some borrowers came in the form

CHART XVIII MAKEUP OF SBA'S OUTSTANDING LOAN PORTFOLIO



Note: Data have been rounded. See Unpaid Principal Balance Report at: www.sba.gov/about-sba/sba-performance/performance-budget-finances/small-business-administration-sba-loan-program-performance.

of larger loans (see **Chart XIX**). These same factors also contributed to the improvement in the portfolio's financial performance.

NEW DIRECT LOANS

In FY 2015, SBA's gross lending approvals for the Disaster Assistance program grew over $371 million due to loans extended to businesses and individuals impacted by flooding in Texas, Oklahoma, and Michigan, and earthquakes in California. A detailed review of the portfolio indicates the high volume in FY 2006 ($12.04 billion), which included Hurricanes Katrina, Rita, and Wilma along with an additional high volume in FY 2013 ($2.68 billion), which included Hurricane Sandy, represents nearly 54 percent of the portfolio's outstanding direct disaster loans. The SBA will continue to make disaster loans an important recovery tool for businesses, homeowners, and renters who survive a disaster.

PORTFOLIO PERFORMANCE – DELINQUENCIES

Delinquency rates (borrowers who are late on their payments) are a leading indicator of the Agency's charge-off rate (i.e. the rate of dollars spent to cover loans that defaulted). Thus, delinquency rates are a general indicator of the Agency's and taxpayers' future liabilities for these programs. A declining delinquency rate (see **Chart XX**) is a positive indicator for the financial performance of any loan portfolio.

Modest economic growth, strong profit performance, and tighter lending standards by financial institutions during the past several years have reduced delinquency rates for all business loans, which have been steadily declining since reaching cyclical peaks in the latter part of 2009. A declining national unemployment rate, off a peak rate 10 percent in October of 2009, is a sign of a generally improving environment for small businesses. For those businesses that survived the recession, the improved hiring is a signal of business expansion and an increase in the local demand for goods and services, improving businesses' ability to repay debt obligations. Delinquency rates for the Agency's major loan programs followed this national downward trend. Delinquency rates for the 7(a) loan program declined from the peak 3.9 percent recorded during January 2009 to 0.6 percent recorded during July 2015. Delinquency rates for the 504 loan program likewise declined from the 5

CHART XIX QUARTERLY GROSS 7(a) AND 504 LOAN APPROVALS

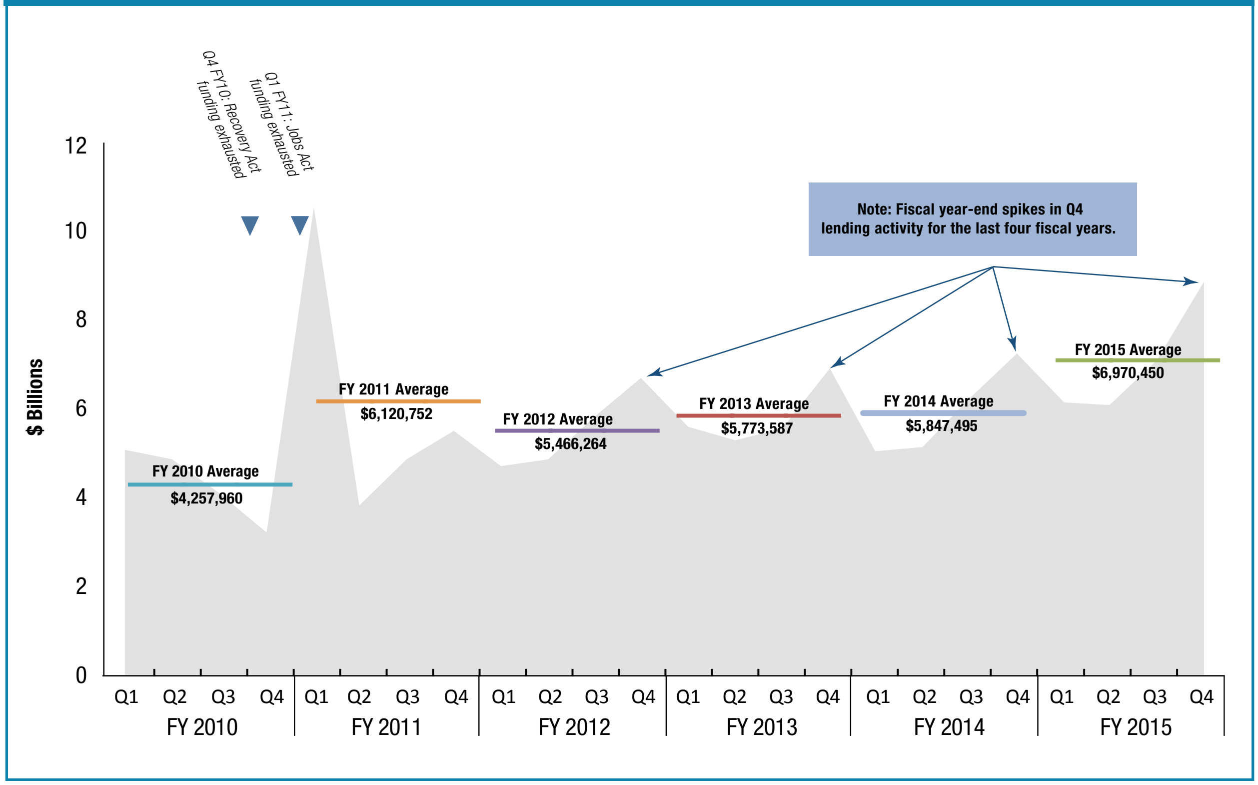
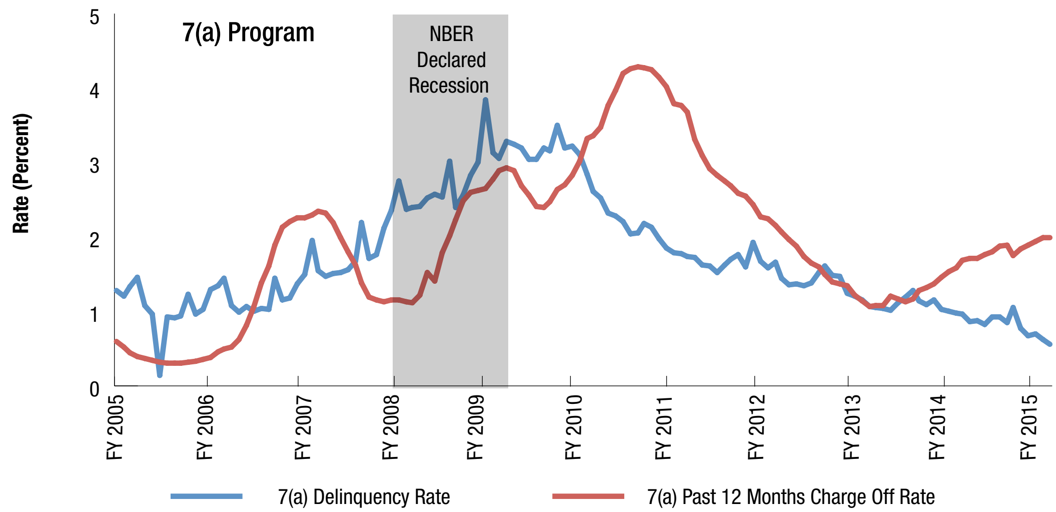
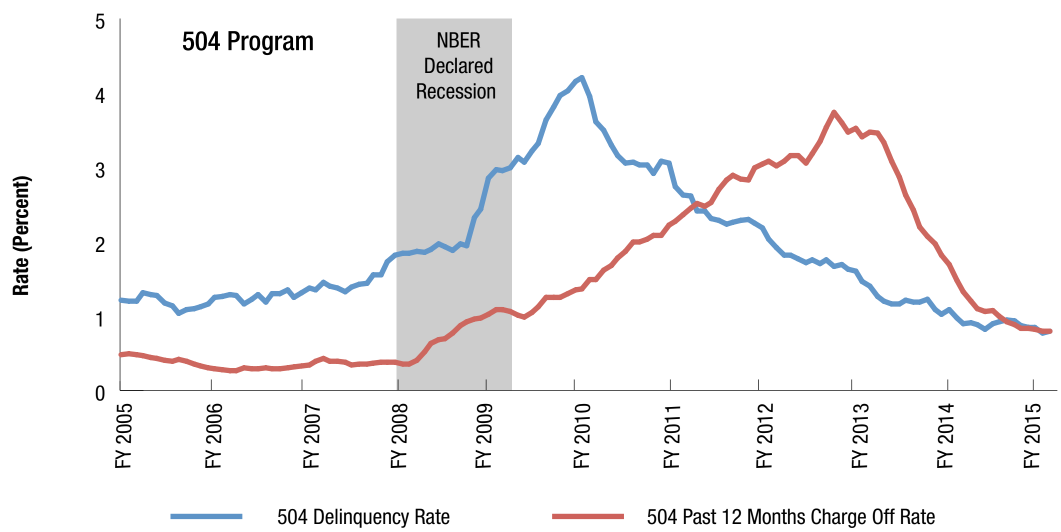


CHART XX DELINQUENCY AND CHARGE-OFF RATES FOR THE 7(a) AND 504 PROGRAMS BY FISCAL YEAR





percent recorded during February 2010 to 0.9 percent recorded during July 2015.

PORTFOLIO PERFORMANCE – CHARGE-OFFS

During FY 2014 and FY 2015 the charge-off rates of the Agency's major loan guaranty programs posted diverging paths with the charge-off rates for the 7(a) loan program recording noticeable increases while the charge-off rates for its 504 program experiencing a continued downward trend.

The past twelve-month charge-off rate for the 7(a) loan program experienced a pronounced decline during the FY 2010-2013 period, declining from 4.3 percent during the fourth quarter of 2010 to 1.1 percent in the third quarter of 2013, but then experiencing a noticeable increase thereafter, posting a 2.0 percent rate in July of 2015 (see **Chart XX**).

The past twelve-month charge-off rate for the 504 loan program experienced a continuous rise from the latter part of FY 2008 to the early part of FY 2013, peaking at 4.4 percent during January 2013, but then recorded a pronounced decline thereafter, dropping to 0.9 percent during July of 2015. This trend is not surprising since the 504 loan program is an economic development program with a commercial real estate focus. As such, recovery rates of defaulted 504 loans are, with some noticeable time lag, significantly impacted by the pricing trend in this sector. Real estate prices have been on the rise since the latter part of 2009, and as of August 2015 commercial real estate prices are at about 8.1 percent above peak levels recorded during 2007.

The recent charge-off rate for the SBIC debenture program has fluctuated in a narrow band, reaching a high of 1.5 percent during FY 2011 and a low of 0.0 percent during FY 2015. The charge-off rate for the SBIC participating securities program experienced a steady rise during FY 2008-FY 2012, peaking at 13 percent in FY 2012, but then registered a pronounced drop thereafter, posting a 0.2 percent during FY 2015.

Quarterly information on the status of SBA's loan portfolio, including outstanding balances and approvals by loan program and purchase rates, is available on SBA's website at http://www.sba.gov/performance.

DID YOU KNOW

The Ash Center for Democratic Governance and Innovation at the Harvard Kennedy School recognized the **Veteran Women Igniting the Spirit of Entrepreneurship** program as part of the 2015 Bright Ideas program. Through a partnership between the SBA and the Institute for Veteran and Military Families at Syracuse University, V-WISE provides entrepreneurial training to women who are veterans, active duty military, or family members of those in service.

LOOKING FORWARD

The SBA is committed to maintaining and strengthening the nation's economy through the growth of small businesses. While much work has been completed since the creation of the SBA, more work remains to support the American small businesses owner through a dynamic economy, ever-changing developments in technology, and the growing and always present threat of natural disasters with many of them resulting from a changing climate. While many of these challenges cannot be adequately predicted, SBA senior leadership ensures that they are considered and part of the Agency's planning process.

A Dynamic Economy

A small business often feels the first impacts of a staggering economy. High unemployment, low wages, growing inflation, and regulatory uncertainty all determine whether or not entrepreneurs will invest their time and resources into a new venture. Without large reserves of capital like many corporations, a small business can be shuttered within months during economic decline. To meet these needs, the SBA plays a major role in supporting access to capital. As many lenders closed their doors during the Great Recession, the SBA stepped into the market with alternatives to traditional financing. However, the Agency relied and will continue to depend on lenders to issue capital, and the decline in the number of banks and credit unions is a concern for the small business community. As fewer lenders remain in operation, the small business community must become more nimble to finding capital, including through online tools, and the SBA must provide this support in an ever-changing economy.

Advancements in Technology

It would have been unimaginable thirty years ago to obtain a loan from a bank in New York, submit a patent for a new idea to Washington, and then develop and sell that product to an emerging market outside the United States all while working from one's home in West Virginia. Today, technology has evolved to the point where entrepreneurs have greater access to markets and more capabilities to start and expand their business. These changes require that the SBA be aware of these technological advancements to better communicate and share successes for entrepreneurs across the country. It requires that more online tools be developed and that Agency processes be adapted to the twenty-first century. As an example, this year the Agency put forward SBAOne as a new online tool to help small businesses access capital faster with new processes like online signatures. Greater advancement in technology will continue to develop and shape how small businesses operate.

Threats from Disasters

A natural disaster can destroy lives, businesses, and communities in little time. While the SBA has many capabilities to respond to hurricanes, tornados, forest fires, and floods, the growing threat and numbers of these occurrences remain a serious concern, particularly as the climate continues to change. To this end, small businesses must adapt and become more resilient by planning in advance where to produce and sell goods and services on the market. Disaster preparedness and planning is a key component of SBA's disaster assistance program and has helped many small businesses prepare for the unexpected. At the same time, these growing threats require that the SBA be more nimble in its response and can continue to respond to multiple, large-scale disasters at once.

To address these challenges and continue enhancing customer service to its partners and small business, Agency senior leadership has instituted processes to not only help mitigate these challenges but improve performance. These areas, among others, represent ever-growing challenges and require attention from the SBA and the small business community.

ANALYSIS AND HIGHLIGHTS OF FINANCIAL STATEMENTS AND RESULTS

Highlights of Financial Results (September 2015)

(Dollars in Thousands)

At End of Fiscal Year	2015	2014	% Change
CONDENSED BALANCE SHEET DATA			
Fund Balance with Treasury	$ 5,365,418	$ 6,110,111	-12.19%
Credit Program Receivables and Related Foreclosed Property, Net	6,502,745	6,946,903	-6.39%
All Other Assets	152,704	127,237	20.02%
Total Assets	**$ 12,020,867**	**$ 13,184,251**	**-8.82%**
Debt	7,175,344	7,756,100	-7.49%
Downward Reestimate Payable to Treasury	1,600,653	1,637,283	-2.24%
Liability for Loan Guaranties	1,661,516	2,044,509	-18.73%
All Other Liabilities	245,324	257,911	-4.88%
Total Liabilities	**10,682,837**	**11,695,803**	**-8.66%**
Unexpended Appropriations	1,600,847	1,692,804	-5.43%
Cumulative Results of Operations	(262,817)	(204,356)	-28.61%
Total Net Position	**1,338,030**	**1,488,448**	**-10.11%**
Total Liabilities and Net Position	**$ 12,020,867**	**$ 13,184,251**	**-8.82%**

For the Fiscal Year	2015	2014	% Change
STATEMENT OF NET COST BY STRATEGIC GOAL			
Goal 1: Growing Businesses and Creating Jobs			
Loan Subsidy Cost Including Reestimates	$ (1,414,341)	$ (1,267,469)	-11.59%
All Other Costs Net of Revenue	584,841	648,483	-9.81%
Goal 2: Serving as the Voice for Small Business	109,638	109,488	0.14%
Goal 3: Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses	40,427	25,830	56.51%
Costs Not Assigned	34,845	17,274	101.72%
Net Cost of Operations	**$ (644,590)**	**$ (466,394)**	**-38.21%**
CONDENSED STATEMENT OF NET POSITION			
Beginning Cumulative Results of Operations	$ (204,356)	$ (369,882)	44.75%
Total Financing Sources	(703,051)	(300,868)	-133.67%
Less: Net Cost of Operations	(644,590)	(466,394)	-38.21%
Ending Cumulative Results of Operations	**$ (262,817)**	**$ (204,356)**	**-28.61%**
Beginning Unexpended Appropriations	$ 1,692,804	$ 1,753,736	-3.47%
Total Budgetary Financing Sources	(91,957)	(60,932)	-50.92%
Ending Unexpended Appropriations	**$ 1,600,847**	**$ 1,692,804**	**-5.43%**
Ending Net Position	**$ 1,338,030**	**$ 1,488,448**	**-10.11%**
CONDENSED STATEMENT OF BUDGETARY RESOURCES			
Unobligated Balance Brought Forward	$ 5,712,247	$ 5,433,986	5.12%
Other Budgetary Resources, Net	(24,961)	(577,710)	95.68%
Appropriations (discretionary and mandatory)	1,147,282	1,274,707	-10.00%
Borrowing Authority (discretionary and mandatory)	550,948	762,945	-27.79%
Spending Authority from Offsetting Collections	2,911,272	3,932,731	-25.97%
Total Budgetary Resources	**$ 10,296,788**	**$ 10,826,659**	**-4.89%**
Obligations Incurred, Budgetary	$ 1,535,235	$ 1,661,198	-7.58%
Obligations Incurred, Nonbudgetary	3,782,888	3,453,214	9.55%
Unobligated Balances, Available and Unavailable	4,978,665	5,712,247	-12.84%
Total Status of Budgetary Resources	**$ 10,296,788**	**$ 10,826,659**	**-4.89%**

Analysis of Financial Results

The SBA prepares its financial statements as a critical aspect of ensuring the accountability and stewardship for the public resources entrusted to it. The financial statements are prepared in accordance with guidance issued by the Office of Management and Budget pursuant to the Chief Financial Officers Act of 1990. While these statements have been prepared from SBA's books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, they are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. government, a sovereign entity.

This Analysis of Financial Results references numbers in the Highlights of Financial Results that was derived from the Financial Statements and Notes in this report. The Operational Portfolio Analysis does not reference the financial statements, but rather it provides an operational analysis of SBA's credit programs. As a result, the definitions of the loan and guaranty balances in the Portfolio Analysis section may differ somewhat from the balances used in this Analysis of Financial Results. For example, for the 7(a) loan program the total amount of guarantied loans is used in the Portfolio Analysis, while only SBA's guarantied portion is used in the Analysis of Financial Results, as it ties to balances in the financial statements.

BACKGROUND

The SBA is a major federal credit agency of the U.S. Government. The SBA had roughly 3,106 employees including Disaster FTE employees at FYE 2015. As a result only $0.9 billion of SBA's $10.3 billion budgetary resources in FY 2015 were for salaries and expenses, with the rest being to support SBA's credit programs. Budgetary resources when apportioned by the Office of Management and Budget are available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority and unobligated balances of budget authority provided in previous years. The loan financing funds record all the cash flow activity resulting from post 1991 direct loans and loan guaranties, and are not budgetary costs. The financing accounts are reported separately in the Budget of the United States Government and are excluded from the budget surplus/deficit totals.

The Federal Credit Reform Act of 1990 governs SBA's accounting for direct loans and loan guaranties made in FY 1992 and thereafter. Under FCRA direct loans outstanding are reported net of an allowance developed using the present value of forecasted cash flows in subsidy models that are approved by the Office of Management and Budget. A Liability for Loan Guaranties is reported also using subsidy models with forecasted cash flows from user fees and defaulted guarantied loans. SBA's FCRA accounting is discussed further in this section and in Notes 1 and 6A in the financial statements.

The portion of the outstanding principal guaranteed by the SBA as of September 30, 2015 was $88.3 billion, an increase of 5.8 percent from the $83.5 billion guaranteed at September 30, 2014 (see Note 6C in the financial statements). As shown in **Chart XXI**, new guaranties disbursed by SBA participating banks during FY 2015 were $19.8 billion, a 9.9 percent increase compared to the FY 2014 figure of $18.0 billion. The $1.8 billion increase resulted from a $0.3 billion decrease in 504 Development Company Recovery Act loans, a $2.0 billion increase in 7(a) loans, a $0.2 billion increase in SBIC Debentures, and a net $0.1 billion decrease in other loan programs in FY 2015. The increase in FY 2015 guaranty disbursements and a reduction in purchases of guarantied loans contributed to a 5.8 percent increase in outstanding guaranteed principal to $88.3 billion in FY 2014 from the previous year.

Credit program receivables for the SBA are comprised of business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guaranty pro-

CHART XXI GUARANTIED LOANS DISBURSED

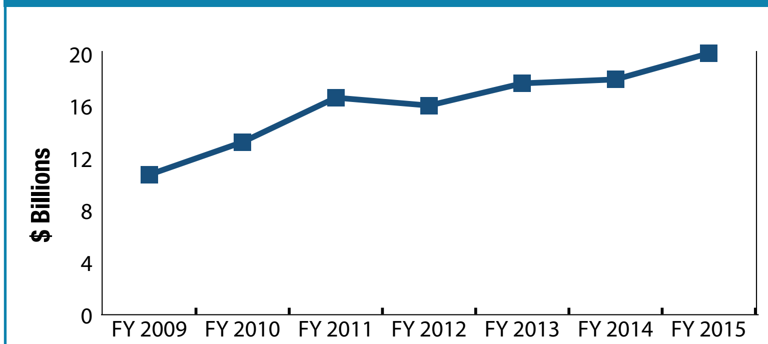
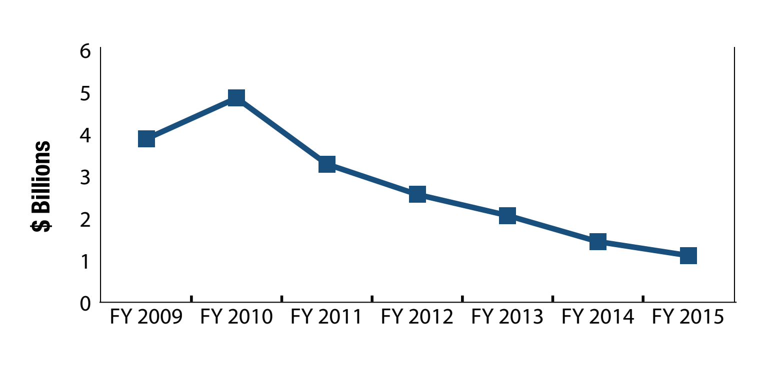


CHART XXII PURCHASES OF GUARANTIED LOANS



grams, which are offset by an allowance for subsidy. The allowance for the subsidy cost of the gross loan receivable is recorded as a contra asset and the net asset is reported on the Balance Sheet. The subsidy allowance is determined by modeling the projected future cash inflows and outflows of SBA credit programs using discounted cash flow methodology. Loan losses, the costs of loan servicing, and loan interest rates are factors that affect the subsidy allowance.

SBA credit program receivables were valued at $6.5 billion in FY 2015, which was a decrease of $0.4 billion from FY 2014. The change in the credit program receivables resulted from a decrease in defaulted guarantied business loans of $0.1 billion and a decrease in direct disaster loans of $0.3 billion. The amount of defaulted guarantied loans decreased as collections and charge-offs exceeded new guaranty purchases, partially offset by a lower subsidy allowance amount. This net decrease is attributable to an economy that continued to improve in FY 2015. The amount of direct disaster loans decreased as collections and charge-offs exceeded new loans, partially offset by a lower subsidy allowance amount.

As reflected in **Chart XXII**, guarantied loan purchases decreased $0.3 billion in FY 2015. The decrease this year reflects the continuing recovery after the economic recession. The decrease in purchases this year did contribute in part to the decrease in the outstanding guarantied business loans receivable after including recoveries, expenses, and charge-offs in the loans purchased portfolio.

FINANCIAL POSITION

Assets

The SBA had total assets of $12.0 billion at the end of FY 2015, down 8.8 percent from FY 2014. Total assets decreased primarily due to a $745 million decrease in the Fund Balance with Treasury (FBWT), as well as a $444 million decrease in Credit Program Receivables and related Foreclosed Property. The decrease in the FBWT was due primarily to downward reestimates and the reduction of Debt. The decrease in Credit Program Receivables and Related Foreclosed Property was due to the amount of defaulted guarantied loans decreasing as the result of collections and charge-offs exceeding new guaranty purchases, as well as the amount of direct disaster loans decreasing as collections and charge-offs exceeded new loans.

Liabilities

The SBA had total liabilities of $10.7 billion at the end of FY 2015, down 8.7 percent from FY 2014. Liabilities consist primarily of the Liability for Loan Guaranties, Downward Reestimate Payable to Treasury, and Debt with Treasury. The Liability for Loan Guaranties is the estimate of the net present value of the future amount the SBA will pay, net of fee collections, to liquidate expected purchases of guarantied loans under its guarantied loan programs. The Liability for Loan Guaranties decreased $0.4 billion due to the year-end downward reestimate of future costs for SBA's guaranty portfolio. The downward reestimate reflects the improvement in SBA's portfolio and the economic recovery.

The Downward Reestimate Payable to Treasury decreased $37 million due largely to the change in the year-end accrual of reestimates from downward in FY 2014 to upward in FY 2015 for the Secondary Market Guaranty Program cohorts. Better than projected loan performance across all cohorts was the primary reason for the FY 2015 downward reestimate remaining close to the FY 2014 level.

Debt with Treasury decreased $0.6 billion due to the decrease in Disaster loan disbursements in FY 2015, as well as a large decrease in borrowing needed to cover cash shortfalls in the guarantied loan programs. Note 9 to the financial statements provides additional detail on SBA debt with Treasury

Net Position

Cumulative Results of Operations is the accumulative difference between expenditures and financing sources since the inception of the Agency. This negative balance increased $58 million because unfunded upward subsidy reestimates at year-end for almost every program were more this year than last year. Upward subsidy reestimates determined at year-end are funded in the following year when they are received.

Unexpended appropriations decreased $92 million this year primarily because the amount of appropriations received was significantly less than the appropriations received in FY 2014 for business, disaster, and administrative activity. This affected Budgetary Financing Sources and the Ending Net Position.

NET COSTS OF OPERATIONS

The Net Costs of Operations reflects the costs of SBA credit programs subsidy expenses during the year for new loans and subsidy reestimates at year-end, interest expense and revenue associated with the loan programs, and the cost of administering SBA's program. The loan subsidy cost is the net present value of expected cash inflows and outflows over the life of a guarantied loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives budget authority annually to fund its credit programs. When loans are disbursed, the SBA records subsidy expense. In accordance with the Federal Credit Reform Act, the subsidy costs are reestimated annually. Reestimates update original loan program cost estimates to reflect actual experience and changes in forecasts of future cash flows for each annual cohort of loans. Increased reestimated costs are funded in the following year by permanent indefinite budget authority, while decreased costs are returned by the SBA to a Treasury general fund.

Despite the small increase in upward reestimated costs for FY 2015, the end result was still a net downward reestimate which affected Strategic Goal 1 costs. Those subsidy reestimates were the largest components of the change (net decrease) in the Agency's net cost. **Chart XXIII** reflects the decreases in the subsidy reestimates for the Guarantied Business and Direct Disaster loan programs in FY 2015.

There was a downward reestimate in the 7(a) loan programs. The downward reestimate of $0.2 billion was due mostly to lower than average purchases during FY 2015 that decreased the overall purchase curve, in turn decreasing purchase projections in future years and contributing to the downward reestimate for FY 2015.

The 504 Recovery Act and 504 Jobs Act loan programs had a significant downward reestimate of $1.0 billion due to better than projected FY 2015 loan performance. Further detail on subsidy reestimates can be found in Note 6I to the financial statements in the Financial Reporting section of this report.

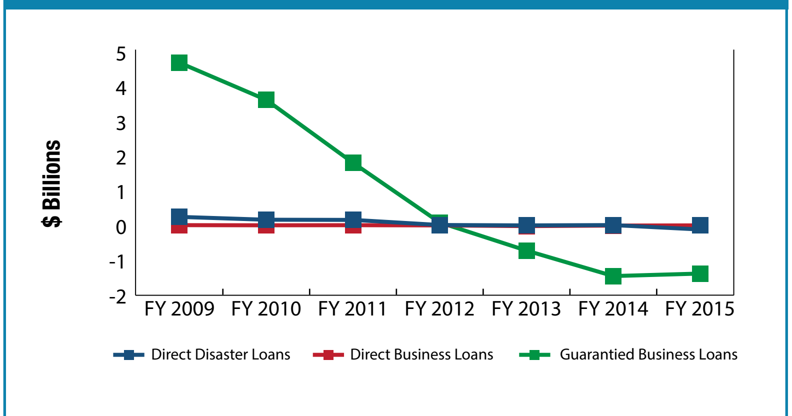
The SBIC Participating Securities and Debenture programs had a downward reestimate of $0.2 billion in FY 2015 that was due mostly to better than projected loan performance. Actual recoveries were higher than projected, and actual default purchases were lower than projected in FY 2015.

BUDGETARY RESOURCES

Total Budgetary Resources of $10.3 billion decreased $0.5 billion in FY 2015. This decrease is the net result of less spending authority from offsetting collections this year and the other factors in the Highlights table and discussed here. Other Budgetary Resources, Net increased by $0.6 billion in FY 2015. This increase is attributable to a smaller repayment of borrowings from prior year balances, offset with a decrease in prior year recoveries in FY 2015.

Appropriations (discretionary and mandatory) decreased $0.1 billion in FY 2015. As shown in **Chart XXIV** the decrease was the combination of the decrease in the amount of appropriations needed to fund SBA's upward

CHART XXIII CREDIT PROGRAM SUBSIDY REESTIMATES

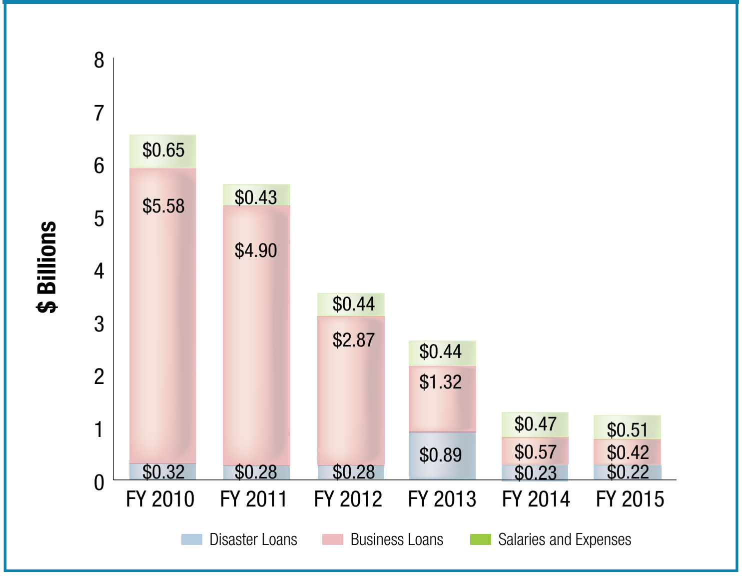


credit subsidy reestimates, as well as a reduction in the need for subsidy to fund the Agency's major loan programs in FY 2015.

Borrowing Authority decreased $0.2 billion in FY 2015 due to a decrease in borrowing needed to cover cash shortfalls in the guarantied loan programs. Borrowing authority initially granted to the SBA was $1.2 billion, but the SBA withdrew $0.7 billion at year-end FY 2015 as it was not needed to fund future credit program operations.

Spending Authority from Offsetting Collections decreased $1.0 billion in FY 2015. A significantly higher amount of current year collections were used to repay borrowings in FY 2015, thus resulting in a lower ending balance. Additionally, there was a small decrease in FY 2015 collections received for subsidy this year.

CHART XXIV APPROPRIATIONS RECEIVED



STATUS OF BUDGETARY RESOURCES

The Total Status of Budgetary Resources of $10.3 billion decreased $0.5 billion in FY 2015. Budgetary obligations decreased by $0.1 billion in part because of a subsidy rate decrease in FY 2015 for the 504 CDC program. Nonbudgetary obligations increased $0.3 billion due to the increase in obligations related to financing fund reestimates, offset with decreases in direct loan making and purchases of guarantied loans.

Unobligated balances at September 30, 2015 and 2014 were $5.0 billion and $5.7 billion which include $3.5 billion and $3.7 billion of unavailable unobligated balances. These balances were unavailable because they were unapportioned by OMB. The SBA accumulates the majority of unobligated balances in its nonbudgetary financing accounts ($3.7 billion in FY 2015 and $4.3 billion in FY 2014) from subsidy estimates and reestimates that are used primarily to pay default claims in future years.

DID YOU KNOW

In FY 2015, the SBA conducted more than 380 training events for small business exporters, reaching over 8,000 small businesses. Approximately 1,500 small businesses received more than **$1.45 billion** in SBA financing. Of special note is the 38 percent growth in international trade loans from FY 2014 to $394 million in FY 2015.

ANALYSIS OF SBA'S SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Internal Control Environment

The SBA believes that maintaining integrity and accountability in all programs and operations is critical for good government. The ability to demonstrate consistent responsible stewardship over assets and resources is a sign of responsible leadership. SBA's commitment to integrity and ethical values combined with an effective system of internal controls ensures that every employee remains dedicated to the efficient delivery of services to customers and maximizes desired program outcomes. The SBA has developed and implemented management, administrative, and financial system controls to reasonably ensure that:

- programs and operations achieve intended results efficiently and effectively;
- resources are used in accordance with the mission of the Agency;
- programs and resources are protected from waste, fraud, and mismanagement;
- program and operation activities are in compliance with laws and regulations; and
- reliable, complete, and timely data are maintained and used for decision-making at all levels.

Each office within the SBA implements internal controls to achieve programmatic goals as well as controls over operations, reporting, and compliance. Each year, the SBA conducts an assessment of internal control as required by the Federal Managers' Financial Integrity Act of 1982. The FMFIA also requires that the assessment results be reported to the President and the Congress in a statement of assurance. The SBA Administrator provides the statement of assurance based on the self-assessment of program managers, internal control reviews, and audits and reviews done by the Government Accountability Office, and SBA's Office of the Inspector General. SBA's Office of Internal Controls (OIC) provides training on assessing internal controls and tools, including a checklist designed specifically for district offices, to assist management in documenting the adequacy of controls within their area of responsibility.

In support of internal control assessments, the OIC oversees the requirements of the Office of Management and Budget's revised Circular No. A-123, Appendix A, Internal Control Over Financial Reporting. The Senior Assessment Team (SAT), chaired by the Chief Financial Officer and comprised of SBA managers from the major programs and support offices directed compliance with the circular. The SAT employed, a risk-based approach in the selection of processes and systems for a more robust internal control evaluation. Additional reviews requested by SAT members covered some business processes that had no material impact on the financial statements, but did present some potential for risk or exposure to the Agency. The OIC documented the process and key controls, evaluated and tested the design and effectiveness of controls and presented the results to the SAT. Each office is responsible for developing and implementing corrective actions for any reported deficiencies. Based on the evaluation of nine business processes in FY 2015, the OIC identified a number of deficiencies in the internal control over financial reporting, including several in SBA's key business processes. The SAT evaluated the review findings and determined that none reached the level of material weakness.

In April of this year the Administrator established the SBA Enterprise Risk Management Board to oversee and guide SBA's enterprise risk management efforts. In addition to identifying, evaluating, and establishing ownership of cross-Agency risks, the Board will assess and advise on enterprise risk, recommend risk avoidance, tolerance, mitigation, corrective actions, and serve as champions to introduce enterprise risk management best practices to the SBA. Collecting and managing all types of risk (such as reputational, financial, information technology, and operational) from all areas of the SBA will provide the highest levels of management valuable information on which to base decisions.

This year, the SBA continued to have a significant deficiency in information technology security controls, to include access controls and change control. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting. To address these deficiencies, the SBA invested in the following key initiatives during FY 2015:

- use of patch, configuration and IT asset management tools that provided enhanced capability in hardware and software management, vulnerability management, configuration management, and anti-virus management; the SBA will continue to invest in efforts to develop logical access policies and improve compliance for identity management and access controls;

- investment to replace aging network infrastructure;
- migrated the user community from Microsoft XP to Windows 7;
- required use of PIV cards to log onto SBA's network; policies have been established to enforce utilization of PIV cards for both physical and logical access; and
- completion of Annual Agency-wide IT security training by 100 percent of SBA employees and contractors.

Financial Management Systems Strategy

Financial management systems at the SBA are designed to support effective internal control, produce reliable, timely financial information, and ensure cost effective loan guaranty processing. Management remains focused on robust financial management systems that improve SBA's ability to comply with laws and regulations, provide timely and accurate data to support management analysis and decision-making, enable the Agency to keep pace with its lending partners, and effectively use automation to achieve operational efficiency.

As demonstrated throughout this Agency Financial Report, the SBA seeks to comply with all federal financial management system requirements and there have been no deficiencies identified under the Federal Financial Management Improvement Act of 1996.[4]

The SBA completed a series of incremental improvement projects designed to modernize the financial management systems to improve financial system controls, reduce sustainment costs, provide additional functionality for external lending partners, and prolong system useful lives. These projects include the migration of the systems to more current technology platforms and relocation to modern data centers that provide expanded capability for continuity of operations.

In addition to modernization of the financial system platforms, the incremental improvement projects added missing functionality to the financial systems, building improved integration between the systems, improving consistency of data, enhanced reporting capability, and improving SBA's automation of funds control for loan programs and loan subsidy.

The incremental improvement projects enhance SBA's financial system controls over lending programs and provide for improvement in accessibility to common information, financial and budget management, and financial reporting. Core financial systems at the SBA are comprised of three systems operated and managed by the offices of the Chief Financial Officer and Capital Access. The systems include:

- *Oracle Federal Financials* – Upgraded to the most current release, this Commercial Off-The-Shelf (COTS) package is used for budget execution and management for administrative activity.
- *Loan Systems* – SBA-built systems used to support the lifecycle of loan guaranty processing, loan program funds control, management and accounting for loan servicing, and loan related expenses.
- *Financial Management System (FMS)* – SBA-built system used to consolidate administrative and loan activity, manage cash and control funds, and provide financial reporting.

4 The purpose of the Federal Financial Management Improvement Act of 1996 (FFMIA) is to advance federal financial management by ensuring that federal financial management systems provide accurate, reliable and timely financial management information to the government's managers. Core components include applying uniform accounting standards across the federal government; full disclosure of all federal programs and activity; increasing the accountability, creditability, performance, productivity and efficiency of federal financial management; establishing financial systems to control the cost of federal government; and increasing the capability of agencies to monitor budget execution by comparing spending to results of activities. Compliance with the FFMIA provides the basis for the continuing use of reliable financial management information by program managers, and by the President, the Congress, and the public. (Office of Management and Budget, http://www.whitehouse.gov/omb/financial_ffs_ffmia)

Management Assurances: FMFIA and FFMIA Assurance Statement for FY 2015

The Small Business Administration continued to strengthen internal controls over its programs and operations during FY 2015. Creating and sustaining a culture of responsibility and accountability while eliminating and preventing waste, fraud, and abuse is critical to meeting our mission at the SBA. I am pleased to report that the SBA continues to achieve its internal control objectives.

SBA management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objective of the Federal Managers Financial Integrity Act (FMFIA). The SBA conducted its assessment of internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular No. A-123, Management's Responsibility for Internal Controls. Agency managers have issued assertions to me as to the status of their FY 2015 internal controls in their areas of responsibility. These assertions are supported by internal testing, checklists, and other management reviews. Although a few Agency managers reported some operating deficiencies, these were not of a material nature. Based on the results of these evaluations, I can provide reasonable assurance that internal controls over operations and compliance with applicable laws and regulations, as of September 30, 2015, were operating effectively and no material weaknesses were identified in the design or operation of those internal controls. Further, the Agency's financial management systems conform to the principles, standards, and related requirements prescribed by Section 4 of FMFIA.

The SBA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular No. A-123. Based on the results of this evaluation, I can provide reasonable assurance that internal controls over financial reporting were operating effectively and no material weaknesses were identified in the design or operation of internal controls over financial reporting for FY 2015.

SBA's independent auditor issued an unmodified opinion on the Agency's FY 2015 financial statements for the eleventh year in a row. However, the auditor again identified an instance of non-compliance with applicable laws and regulations as of September 30, 2015. Specifically, not all co-borrowers and guarantors on charged-off 7(a), 504, and disaster loans were referred to the Department of the Treasury for debt collection as required by the Debt Collection Improvement Act (DCIA).

The SBA has a DCIA Compliance Team comprised of representatives from the Office of Capital Access' Office of Financial Program Operations, the Office of Performance Systems Management, and the Office of the Chief Information Officer who work together to identify and resolve problems pertaining to the implementation of the DCIA. Significant improvements have been initiated and implemented since last year. For example, progress has been achieved this year since we completed the legacy mainframe migration but data issues persist that have proven challenging to complete compliance status. The DCIA compliance team meets regularly and works aggressively to achieve the remaining issues with the complicated transfer protocol as well as to review other issues affecting referrals so business rules can be adjusted.

This year the SBA also identified an issue with potential non-compliance of the Antideficiency Act. While the dollar amounts involved are negligible, the SBA has corrected the matter to the best of its ability and is preparing reports for the President and Congress as required by the law.

The Agency's efforts to reduce improper payments met with mixed results this year. The Disaster loan disbursements achieved compliance with OMB Circular A-123, Appendix C with an 8.13 percent improper payment rate, significantly reducing its 12 percent FY 2014 improper payment rate. Conversely, the improper payment rate for disbursements for goods and services related to contracts increased from 8.46 percent reported in FY 2014 to 13.52 percent this year. A majority of the errors found were related to contract documentation discrepancies and payments made to incorrect vendor bank accounts, which were valid bank accounts of the vendors, but differed from those registered in the System for Award Management (SAM). Because the root cause of the improper payments were administrative and documentation errors, the estimated total recapture is less than $6,000. All goods and services were received and there was no fraud detected during the review. The Deputy Chief Financial Officer and the Director of the Denver Finance Center are aggressively developing a corrective action plan to enhance their internal controls over improper payments for goods and services to come into compliance. The other programs' improper payment rates varied slightly from FY 2014, without a significant upward or downward movement.

The Federal Financial Management Improvement Act (FFMIA) requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Standard General Ledger. Based on the FFMIA criteria, I can provide reasonable assurance SBA's financial management systems substantially comply with FFMIA for FY 2015.

SBA's independent auditor reported significant deficiencies in Information Technology (IT) security. The issues relate to access controls, change controls, and vulnerability management. To address many of the issues identified by the auditors, the SBA made major investments in replacing aging network and infrastructure technology in FY 2015, the results of which should be fully realized over the next fiscal year. The SBA anticipates these investments will resolve the deficiencies noted.

In compliance with OMB Circular A-11, Section 51.3, the Chief Information Officer (acting) and the Associate Administrator for Performance Management and Chief Financial Officer have provided a signed statement that attests:

- The SBA Chief Information Officer (acting) reviewed and approved the major IT investments portion of the SBA budget request;
- The SBA Chief Information Officer (acting) had a significant role in reviewing planned IT support for major program objectives and significant increases and decreases in IT resources; and
- The SBA IT portfolio includes appropriate estimates of all IT resources included in the budget request.

Maria Contreras-Sweet
Administrator
November 16, 2015

Improper Payments Summary

Improved financial performance through the reduction of improper payments continues to be a key financial management focus of the Federal government. SBA management continually develops strategies to reduce improper payments for responsible stewardship of public assets.

The Improper Payments Information Act of 2002 (IPIA), its amendments, and as implemented by OMB in Circular No. A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments, requires SBA management to review programs and activities to identify those that are susceptible to significant erroneous payments and estimate annually the amount of erroneous payments made in those programs deemed risk susceptible. SBA management performs testing to estimate the rates and amounts of improper payments, establishes improper payment reduction targets in accordance with OMB guidance, and develops and implements corrective actions.

The SBA has nine programs and activities that are subject to improper payment reporting: the 7(a) loan program (approvals and purchases), the Certified Development Company (504) loan program, the Disaster loan program, disbursements related to goods and services, and programs or activities funded with Hurricane Sandy disaster relief funds, which include grant programs and disaster related administrative expenses of payroll, purchase cards, and travel. The Small Business Investment Company program, a major credit program, retained approval from OMB for relief from reporting.

The detection and remediation of improper payments is a priority for the Agency. SBA staff monitor and review for improper payments and are charged with implementing improvements that will reduce improper payment rates. The SBA also continually seeks opportunities to enhance and implement internal controls to reduce the risk for improper payments.

The Agency's primary concern in its improper payment reporting stems from administrative and documentation errors which are caused by the absence or completeness of supporting documentation necessary to verify the accuracy of a payment. Detailed information concerning SBA's improper payment reviews and its efforts to reduce improper payments is presented in the Other Information section of this report.

DID YOU KNOW

For the second consecutive year, in FY 2014, the federal government exceeded the 23 percent small business contracting goal, purchasing **$91.7 billion** in goods and services from small businesses. This represents 24.99 percent of all eligible federal spending and supports more than **550,000** jobs in the American economy.

SUCCESS STORY

Florida Small Business Person of the Year

Craig Technologies
Cape Canaveral, Florida

Carol Craig considers herself an accidental entrepreneur. After leaving the U.S. Navy where she served as a Naval Flight Officer, she founded Craig Technologies in 1999. The Florida Small Business Development Center and a $150,000 SBA-backed loan helped Carol realize her small business dreams. Craig Technologies is a woman-owned, service-disabled, veteran-owned, SBA 8(a)-certified firm specializing in systems engineering, project management, infrastructure installation, software design, and custom avionics.

What began as a one-woman business rapidly grew when the company received its first government contract in 2005. Today, the company manages more than 30 contracts with more than 20 government agencies and has nearly 400 associates in over 20 different states and $45 million in revenue.

Craig Technologies offers a wide scope of award-winning engineering and technical solutions. Its nationally-recognized Aerospace & Defense Manufacturing Center in Cape Canaveral offers a unique end-to-end design-to-production capability that includes specialty manufacturing, custom avionics, precision machining and fabrication, and test and evaluation services.

The National Defense Industrial Association presented Carol with the Kathleen P. Sridhar Small Business Executive of the Year Award in 2013. Florida Trend magazine listed Craig Technologies as one of Florida's Best Companies to Work For in 2011 and 2013

Financial Reporting

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

November 16, 2015

I am pleased to submit SBA's Agency Financial Report for fiscal year 2015. An independent audit has earned the SBA an unmodified opinion with no material weaknesses. This report means that the consolidated financial statements present fairly, in all material respects, the financial position of the SBA as of September 30, 2015.

The audit report continued to identify issues with SBA's information technology security and compliance with laws and regulations governing debt referral for collection. While improvements to the financial management systems have been made, the framework governing SBA's information technology infrastructure is in need of additional controls over access, vulnerability management, and code changes. And while the SBA successfully migrated its legacy financial systems this year, data and process issues have persisted that have prevented full compliance with referral requirements of the Debt Collection Improvement Act. In response to these matters, the SBA is making significant investments to improve its network and technology management tools, and debt referral processes that should yield major improvements in the near future.

A potential violation of the Antideficiency Act was identified during the year. Although the dollar amounts in question were insignificant, the SBA has taken action to correct the problem it had identified, and is preparing the reports required under the Act.

Despite these challenges, the SBA achieved significant accomplishments in several areas of financial management:

- Relocating the contract writing systems to a commercial data center to improve integration with the financial systems and ensure data consistency and quality for management and DATA Act reporting;
- Implementing process improvements to streamline operations and refine policies and procedures for financial management and acquisition;
- Serving as Treasury's pilot agency for a technical solution in support of the government-wide implementation of the DATA Act;
- Receiving an "A" grade on the Agency's procurement scorecard and exceeding the small business contracting goal of 69 percent – the highest percentage goal of any agency in the government; and
- Completing the assessment of the acquisition function.

The SBA continued to work toward achievement of its priority and strategic goals as documented in its *FY 2014-2018 Strategic Plan*. The plan includes three strategic goals that focus on job growth and creation, small business advocacy, and effective internal management and risk mitigation. These strategic goals guide the Agency's resource and management decisions. Each strategic goal contains objectives which are directly tied to performance from the individual level to Agency-wide. This framework is essential to ensure that the SBA continues to play a key role in strengthening America's economy by providing tools to help grow businesses and create jobs.

For the ninth year in a row the SBA won the prestigious Certificate of Excellence in Accountability Reporting (CEAR) award to recognize high quality reporting in all aspects of accountability and transparency. Presented by the Association of Government Accountants, this award is made to federal agencies following a rigorous, independent review against established standards for presentation.

I want to recognize the independent Audit and Financial Management Advisory Committee who have provided advice and recommendations to improve our financial reporting. Since 2004 their input has been an invaluable part of our efforts for continuous improvement and I thank them for their ongoing support.

SBA's efforts to assist entrepreneurs and small business owners are especially critical to a healthy economy. Through the use of smart technologies, the advancement of bold ideas, and the efficient operation of accessible programs, SBA strives to achieve a mission focused on the success of the small businesses that continue to build the American economy. My office is proud to be a part of this effort.

Sincerely,

Tami Perriello

Tami Perriello
Associate Administrator for Performance Management
and Chief Financial Officer

AUDIT AND FINANCIAL MANAGEMENT ADVISORY COMMITTEE'S REPORT

November 16, 2015

The Audit and Financial Management Advisory Committee (the Committee) assists the Administrator in overseeing the U.S. Small Business Administration's (SBA's) financial operations. As part of that responsibility, the Committee meets with Agency management, the Agency's Inspector General, and its external auditors to review and discuss SBA's external financial audit coverage, the effectiveness of SBA's internal controls over its financial operations, and its compliance with certain laws and regulations that could materially impact SBA's financial statements. SBA's external auditors are responsible for expressing an opinion on the conformity of SBA's audited financial statements with the U.S. generally accepted accounting principles. The Committee reviews the findings of the Inspector General and external auditors, and SBA's responses to those findings, to ensure that SBA's plan for corrective action includes appropriate and timely follow-up measures. In addition, the Committee reviews the draft Agency Financial Report (AFR), including its financial statements, and provides comments to management who has primary responsibility for the AFR. The Committee met formally twice during the year with respect to these responsibilities on FY 2015 financial management and reporting. During the formal meetings the Committee met with the Inspector General and external auditors without SBA management being present and discussed with the external auditors the matters that are required to be discussed by generally accepted auditing standards. Nothing came to our attention as a result of these discussions to indicate changes were needed to the financial statements and notes thereto that are included in the FY 2015 AFR.

Joseph Kull
Chairman
Audit and Financial Management Advisory Committe

INSPECTOR GENERAL'S AUDIT REPORT

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

Final Report Transmittal
Report Number: 16-02

DATE: November 16, 2015

TO: Maria Contreras-Sweet
Administrator, Small Business Administration

Douglas Kramer
Deputy Administrator, Small Business Administration

Tami Perriello
Chief Financial Officer, Small Business Administration

FROM: Troy M. Meyer
Assistant Inspector General for Auditing

SUBJECT: *Independent Auditors' Report on SBA's FY 2015 Financial Statements*

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the U.S. Small Business Administration's (SBA) consolidated financial statements for fiscal year (FY) 2015, ending September 30, 2015. This audit is an annual requirement of the Chief Financial Officers' Act of 1990, and was conducted in accordance with the *Generally Accepted Government Auditing Standards*; the Office of Management and Budget Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*; and the U.S. Government Accountability Office's *Financial Audit Manual* and *Federal Information System Controls Audit Manual.*

The attached independent auditors' report presents an unmodified opinion on SBA's consolidated financial statements for FY 2015. Specifically, KPMG reported that:

- The financial statements were fairly presented in all material aspects in conformity with U.S. generally accepted accounting principles.
- There were no material weaknesses in internal control.
- There is a significant deficiency related to SBA's information technology security controls, which has been identified in the past.
- There is one instance of noncompliance with laws and regulations related to the Debt Collection Improvement Act of 1996, which also has been reported in the past.

KPMG noted that SBA management identified a matter that may be reported as a violation of the Antideficiency Act. The outcome of this matter and any resulting ramifications is not presently known.

Details regarding KPMG's conclusions are included in the "Compliance and Other Matters" section, and Exhibit I to this report. Within 30 days of this report, KPMG expects to issue a separate letter to SBA management regarding other, less significant matters that came to its attention during the audit.

We reviewed a copy of KPMG's report and related documentation and made necessary inquiries of their respective representatives. Our review was not intended to enable us to express—and we do not express—an opinion on SBA's financial statements, KPMG's conclusions about the effectiveness of internal controls, or its conclusions about SBA's compliance with laws and regulations. However, our review disclosed no instances where KPMG did not comply, in all material respects, with the *Generally Accepted Government Auditing Standards*.

We provided a draft of KPMG's report to SBA's Chief Financial Officer, who concurred with its findings and recommendations and agreed to implement the recommendations. The Chief Financial Officer's comments are attached as Exhibit II to this report.

We appreciate the cooperation and assistance of SBA and KPMG. Should you or your staff have any questions, please contact me at (202) 205-7390 or Jeffrey R. Brindle, Director of the Information Technology and Financial Management Group at (202) 205-7490.

cc: Nick Maduros, Chief of Staff
Melvin F. Williams, Jr., General Counsel
Martin Conrey, Attorney Advisor, Legislation and Appropriations
LaNae Twite, Director, Office of Internal Controls

Attachment

INDEPENDENT AUDITORS' REPORT ON FY 2015 FINANCIAL STATEMENTS

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Inspector General
United States Small Business Administration:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Small Business Administration (SBA), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

SBA's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Small Business Administration as of September 30, 2015 and 2014, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Within the Management's Discussion and Analysis and Other Information, sections of the *Agency Financial Report*, Management has elected to include references to information on websites to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the information in Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Message from the Administrator, Other Information, and the information on pages 41 to 45 of the *Agency Financial Report*, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2015, we considered SBA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of SBA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our fiscal year 2015 audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify a combination of certain deficiencies in internal control, described in Exhibit I that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SBA's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02. Specifically, our audit results noted noncompliance with the Debt Collection Improvement Act of 1996 (DCIA or Act) which is described below:

> The DCIA gave the U.S. Department of Treasury (Treasury) significant responsibilities for collecting delinquent debts, Government-wide. The Act requires Federal agencies to transfer their nontax delinquent debt to Treasury. During our test work over loan charge-offs, we noted that SBA did not timely refer obligors (i.e., eligible principal borrowers, co-borrowers, and/or guarantors) to Treasury for offset or cross-servicing as required by DCIA. Similar instances of noncompliance with the Act were reported in prior years. SBA's noncompliance with the DCIA was the result of deficiencies in information technology controls. For additional discussion of the information technology aspects of this finding and the related recommendation, see Exhibit I.

Additionally, management has identified a matter that may be reported as a violation of the Antideficiency Act. The outcome of this matter, and any resulting ramifications, is not presently known.

We also performed tests of SBA's compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed no instances in which SBA's financial management systems did not substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

SBA's Response to Findings

SBA's response to the findings identified in our audit is described in the accompanying Exhibit II. SBA's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of SBA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 16, 2015

Exhibit I

U.S. Small Business Administration

Significant Deficiency

Improvement Needed in Information Technology Security Controls

During the FY 2015 financial statement audit, we found that the U.S. Small Business Administration (SBA) continued to implement corrective actions on some of the prior year findings; however, a number of conditions persisted in FY 2015 that reduced SBA's ability to effectively manage its information system risks. As a result, collectively, these conditions continue to present a significant deficiency in SBA's internal control environment.

In an effort to provide additional clarity to SBA management with respect to the corrective actions required, we enhanced our prior year recommendations where issues persisted in FY 2015, and issued additional recommendations for the new control deficiencies identified. In the sections below, we distinguish between recurring conditions and related recommendations, and those that were newly identified in FY 2015. We have omitted some technical details from the conditions and recommendations due to the sensitivity of the information. These details were communicated to management in Notices of Findings and Recommendations throughout the audit.

We have summarized the Information Technology (IT) control deficiencies that we noted during the FY 2015 audit below, and have organized them by the following general IT control objectives: logical access controls, application change management, system configuration management, and contingency planning.

Logical Access Controls

An integral part of the effectiveness of an organization's security program management efforts should be to ensure that logical access controls provide reasonable assurance that IT resources, such as data files, application programs, and IT-related facilities/equipment, are protected against unauthorized modification, disclosure, loss, or impairment.

Our audit found that the following control deficiencies identified in prior year(s) persisted in FY 2015:

- User accounts were not properly authorized in accordance with SBA policy.
- User accounts were not recertified in accordance with SBA policy.
- The principle of "least privilege" for user/service accounts with administrator privileges was not enforced.
- User accounts were not disabled or promptly removed upon personnel termination.
- The employee exit clearance and contractor off-boarding processes were not standardized to ensure that access to SBA's systems was timely removed upon separation.
- Processes for consistently and effectively reviewing audit logs were not implemented.

Exhibit I

U.S. Small Business Administration

Significant Deficiency

Recommendations – Logical Access Controls:

We have issued the following recommendations to address the repeat control deficiencies listed in the section above.

We recommend that the Chief Information Officer (CIO) coordinate with SBA program offices to:

1. Implement and monitor procedures to ensure that access is appropriately granted to employees and contractors, consistent with the conditions on their access forms after all approvals have been obtained.
2. Implement procedures to ensure that user access, including user accounts and associated roles, is reviewed on a periodic basis consistent with the nature and risk of the system, and any necessary account modifications be performed when identified.
3. Grant elevated privileges per business needs only, and enforce the concept of least privilege or implement mitigating controls to ensure that activities performed using privileged accounts (including service accounts) are properly monitored.
4. Improve SBA's administration of logical system access by taking the following actions:
    - Implement an effective off-boarding process, and periodically verify that controls to remove logical access for separated employees are implemented and operating as designed;
    - Establish a process for the identification and removal of separated contractors to help ensure that access is timely removed upon contractor separation; and
    - Timely remove access to general support systems and major applications (including development and test environments) when employees and contractors are terminated.
5. Improve SBA's information system logging and auditing program, by taking the following actions:
    - Review and rationalize current audit and logging activities and capabilities to determine their effectiveness in addressing risks to systems and data;
    - Implement and enforce consistent and effective creation of audit records, capturing relevant auditable events, auditing (i.e., manual or automated review of audit records) for specified events, and automated alerting on specified events across SBA's infrastructure using a risk-based approach;
    - Retain evidence of the audit log review; and
    - Develop an Agency-wide plan and schedule for implementing the above recommendations.

Application Change Management

The integrity of information processing is dependent on the controlled management of changes to the software that controls the processing. Software change management is designed to reduce the risk of unauthorized or erroneous changes to software. Our audit found the following control deficiencies remain, that were identified in a prior year:

Exhibit I

U.S. Small Business Administration

Significant Deficiency

- The change management process for one system, which includes several applications, did not sufficiently reduce the risk of an unauthorized change being made to the production environment. Specifically, the SBA did not review or compare system code to ensure that only authorized changes had been made, and the audit log review process was not designed to detect unauthorized changes to application software.
- Required software changes for one subsystem were not implemented due to the ongoing code migration project which impacted SBA's compliance with the Debt Collection Improvement Act of 1996 in that system. This issue was reported as a noncompliance matter in the "Compliance and Other Matters" section of our audit report.

In addition to the matters above, we noted the following additional control deficiency during our FY 2015 audit:

- The Security Authorization Package for one system was not updated to reflect control changes resulting from the migration to a new system environment, and the system was not reauthorized in accordance with SBA policy.

<u>Recommendations – Application Change Management:</u>

We have issued the following recommendations to address the repeat control deficiencies listed in the section above, and recommend that the:

6. Associate Administrator, Office of Capital Access (OCA), in coordination with the CIO, design and implement a combination of preventative and detective controls to address the issues and related risks in the condition above, and ensure an auditable trail of software changes is maintained to prevent and detect unauthorized changes to production programs.
7. Associate Administrator, OCA, in conjunction with the CIO, perform a comprehensive review of system protocols to determine if any other coding problems exist that may cause untimely referral of obligors, and address outstanding system protocol issues as identified.

To address the newly identified change management control weakness, we recommend that the:

8. Associate Administrator, OCA, in coordination with the CIO, implement controls and processes to ensure that system changes are adequately tested, testing documentation is maintained, and system Security Authorization Packages are updated to reflect major system changes.

System Configuration Management

The primary focus of an organization's system configuration management process should be to control the security configuration of its infrastructure including servers, databases, network equipment, security appliances, and security services. Without such controls, there is a risk that security features could be inadvertently, or deliberately, omitted or turned off, introducing risk into the IT environment.

Our audit noted that the following prior year control deficiency persisted in FY 2015:

- Numerous critical-, high- and medium-risk configuration and patch management vulnerabilities were noted in certain systems.

Exhibit I

U.S. Small Business Administration

Significant Deficiency

<u>Recommendation – System Configuration Management:</u>

To address the repeat system configuration management condition above, we recommend that the:

9. CIO coordinate with SBA program offices to address the existing configuration and patch management vulnerabilities noted during our assessment to be in compliance with SBA policy and SBA Information System Vulnerability Management Plan, Version 1.0. In addition, implement procedures to ensure the consistent implementation and monitoring of SBA approved security configuration baselines across SBA's workstations, servers, databases, network devices, and other security relevant appliances.

Contingency Planning

The focus of an organization's contingency planning program should be to provide reasonable assurance that information resources are protected and the risk of unplanned interruptions is minimized. Without such controls, there is a risk that data may be lost or that critical operations may not resume in a timely manner.

Our audit noted that the following prior year control deficiencies persisted in FY 2015:

- Some of the systems were not configured to retain full backups in accordance with SBA Standard Operating Procedure (SOP) 90.47.3, *Information System Security Program*.
- Incremental or full backups for some of the systems were not retained in accordance with SOP 90.47.3.

<u>Recommendation – Contingency Planning:</u>

To address the repeat contingency planning conditions above, we recommend that the:

10. CIO, Chief Financial Officer, and Associate Administrator, OCA, ensure that incremental and full backups for all systems, including related support infrastructure, are configured and retained in accordance with SBA policies.

Exhibit II

CFO Response to Draft Audit Report on FY 2015 Financial Statements

DATE: November 16, 2015

TO: Troy Meyer, Assistant Inspector General for Auditing

FROM: Tami Perriello, Associate Administrator for Performance Management and Chief Financial Officer

SUBJECT: Draft Audit Report on FY 2015 Financial Statements

The Small Business Administration has received the draft Independent Auditors' Report from KPMG that includes the auditors' opinion on the financial statements and its review of the Agency's internal control over financial reporting and compliance with laws and regulations. The independent audit of the Agency's financial statements and related processes is a core component of SBA's financial management program.

We are pleased that the SBA has again received an unmodified audit opinion with no material weaknesses from the independent auditor. We believe these results accurately reflect the quality of the Agency's financial statements and our improved accounting, budgeting and reporting processes. As you know, the SBA has worked hard in past years to address the findings from our independent auditor. Our core financial reporting data and processes have further improved, and we are proud that the results of our efforts have been confirmed.

The audit report includes a continuing significant deficiency in SBA's information technology controls. The SBA will continue to work on improvements in IT security, specifically in access controls, change controls and mitigation of vulnerabilities.

The auditor reported again this year that the SBA is not compliant with the Debt Collection Improvement Act of 1996 related to timely referral of charged-off loans to the Department of the Treasury for its tax refund offset and collection programs. Although the SBA made improvements to correct systemic errors identified last year, the auditors again found instances of charged-off loans where co-borrowers and guarantors were not referred to Treasury. The SBA is working on procedures to correct this issue.

The auditor reported that a potential violation of the Antideficiency Act was identified during the year. The SBA has taken appropriate steps to correct the problem identified and is in the process of preparing the reports required under the Act.

We appreciate your efforts and those of your colleagues in the Office of the Inspector General, as well as those of KPMG. The independent audit process continues to provide us with new insights and valuable recommendations that will further enhance SBA's financial management practices. We remain committed to excellence in financial management and look forward to making more progress in the coming year.

FINANCIAL STATEMENTS AND NOTES

The U.S. Small Business Administration prepares its financial statements as a critical aspect of ensuring accountability and stewardship for the public resources entrusted to the SBA. Preparation of these statements is also an important part of SBA's financial management goal of providing accurate and reliable information that may be used to assess performance and allocate resources.

SBA's management is responsible for the accuracy and propriety of the information contained in the principal financial statements and the quality of internal controls. The SBA prepares these financial statements from its books and records in accordance with generally accepted accounting principles in the United States as well as formats prescribed by the Office of Management and Budget. While these statements have been prepared from SBA's books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, they are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity.

The financial statements include the following reports.

The **Consolidated Balance Sheet** summarizes the assets, liabilities and net position by major category as of the reporting date. Intragovernmental assets and liabilities resulting from transactions between federal agencies are presented separately from assets and liabilities resulting from transactions with the public.

The **Consolidated Statement of Net Cost** shows, by strategic goal, the net cost of operations for the reporting period. Net cost of operations consists of full program costs incurred by the SBA less the exchange revenues earned by those programs.

The **Consolidated Statement of Changes in Net Position** presents SBA's beginning and ending net position by two components - Cumulative Results of Operations and Unexpended Appropriations. It summarizes the change in net position by major transaction category. The ending balances of both components of net position are also reported on the Balance Sheet.

The **Combined Statement of Budgetary Resources** provides information about funding and availability of budgetary resources, and the status of those resources at the end of the reporting period. Data on the Combined Statement of Budgetary Resources is consistent with information reflected on the Report on Budget Execution and Budgetary Resources (SF 133), with the one exception of offsetting receipts. Offsetting receipts offset budget authority and outlays at the agency level in the Budget of the United States Government, but are not reflected in the SF 133. The SBA includes offsetting receipts in this statement for the purpose of reconciling outlay information presented in the Budget of the United States Government.

The **Notes to the Financial Statements** provide information to explain the basis of the accounting and presentation used to prepare the statements and to explain specific items in the statements. They also provide information to support how particular accounts have been valued and computed.

The **Required Supplementary Information** presents a Combining Statement of Budgetary Resources report by principal functional area.

The **Required Supplementary Stewardship Information** provides information on SBA's investment in human capital that supports the increase or maintenance of national economic productivity capacity through education and training programs.

U. S. Small Business Administration

Consolidated Balance Sheet

as of September 30, 2015 and 2014

(Dollars in Thousands)

	2015	2014
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	$ 5,365,418	$ 6,110,111
Accounts Receivable (Note 5)	30	–
Advances (Note 1)	46,166	28,173
Total Intragovernmental Assets	5,411,614	6,138,284
Assets - Public and Other		
Cash (Note 3)	1,164	1,264
Accounts Receivable, Net (Note 5)	98,206	83,816
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	6,502,745	6,946,903
General Property and Equipment, Net (Note 7)	2,562	4,729
Advances (Note 1)	4,576	9,255
Total Assets - Public and Other	6,609,253	7,045,967
Total Assets	**$ 12,020,867**	**$ 13,184,251**
LIABILITIES		
Intragovernmental Liabilities		
Interest Payable	$ 620	$ 864
Debt (Note 9)	7,175,344	7,756,100
Net Assets of Liquidating Funds Due to Treasury (Note 10)	13,818	10,140
Downward Reestimate Payable to Treasury (Note 1, Note 13)	1,600,653	1,637,283
Other (Note 11)	10,147	9,984
Total Intragovernmental Liabilities	8,800,582	9,414,371
Other Liabilities - Public		
Accounts Payable (Note 1)	33,540	47,707
Accrued Grant Liability (Note 1)	76,000	77,000
Liability for Loan Guaranties (Note 6)	1,661,516	2,044,509
Federal Employees' Compensation Act Actuarial Liability (Note 1, Note 8)	31,691	34,627
Surety Bond Guarantee Program Future Claims (Note 8)	43,679	35,799
Other (Note 11)	35,829	41,790
Total Other Liabilities - Public	1,882,255	2,281,432
Total Liabilities	**10,682,837**	**11,695,803**
NET POSITION		
Unexpended Appropriations (Note 1)	1,600,847	1,692,804
Cumulative Results of Operations (Note 1)	(262,817)	(204,356)
Total Net Position	**1,338,030**	**1,488,448**
Total Liabilities and Net Position	**$ 12,020,867**	**$ 13,184,251**

The accompanying notes are an integral part of these statements.

U. S. Small Business Administration

Consolidated Statement of Net Cost

For the Years Ended September 30, 2015 and 2014

(Dollars in Thousands)

	2015	2014
STRATEGIC GOAL 1: Growing Businesses and Creating Jobs		
Gross Cost	$ (365,676)	$ (107,258)
Less: Earned Revenue	463,824	511,728
Net Cost of Strategic Goal 1	**(829,500)**	**(618,986)**
STRATEGIC GOAL 2: Serving as the Voice for Small Business		
Gross Cost	109,638	109,488
Net Cost of Strategic Goal 2	**109,638**	**109,488**
STRATEGIC GOAL 3: Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses		
Gross Cost	40,427	25,830
Net Cost of Strategic Goal 3	**40,427**	**25,830**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost	34,845	17,274
Net Cost Not Assigned to Strategic Goals	**34,845**	**17,274**
Net Cost of Operations	**$ (644,590)**	**$ (466,394)**

Note 14

The accompanying notes are an integral part of these statements.

U. S. Small Business Administration

Consolidated Statement of Changes in Net Position

For the Years Ended September 30, 2015 and 2014

(Dollars in Thousands)

	2015	2014
Beginning Cumulative Results of Operations	$ **(204,356)**	$ **(369,882)**
Budgetary Financing Sources		
Appropriations Used	1,122,290	1,325,564
Donations of Cash and Cash Equivalents	66	40
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others	16,050	21,893
Other - Current Year Liquidating Equity Activity	(12,736)	(3,218)
Other - Non-entity Activity	(1,828,721)	(1,645,147)
Total Financing Sources	**(703,051)**	**(300,868)**
Less: Net Cost of Operations	**(644,590)**	**(466,394)**
Ending Cumulative Results of Operations	**$ (262,817)**	**$ (204,356)**
Beginning Unexpended Appropriations	**$ 1,692,804**	**$ 1,753,736**
Budgetary Financing Sources		
Appropriations Received	1,150,247	1,278,241
Adjustment - Cancelled Authority	(116,492)	(9,434)
Return of Unrequired Liquidating Fund Appropriation	(2,965)	(3,534)
Other Adjustments	(457)	(641)
Appropriations Used	(1,122,290)	(1,325,564)
Total Budgetary Financing Sources	**(91,957)**	**(60,932)**
Ending Unexpended Appropriations	**$ 1,600,847**	**$ 1,692,804**
Ending Net Position	**$ 1,338,030**	**$ 1,488,448**

The accompanying notes are an integral part of these statements.

U. S. Small Business Administration

Combined Statement of Budgetary Resources

For the Years Ended September 30, 2015 and 2014

(Dollars in Thousands)

	September 30, 2015		
	Budgetary	**Nonbudgetary Financing**	**Total**
BUDGETARY RESOURCES			
Unobligated Balance Brought Forward, October 1	$ 1,363,051	$ 4,349,196	$ 5,712,247
Recoveries of Prior Year Obligations	49,028	43,253	92,281
Other Changes in Unobligated Balance	(116,492)	(750)	(117,242)
Unobligated Balance from Prior Year Budget Authority, net	1,295,587	4,391,699	5,687,286
Appropriations (discretionary and mandatory)	1,147,282	–	1,147,282
Borrowing Authority (discretionary and mandatory)	–	550,948	550,948
Spending Authority from Offsetting Collections	378,825	2,532,447	2,911,272
Total Budgetary Resources	**$ 2,821,694**	**$ 7,475,094**	**$ 10,296,788**
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred	$ 1,535,235	$ 3,782,888	$ 5,318,123
Unobligated Balance, end of year:			
Apportioned	390,580	1,081,724	1,472,304
Unapportioned	895,879	2,610,482	3,506,361
Total Unobligated Balance, end of year	1,286,459	3,692,206	4,978,665
Total Status of Budgetary Resources	**$ 2,821,694**	**$ 7,475,094**	**$ 10,296,788**
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid Obligations, Brought Forward, October 1	$ 485,198	$ 245,561	$ 730,759
Obligations Incurred	1,535,235	3,782,888	5,318,123
Gross Outlays	(1,513,945)	(3,784,215)	(5,298,160)
Recoveries of Prior Year Unpaid Obligations	(49,028)	(43,253)	(92,281)
Unpaid Obligations, end of year	457,460	200,981	658,441
Uncollected Payments:			
Uncollected Payments, Federal Sources, brought forward, October 1	–	(143,009)	(143,009)
Change in Uncollected Payments, Federal Sources	–	47,834	47,834
Uncollected Payments, Federal Sources, end of year	–	(95,175)	(95,175)
Memorandum (non-add) entries:			
Obligated Balance, start of year	**$ 485,198**	**$ 102,552**	**$ 587,750**
Obligated Balance, end of year	**$ 457,460**	**$ 105,806**	**$ 563,266**
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget Authority, gross (discretionary and mandatory)	$ 1,526,107	$ 3,083,395	$ 4,609,502
Actual Offsetting Collections (discretionary and mandatory)	(388,340)	(3,725,160)	(4,113,500)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	47,834	47,834
Budget Authority, net (discretionary and mandatory)	**$ 1,137,767**	**$ (593,931)**	**$ 543,836**
Gross Outlays (discretionary and mandatory)	$ 1,513,945	$ 3,784,215	$ 5,298,160
Actual Offsetting Collections (discretionary and mandatory)	(388,340)	(3,725,160)	(4,113,500)
Net Outlays (discretionary and mandatory)	1,125,605	59,055	1,184,660
Distributed Offsetting Receipts	(6,364)	(1,865,351)	(1,871,715)
Agency Outlays, net (discretionary and mandatory)	**$ 1,119,241**	**$ (1,806,296)**	**$ (687,055)**

Note 15

The accompanying notes are an integral part of these statements.

U. S. Small Business Administration

Combined Statement of Budgetary Resources

For the Years Ended September 30, 2015 and 2014

(Dollars in Thousands)

	September 30, 2014		
	Budgetary	**Nonbudgetary Financing**	**Total**
BUDGETARY RESOURCES			
Unobligated Balance Brought Forward, October 1	$ 1,297,199	$ 4,136,787	$ 5,433,986
Recoveries of Prior Year Obligations	105,039	317,098	422,137
Other Changes in Unobligated Balance	(34,053)	(965,794)	(999,847)
Unobligated Balance from Prior Year Budget Authority, net	1,368,185	3,488,091	4,856,276
Appropriations (discretionary and mandatory)	1,274,707	–	1,274,707
Borrowing Authority (discretionary and mandatory)	–	762,945	762,945
Spending Authority from Offsetting Collections	381,357	3,551,374	3,932,731
Total Budgetary Resources	**$ 3,024,249**	**$ 7,802,410**	**$ 10,826,659**
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred	$ 1,661,198	$ 3,453,214	$ 5,114,412
Unobligated Balance, end of year:			
Apportioned	398,548	1,586,238	1,984,786
Unapportioned	964,503	2,762,958	3,727,461
Total Unobligated Balance, end of year	1,363,051	4,349,196	5,712,247
Total Status of Budgetary Resources	**$ 3,024,249**	**$ 7,802,410**	**$ 10,826,659**
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid Obligations, Brought Forward, October 1	$ 639,951	$ 701,530	$ 1,341,481
Obligations Incurred	1,661,198	3,453,214	5,114,412
Gross Outlays	(1,710,912)	(3,592,085)	(5,302,997)
Recoveries of Prior Year Unpaid Obligations	(105,039)	(317,098)	(422,137)
Unpaid Obligations, end of year	485,198	245,561	730,759
Uncollected Payments:			
Uncollected Payments, Federal Sources, brought forward, October 1	–	(296,519)	(296,519)
Change in Uncollected Payments, Federal Sources	–	153,510	153,510
Uncollected Payments, Federal Sources, end of year	–	(143,009)	(143,009)
Memorandum (non-add) entries:			
Obligated Balance, start of year	**$ 639,951**	**$ 405,011**	**$ 1,044,962**
Obligated Balance, end of year	**$ 485,198**	**$ 102,552**	**$ 587,750**
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget Authority, gross (discretionary and mandatory)	$ 1,656,064	$ 4,314,319	$ 5,970,383
Actual Offsetting Collections (discretionary and mandatory)	(392,155)	(3,923,558)	(4,315,713)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	153,510	153,510
Budget Authority, net (discretionary and mandatory)	**$ 1,263,909**	**$ 544,271**	**$ 1,808,180**
Gross Outlays (discretionary and mandatory)	$ 1,710,912	$ 3,592,085	$ 5,302,997
Actual Offsetting Collections (discretionary and mandatory)	(392,155)	(3,923,558)	(4,315,713)
Net Outlays (discretionary and mandatory)	1,318,757	(331,473)	987,284
Distributed Offsetting Receipts	900	(1,124,055)	(1,123,155)
Agency Outlays, net (discretionary and mandatory)	**$ 1,319,657**	**$ (1,455,528)**	**$ (135,871)**

Note 15

The accompanying notes are an integral part of these statements.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Small Business Act of 1953 created the Small Business Administration as an independent federal agency. SBA's mission is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters. The SBA operates through the execution of a congressionally approved budget that funds its programs.

Basis of Accounting and Presentation

The SBA prepares financial statements to report its financial position and results of its operations as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The financial statements are prepared from the Agency's records in accordance with generally accepted accounting principles using formats prescribed by the Office of Management and Budget. As a federal agency, the SBA cannot incur obligations without authority from the Congress and an apportionment by the OMB.

These financial statements reflect transactions recorded on both a proprietary accrual accounting basis and a budgetary obligation basis, in accordance with concepts and guidance provided by the OMB, the Federal Accounting Standards Advisory Board, and the Department of the Treasury. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting recognizes the legal commitment or obligation of funds in advance of the proprietary accruals and facilitates compliance with legal constraints and controls over the use of federal funds.

The Federal Credit Reform Act of 1990 governs SBA's accounting for direct loans and loan guaranties made in FY 1992 and thereafter. Under the FCRA, the liability for loan guaranties is determined as the summarized discounted present value of the estimated future net cash inflows and outflows for each fiscal year's cohort of guaranties. For direct loans, the allowance is the current outstanding FCRA loans receivable balance less the discounted present value of the estimated future net cash flows for all the loan cohorts. A cohort of loans receivable or guarantied loans is all of the loans made in a given fiscal year. Increases to individual loans in a cohort that are made in a subsequent fiscal year are accounted for in the subsequent year's loan cohort. Cohort cash flows include loan repayments, recoveries on defaulted guaranties, and loan fees received by the SBA that are due from the lenders and borrowers when the loan is made and during the life of the loan cohort, as well as expenditures by the SBA for defaulted guaranties, loan servicing expenses, and other required SBA expenditures. An initial allowance or liability for loan guaranties is established in the original year of the loan cohort. The initial amount of the allowance and liability for each cohort is reestimated annually at fiscal year-end, and the adjusted amount is included in SBA's annual financial statements. Note 6 further describes FCRA accounting.

Use of Estimates

SBA's management makes assumptions and uses estimates to prepare the financial statements based upon the facts that exist when the statements are prepared. The SBA also uses economic assumptions provided by the Office of Management and Budget in preparing the estimates. Actual results may differ from those assumptions and estimates and the differences may be significant. The most significant differences between actual results and these estimates may occur in the valuation of credit program receivables and liabilities for loan guaranties under guidelines in the Federal Credit Reform Act of 1990. The SBA recognizes the sensitivity of credit reform modeling to slight changes in some model assumptions and therefore continually reviews its model factors and statistical modeling techniques to reflect the most accurate credit program costs possible in its annual financial statements.

Budgets and Budgetary Accounting for Loan Programs

SBA's loan disbursements are financed by appropriations for long-term loan subsidy cost and borrowings from the Treasury's Bureau of the Fiscal Service for the remaining non-subsidized portion of the loans. The Congress may provide one year, multi-year or no year appropriations to cover the estimated long-term costs of the loan programs. The non-subsidized portion of each loan disbursement, financed initially under permanent indefinite authority to borrow funds from the Treasury, is repaid from collections of loan fees, repayments and default recoveries. The Congress authorizes the dollar amount of obligations that can be made for the cost of direct loans and loan guaranties and establishes the maximum amount of loans the SBA can guarantee in its annual appropriation bill.

A permanent indefinite authority is available to fund any reestimated increase of subsidy costs that occurs after the year in which a loan is disbursed. Reestimated reductions of subsidy costs are returned to the Treasury and are unavailable to the SBA. As required by the Federal Credit Reform Act of 1990, the SBA uses budgetary "program accounts" to account for appropriations in its credit programs and nonbudgetary "financing accounts" to account for credit program cash flow. Estimates and reestimates of credit program subsidy expenses are recorded in SBA's program accounts. Financing accounts are used to account for Treasury borrowings, the collection of loan fees, repayments and default recoveries, and the disbursement of loans and loan expenses.

Advances

The SBA has both intragovernmental advances and advances to the public. Intragovernmental advances are to the Interior Business Center of the Department of the Interior for contracting assistance on work not yet performed. Advances to the public represent prepaid grants to counseling and training partners.

Accounts Payable

Accounts Payable are amounts due to public entities that will be liquidated during the next operating cycle. Included in the liability are payables to SBA lenders for their share of loan collections and to vendors for goods and services.

Accrued Grant Liability

Disbursements of grant funds are recognized as expenses at the time of disbursement. However, some grant recipients incur expenditures prior to initiating a request for disbursement based on the nature of the expenditures. The SBA accrues a liability for expenditures incurred by grantees prior to receiving grant funds for the expenditures. The amount to be accrued is determined through an analysis of historic grant expenditures. The Small Business Development Center program and several other grant programs are subject to this treatment.

Contingencies

The SBA is a party in various administrative proceedings, legal actions, environmental suits, and claims brought against the Agency. In the opinion of SBA's management and legal counsel, the ultimate resolution of these proceedings, actions, suits, and claims will not materially affect the financial position or results of SBA's operations.

Cumulative Results of Operations

The Cumulative Results of Operations, presented on the Balance Sheet and on the Statement of Changes in Net Position, is the accumulated difference between expenses and financing sources since the inception of the Agency. The deficits reported reflect timing differences between the recording of expenses and the recognition of resources. Most of this timing difference results from subsidy reestimates which are funded in the following year.

Unexpended Appropriations

Unexpended Appropriations is the portion of SBA's appropriations received which are either undelivered or unobligated. Delivered orders result in expended appropriations and reduce the total reported as Unexpended Appropriations. Undelivered orders are the amount of orders of goods or services which have not been actually or constructively received.

Other Financing Sources

The Statement of Changes in Net Position contains a line item under Other Financing Sources titled Other - Non-entity Activity. This amount is the offset to non-entity collections to the general fund of the Treasury for downward subsidy reestimates.

Employee Benefits

LEAVE

A liability for employee annual leave is accrued as it is earned and reduced as leave is taken. Each year the balance of accrued annual leave is adjusted to reflect current pay rates as well as forfeited "use or lose" leave. Amounts are reported as unfunded to the extent current or prior year appropriations are not available to fund annual leave earned but not taken. Sick leave and other types of non-vested leave are expensed as taken.

EMPLOYEE HEALTH AND LIFE INSURANCE BENEFITS

SBA employees may choose to participate in the contributory Federal Employees Health Benefits and the Federal Employees Group Life Insurance programs. The SBA matches a portion of the employee contributions to each program. Such matching contributions are recognized as current operating expenses.

EMPLOYEE PENSION BENEFITS

SBA employees participate in either the Civil Service Retirement System or the Federal Employees Retirement System and Social Security. These systems provide benefits upon retirement and in the event of death, disability or other termination of employment and may also provide pre-retirement benefits. They may also include benefits to survivors and their dependents, and they may contain early retirement or other special features. SBA's contributions to both retirement plans, as well as to the government-wide Federal Insurance Contribution Act, administered by the Social Security Administration, are recognized on the Consolidated Statement of Net Cost as current operating expenses.

Federal employee benefits also include the Thrift Savings Plan. For FERS employees the SBA matches employee contributions to the plan, subject to limitations. The matching contributions are recognized as current operating expenses.

IMPUTED FINANCING COSTS

The SBA recognizes the full cost of providing all employee benefits and future retirement benefits, including life and health insurance, at the time employee services are rendered. Eligible retired SBA employees can continue to participate in health and life insurance plans. The cost of these benefits is funded through Agency contributions, employee compensation to the extent withheld from employee and retiree pay, from matching of employee withholding for Thrift Savings Plan and FICA, and by the Office of Personnel Management which administers the retirement programs for SBA employees.

The OPM calculates imputed costs as the actuarial present value of future benefits attributed to services rendered by covered employees and eligible retired SBA employees during the accounting period, net of the amounts contributed by employees, retirees, and the Agency. The SBA recognizes these imputed costs in the Statement of Net Cost and imputed financing in determining SBA's net position.

FEDERAL EMPLOYEES' COMPENSATION ACT

The Federal Employees' Compensation Act provides income and medical cost protection to covered federal civilian employees injured on the job and to beneficiaries of employees whose deaths are attributable to job-related injury or disease. The FECA program is administered by the Department of Labor. Labor pays valid claims as they occur, which are billed to the SBA annually and funded and paid approximately 15 months later. Labor also calculates an estimated actuarial liability for future benefits based upon historical experience and other economic variables. Projected annual benefit payments are then discounted to present value using the forecasted interest rates for 10-year Treasury notes and bonds published by the OMB in its economic assumptions for the federal budget. The SBA recognizes a current unfunded cost for the actual claims paid and the change in the FECA actuarial liability each year.

NOTE 2 FUND BALANCE WITH TREASURY

The Department of the Treasury processes cash receipts and disbursements on SBA's behalf to pay liabilities and finance loan program costs. Cash receipts are deposited into SBA's account at the Treasury. SBA's fund balances with the Treasury are available to make expenditures to liquidate allowable obligations, except for the Non-entity Fund Balance which is not available to the SBA to obligate or expend. Separate records are maintained for SBA's program, financing, liquidating, suspense/budget clearing accounts and other accounts. Fund balances at the Treasury include expired year amounts, which are unavailable for obligation, as well as amounts currently available for new obligations.

(Dollars in Thousands)

As of September 30,		**2015**		**2014**
Appropriated Funds	$	$1,657,534	$	1,766,183
Financing Funds		3,621,114		4,260,921
Liquidating Funds		918		1,124
Revolving Fund		85,257		80,779
Trust Fund		209		162
Total Entity Fund Balance with Treasury		**5,365,032**		**6,109,169**
Budget Clearing Account Balance		386		942
Total Fund Balance with Treasury	**$**	**$5,365,418**	**$**	**6,110,111**
Status of Fund Balance with Treasury				
Unobligated Balance Available	$	$1,472,304	$	1,984,786
Unobligated Balance Unavailable		3,506,361		3,727,461
Obligated Balance Not Yet Disbursed		563,266		587,750
Borrowing Authority Not Converted to Funds		(176,899)		(190,828)
Nonbudgetary		386		942
Total Fund Balance with Treasury	**$**	**$5,365,418**	**$**	**6,110,111**

Unobligated balances become available when OMB approves SBA's request to apportion funds for obligation in the current fiscal year. Obligated balances not yet disbursed include unpaid obligations offset by uncollected customer payments from other federal government accounts. The unobligated and obligated balances are reflected on the Statement of Budgetary Resources.

NOTE 3 CASH

SBA field offices deposit collections from borrowers in SBA's account at the Treasury using an electronic deposit system. At the end of the fiscal year, collections temporarily held by SBA field offices pending deposit are recorded as Undeposited Collections - Cash in Transit and totaled $1.2 million and $1.3 million at September 30, 2015 and 2014.

NOTE 4 FIDUCIARY ACTIVITIES: MASTER RESERVE FUND AND MASTER RESERVE ACCOUNT

Fiduciary activities are the receipt, management, protection, accounting, investment and disposition by the federal government of cash or other assets in which non-federal entities have an ownership interest that the federal government must uphold. Fiduciary cash and other assets are not assets of the government, and are not recognized on SBA's proprietary statements, but they are required to be disclosed in the notes to SBA's financial statements. SBA's fiduciary balances are on deposit in commercial banks.

The Master Reserve Fund is a fiduciary activity administered by SBA's fiscal agent, Colson Services Corp., a subsidiary of the Bank of New York Mellon. The balance in the MRF is invested according to SBA policy entirely in Treasury securities and repurchase agreements that are backed by Treasury securities. The MRF is an integral part of SBA's 7(a) secondary market program. The MRF was authorized by the Small Business Secondary Market Improvement Act of 1984 to facilitate the pooling of 7(a) guarantied loans that are purchased by secondary market investors. The 7(a) secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 7(a) secondary market investors. The MRF supports $25.2 billion and $22.5 billion of outstanding SBA guarantied 7(a) loan principal in the secondary market at September 30, 2015 and 2014.

The Master Reserve Account is an SBA fiduciary activity that is administered for the SBA by Wells Fargo. The balance in the MRA is invested entirely in Treasury securities. The MRA facilitates the operation of the 504 Development Company secondary market program. The MRA was authorized by Section 505 of the Small Business Investment Act of 1958 as amended, as a vehicle to receive, temporarily hold and distribute 504 program cash flows. The MRA receives monthly payments from the 504 borrowers and retains the payments until a semi-annual debenture payment is due to the secondary market investors. The 504 secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 504 secondary market investors. The MRA supports $27.7 billion and $28.4 billion of SBA guarantied 504 debentures outstanding in the secondary market at September 30, 2015 and 2014.

The composition of the MRF and MRA and a reconciliationof the changes in the assets are included in the following table.

MASTER RESERVE FUND AND MASTER RESERVE ACCOUNT

(Dollars in Thousands)

FIDUCIARY ASSETS

As of September 30,	2015			2014		
	MRF	MRA	Total	MRF	MRA	Total
Cash	$ 2,338	$ –	$ 2,338	$ 44,994	$ –	$ 44,994
Short Term Securities						
Money Market Funds	5,866	722,814	728,680	76,758	636,789	713,547
Treasury Bills	719,705	–	719,705	404,924	–	404,924
Repurchase Agreements	201,800	–	201,800	223,892	–	223,892
Total Cash and Short Term Securities	**929,709**	**722,814**	**1,652,523**	**750,568**	**636,789**	**1,387,357**
Long Term Securities						
Treasury Notes Including Interest	2,235,855	–	2,235,855	2,113,153	–	2,113,153
Total Long Term Securities	**2,235,855**	**–**	**2,235,855**	**2,113,153**	**–**	**2,113,153**
Net Assets	**$ 3,165,564**	**$ 722,814**	**$ 3,888,378**	**$ 2,863,721**	**$ 636,789**	**$ 3,500,510**

MASTER RESERVE FUND AND MASTER RESERVE ACCOUNT

(Dollars in Thousands)

RECONCILIATION OF FIDUCIARY ASSETS

For the Years Ended September 30,	2015			2014		
	MRF	**MRA**	**Total**	**MRF**	**MRA**	**Total**
Beginning Net Assets	**$ 2,863,721**	**$ 636,789**	**$ 3,500,510**	**$ 2,668,828**	**$ 700,760**	**$ 3,369,588**
Receipts						
Earned Income	30,661	98	30,759	33,616	106	33,722
Contributions	5,024,260	16,627,797	21,652,057	4,011,870	13,483,031	17,494,901
Net Realized Gain (Loss)	(3,435)	–	(3,435)	(4,239)	–	(4,239)
Total Receipts	**5,051,486**	**16,627,895**	**21,679,381**	**4,041,247**	**13,483,137**	**17,524,384**
Less Disbursements						
Payments to Investors	4,749,643	16,541,870	21,291,513	3,846,354	13,547,108	17,393,462
Total Disbursements	**4,749,643**	**16,541,870**	**21,291,513**	**3,846,354**	**13,547,108**	**17,393,462**
Ending Net Assets	**$ 3,165,564**	**$ 722,814**	**$ 3,888,378**	**$ 2,863,721**	**$ 636,789**	**$ 3,500,510**

NOTE 5 ACCOUNTS RECEIVABLE

Accounts receivable include amounts owed by the public for guaranty fees in SBA's loan and surety bond programs, refunds due from employees and others, as well as other amounts owed by lenders on guarantied loans purchased by the SBA. An Allowance for Loss on uncollectible Surety Bond Guaranty fees is based on an aging of delinquent balances. The uncollectible amount for refunds and loan guaranty fees is not significant and no allowance is provided. Amounts over 180 days past due on guarantied loans purchased by the SBA are written off for financial reporting purposes.

(Dollars in Thousands)

As of September 30,	2015	2014
Intragovernmental		
Administrative Receivables	$ 30	$ –
Total Intragovernmental	**$ 30**	**$ –**
Public		
Guaranty Fees Receivable	$ 92,221	$ 77,510
Refunds	545	437
Other	5,493	5,899
Total Public	**98,259**	**83,846**
Allowance For Loss	(53)	(30)
Net Public	**$ 98,206**	**$ 83,816**

NOTE 6 CREDIT PROGRAM RECEIVABLES AND LIABILITY FOR LOAN GUARANTIES

A. Loan Program Descriptions and Accounting

LOAN PROGRAM DESCRIPTIONS

The SBA provides guaranties that help small businesses obtain bank loans and licensed companies to make investments in qualifying small businesses. The SBA also makes loans to microloan intermediaries and provides a direct loan program that assists homeowners, renters and businesses to recover from disasters.

MAJOR DIRECT LOAN AND LOAN GUARANTY PROGRAMS

Program group	Program type	Program
Disaster	Direct	Disaster Assistance Loans
Business	Guarantied	7(a) Loan Guaranty
Business	Guarantied	504 Certified Development Company
Business	Guarantied	Small Business Investment Company Debentures
Business	Direct	7(m) Microloan

SBA's Disaster Assistance Loan program makes direct loans to disaster victims under four categories: (1) loans for homes and personal property; (2) physical disaster loans to businesses of any size; (3) economic injury loans to small businesses without credit available elsewhere; and (4) economic injury loans to eligible businesses affected by essential employees called up to active duty in the military reserves. The maximum interest rate is 4 percent for loan applicants without credit available elsewhere and 8 percent for applicants with credit available elsewhere.

SBA's business loan programs include its flagship 7(a) Loan Guaranty program in which the SBA guarantees up to 90 percent of the principal amount of loans made by banks and other lending institutions to small businesses not able to obtain credit elsewhere.

The Section 504 Certified Development Company program guarantees 100 percent of the principal and interest payments on debentures issued by development companies that make small business loans secured primarily by real estate.

The Small Business Investment Company Debentures program guarantees principal and interest payments on securities issued by investment capital firms, which in turn make investments in small businesses.

The 7(m) Microloan program provides direct loans to nonprofit intermediaries, which use these funds to make loans up to $50,000 to eligible small businesses.

CREDIT SUBSIDY MODELING

The SBA estimates future cash flows for direct and guarantied loans using economic and financial credit subsidy models. These estimated cash flows are used to develop the subsidy funding required under the Federal Credit Reform Act of 1990. The SBA has developed a customized credit subsidy model for each of its major loan guaranty programs.

SBA's models vary in the specific methodologies employed to forecast future program cash flows. In general, however, models for all major credit programs use historical data as the basis for assumptions about future program performance and then translate these assumptions into nominal cash flow estimates by applying rules about program structure. Nominal cash flow forecasts are discounted using the Office of Management and Budget's Credit Subsidy Calculator that has both forecasted and actual Treasury interest rates.

Historical data is used as the basis for program performance assumptions. The historical data undergoes quality review and analysis prior to its use in developing model assumptions.

Key input to the subsidy models varies by program. Input includes items such as:

- Contractual terms of the loan or guaranty such as loan amount, interest rate, maturity, and grace period
- Borrower characteristics
- Loan origination methods
- Economic indicators such as gross domestic product growth and unemployment rate
- Loan performance assumptions, for example: conditional purchase and prepayment rates, and recovery rates
- Loan fee rates

SUBSIDY FUNDING UNDER THE FEDERAL CREDIT REFORM ACT

FCRA requires that the credit subsidy costs of direct loans and loan guaranties be expensed in the year loans are disbursed. The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guarantied loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The cost expressed as a percentage of loans disbursed is termed the subsidy rate. The SBA receives appropriations annually to fund its credit programs based on the subsidy rate that applies to the credit program level approved by Congress. The SBA records subsidy expenses when loans are disbursed. In accordance with FCRA, subsidy costs are reestimated annually.

CREDIT PROGRAM RECEIVABLES AND RELATED FORECLOSED PROPERTY, NET

FCRA governs direct loans made after FY 1991. FCRA direct loans are valued at the present value of expected future cash flows, discounted at the interest rate of marketable Treasury securities. The subsidy allowance represents the difference between the outstanding loans receivable balance and the net present value of the estimated cash flows of the loans over their remaining term. The subsidy allowance is subtracted from the outstanding loans receivable balance to obtain the net loans receivable balance.

Guarantied loans purchased by the SBA upon borrower default are established as loans receivable and are valued in a similar manner as direct loans under FCRA.

Direct loans and defaulted guaranties made prior to FCRA are valued at the current receivable balance net of an allowance for uncollectible amounts calculated using historical loss experience.

The SBA advances payments semiannually to honor SBA's timely payment requirement of principal and interest due for debentures in SBA's Section 504 Certified Development Company and Small Business Investment Company programs. The advances are liquidated by receipt of the payments due from borrowers in these programs. Advance balances are reported as Other Loans Receivable.

Interest receivable is comprised of accrued interest on loans receivable and purchased interest related to defaulted guarantied loans. Interest income is accrued at the contractual rate on the outstanding principal amount and is reduced by the amount of interest income accrued on non-performing loans in excess of 90 days delinquent. Purchased interest is carried at cost. A 100 percent loss allowance is established for all purchased interest on non-performing loans.

Foreclosed property is comprised of real and business-related and personal property acquired through foreclosure on direct loans and defaulted loan guaranties. Properties acquired as a result of defaulted loans committed after FY 1991 are shown at recoverable value which is adjusted to the present value of expected future cash flows for financial statement presentation through the allowance for subsidy. Other foreclosed property is shown at the appraised value. At September 30, 2015 SBA's foreclosed property was $30.4 million related to 87 loans. The properties had been held for an average of 1,106 days. At September 30, 2014 foreclosed property was $43.0 million related to 93 loans. The properties had been held for an average of 860 days.

VALUATION METHODOLOGY FOR THE LIABILITY FOR LOAN GUARANTIES UNDER FCRA

FCRA also governs loan guaranties made after FY 1991. A liability for outstanding guaranties is included on SBA's Balance Sheet. The liability for guarantied loans committed after FY 1991 is based on the net present value of their expected future cash flows including guaranty fee inflows and the net cash outflows of defaulted guarantied loans purchased by SBA.

VALUATION METHODOLOGY FOR PRE-FCRA LIABILITY FOR LOAN GUARANTIES

The SBA values pre-credit reform direct and defaulted guarantied loans by estimating an allowance for loan losses. This allowance is offset against gross loan receivables to obtain SBA's expected net collections from these assets. The SBA establishes a 100 percent allowance for pre-credit reform direct and guarantied loans that are past due more than 180 days. A liability is also established for active pre-credit reform loan guaranties. The liability is estimated based on historical experience.

B. Credit Program Receivables and Related Foreclosed Property, Net

(Dollars in Thousands)

As of September 30, 2015	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ $5,631	$ 167,569	$ 173,200
Interest Receivable	2,277	528	2,805
Foreclosed Property	3,110	–	3,110
Allowance	(6,672)	(11,562)	(18,234)
Total Direct Business Loans	**4,346**	**156,535**	**160,881**
Direct Disaster Loans			
Disaster Loans Receivable	2,907	6,314,459	6,317,366
Interest Receivable	145	32,947	33,092
Foreclosed Property	–	1,601	1,601
Allowance	(555)	(1,087,238)	(1,087,793)
Total Direct Disaster Loans	**2,497**	**5,261,769**	**5,264,266**
Defaulted Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied Business Loans	5,634	5,492,503	5,498,137
Other Loans Receivable (see note below)	–	226,571	226,571
Interest Receivable	6,698	73,858	80,556
Foreclosed Property	2,019	23,628	25,647
Allowance	(8,691)	(4,744,622)	(4,753,313)
Total Defaulted Guarantied Business Loans & Other Loans Receivable	**5,660**	**1,071,938**	**1,077,598**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 6,502,745**

As of September 30, 2014	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 5,727	$ 166,658	$ 172,385
Interest Receivable	2,142	683	2,825
Foreclosed Property	3,109	–	3,109
Allowance	(8,268)	(10,253)	(18,521)
Total Direct Business Loans	**2,710**	**157,088**	**159,798**
Direct Disaster Loans			
Disaster Loans Receivable	3,707	6,761,361	6,765,068
Interest Receivable	140	33,462	33,602
Foreclosed Property	–	2,409	2,409
Allowance	(548)	(1,230,152)	(1,230,700)
Total Direct Disaster Loans	**3,299**	**5,567,080**	**5,570,379**
Defaulted Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied Business Loans	8,436	6,984,380	6,992,816
Other Loans Receivable (see note below)	–	284,795	284,795
Interest Receivable	656	73,688	74,344
Foreclosed Property	2,070	35,381	37,451
Allowance	(8,407)	(6,164,273)	(6,172,680)
Total Defaulted Guarantied Business Loans & Other Loans Receivable	**2,755**	**1,213,971**	**1,216,726**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 6,946,903**

Note: Other Loans Receivable includes payments advanced by the SBA against future reimbursements in the SBIC and 504 guaranty programs.

C. Loans Disbursed and Outstanding Loan Obligations

(Dollars in Thousands)

DIRECT LOANS

New Loans Disbursed During the Year Ended September 30,	2015	2014
Business Direct Loan Program	$ 25,917	$ 36,410
Disaster Loan Program	294,066	438,375
Total Direct Loans Disbursed	**$ 319,983**	**$ 474,785**

Outstanding Loan Obligations as of September 30,	2015	2014
Business Direct Loan Program	$ 43,991	$ 40,669
Disaster Loan Program	116,667	156,158
Total Direct Loan Obligations	**$ 160,658**	**$ 196,827**

GUARANTIED LOANS

New Loans Disbursed During the Year Ended September 30,	2015	2014
Total Principal Disbursed at Face Value	$ 24,933,967	$ 22,453,725
Total Principal Disbursed Guarantied by the SBA	19,775,428	18,001,119

Outstanding Loan Obligations as of September 30,	2015	2014
Business Guarantied Loan Programs	$ 16,070,177	$ 14,548,472

Loans Outstanding as of September 30,	2015	2014
Total Principal Outstanding at Face Value	$ 105,662,573	$ 99,013,624
Total Principal Outstanding Guarantied by the SBA	88,337,969	83,505,973

SBA's guarantied loan servicing agent provides data to the SBA on the unpaid principal balance of guarantied loans within a precision of less than 1 percent due to timing.

D. Subsidy Cost Allowance Balances

(Dollars in Thousands)

For the Years Ended September 30,	2015	2014
Post-1991 Business Direct and Purchased Guarantied Loans		
Beginning Balance of Allowance Account	**$ 6,174,526**	**$ 6,662,139**
Current Year's Subsidy (see 6G for breakdown by component)	4,068	6,557
Loans Written Off	(2,110,027)	(1,446,655)
Subsidy Amortization	(2,207)	(2,343)
Allowance Related to Guarantied Loans Purchased This Year	404,131	820,625
Miscellaneous Recoveries and Costs	286,654	140,817
Balance of Subsidy Allowance Account before Reestimates	4,757,145	6,181,140
Technical Assumptions/Default Reestimates	(961)	(6,614)
Ending Balance of Allowance Account	**$ 4,756,184**	**$ 6,174,526**
Post-1991 Disaster Direct Loans		
Beginning Balance of Allowance Account	**$ 1,230,152**	**$ 1,345,560**
Current Year's Subsidy (see 6G for breakdown by component)	33,908	44,394
Loans Written Off	(118,547)	(208,657)
Subsidy Amortization	(6,621)	(12,096)
Miscellaneous Recoveries and Costs	66,110	54,388
Balance of Subsidy Allowance Account before Reestimates	1,205,002	1,223,589
Technical Assumptions/Default Reestimates	(117,764)	6,563
Ending Balance of Allowance Account	**$ 1,087,238**	**$ 1,230,152**

E. Liability for Loan Guaranties

(Dollars in Thousands)

For the Years Ended September 30,	2015	2014
Pre-1992 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	**$ 70**	**$ 45**
Adjustment to Expected Losses, Guaranties Outstanding	(56)	25
Ending Balance of Liability for Loan Guaranties	**14**	**70**
Post-1991 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	**2,044,439**	**2,987,218**
Current Year's Subsidy (see 6G for breakdown by component)	55,102	143,867
Fees	1,219,836	1,099,290
Interest Accumulation Factor	91,231	108,690
Claim Payments to Lenders	(1,126,127)	(1,470,965)
Adjustment Due to Reestimate & Guarantied Loan Purchases	721,995	650,340
Miscellaneous Recoveries and Costs	43,720	(11,765)
Balance of Liability for Loan Guaranties before Reestimates	3,050,196	3,506,675
Technical Assumptions/Default Reestimates	(1,388,694)	(1,462,236)
Ending Balance of Liability for Loan Guaranties	**1,661,502**	**2,044,439**
Total Ending Balance of Liability for Loan Guaranties	**$ 1,661,516**	**$ 2,044,509**

F. FY 2015 Subsidy Rates by Program and Component

LOAN PROGRAM	Total Subsidy	Financing	Default	Other	Fee
Guaranty					
7(a)	**0.00%**	0.00%	4.07%	0.00%	-4.07%
504 CDC	**0.60%**	0.00%	8.65%	0.78%	-8.83%
SBIC Debentures	**0.00%**	0.00%	7.19%	0.09%	-7.28%
Direct					
Disaster	**12.43%**	4.74%	13.12%	-5.43%	0.00%
Microloan	**10.12%**	7.85%	2.36%	-0.09%	0.00%

The subsidy rates in Table F pertain only to loans obligated in the current year. These rates cannot be applied to the loans disbursed during the current year to yield the subsidy expense because loans disbursed during the current year include loans obligated in prior years. Subsidy expenses reported in Table G result from the disbursement of loans obligated in the current year as well as in prior years, and include reestimates.

G. Subsidy Expense by Component

(Dollars in Thousands)

For the Years Ended September 30,		2015		2014
Business Loan Guaranties				
Interest	$	2	$	39
Defaults		509,812		971,685
Fees		(483,888)		(857,676)
Other		29,176		29,819
Subsidy Expense Before Reestimates and Loan Modifications		55,102		143,867
Reestimates		(1,388,694)		(1,462,236)
Total Guarantied Business Loan Subsidy Expense	**$**	**(1,333,592)**	**$**	**(1,318,369)**
Business Direct Loans				
Interest	$	2,126	$	3,227
Defaults		544		758
Other		1,398		2,572
Subsidy Expense Before Reestimates		4,068		6,557
Reestimates		(961)		(6,614)
Total Business Direct Loan Subsidy Expense	**$**	**3,107**	**$**	**(57)**
Disaster Direct Loans				
Interest	$	9,435	$	4,964
Defaults		39,804		61,760
Other		(15,331)		(22,330)
Subsidy Expense Before Reestimates		33,908		44,394
Reestimates		(117,764)		6,563
Total Disaster Direct Loan Subsidy Expense	**$**	**(83,856)**	**$**	**50,957**

H. Administrative Expense

The SBA received appropriations to administer its credit programs, including the making, servicing and liquidation of its loans and guaranties. Amounts expensed in the Statement of Net Cost are:

(Dollars in Thousands)

For the Years Ended September 30,		2015		2014
Disaster Direct Loan Programs	$	172,624	$	177,469
Business Loan Programs		146,778		151,282
Total Administrative Expense	**$**	**319,402**	**$**	**328,751**

I. Credit Program Subsidy Reestimates

Reestimates are performed annually, on a cohort-by-cohort basis. The purpose of reestimates is to update original program cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. Forecasts of future cash flows are updated based on additional information about historical program performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods. Financial statement reestimates were performed using a full year of performance data for FY 2015 for SBA's large loan programs and with nine months of actual and three months of projected performance data for the Secondary Market Guaranty, Microloan, and the small loan programs.

BUSINESS GUARANTIED LOAN PROGRAMS

Net subsidy reestimates for the business guarantied loan programs follows:

(Dollars in Thousands)

For the Years Ended September 30,		2015		2014
7(a)	$	(268,899)	$	(327,206)
7(a) - Recovery Act		46,109		398
7(a) - Jobs Act		(8,605)		(54,904)
Dealer Floor Plan		(450)		(1,866)
504 CDC		(795,992)		(619,688)
504 CDC - Recovery Act		(105,987)		(120,036)
504 CDC - Jobs Act		(25,946)		(33,148)
504 CDC - Debt Refinancing		(72,831)		(87,334)
504 First Mortgage Loan Pooling - Recovery Act		(7,254)		1,726
SBIC Debentures		(154,625)		(53,499)
SBIC Participating Securities		(76,888)		(96,055)
Secondary Market Guaranty Program		84,477		(61,915)
ARC - Recovery Act		(8,877)		(15,131)
All Other Guaranty Loan Programs		7,074		6,422
Total Guarantied Loan Program Subsidy Reestimates	**$**	**(1,388,694)**	**$**	**(1,462,236)**

The 7(a) Loan Guaranty program, SBA's flagship and largest program had a net downward reestimate in FY 2015 of $268.9 million. The reestimate is primarily due to better than expected loan performance in cohorts 2011 through 2015, offsetting worse than expected loan performance in cohorts 2007 through 2010. Strong loan performance was driven by lower than projected purchases in cohorts 2011 through 2014. Of note, FY 2015 loan performance contributed to updated model assumptions, which resulted in decreased recovery projections.

The 7(a) Recovery Act program had a net upward reestimate in FY 2015 of $46.1 million. The reestimate is primarily due to higher than expected purchases in FY 2015. Additionally, FY 2015 loan performance contributed to updated model assumptions, which resulted in decreased recovery projections.

The 7(a) Jobs Act cohort had a net downward reestimate in FY 2015 of $8.6 million. The reestimate is primarily due to lower than projected purchases in FY 2015.

The Dealer Floor Plan program had a net downward reestimate of $0.5 million due to better than projected performance during FY 2015.

The 504 Certified Development Company program had a net downward reestimate of $796.0 million. The reestimate is primarily due to better than projected FY 2015 loan performance across all cohorts. Although some cohorts had higher than expected purchases, these higher than expected losses were offset by higher than expected recoveries. FY 2015 loan performance contributed to updated model assumptions which resulted in decreased purchase and increased recovery rate projections. The remainder of the reestimate was due to decreased loss projections for the 2015 cohort as compared to the original loss projections.

The 504 Recovery Act program had a net downward reestimate of $106.0 million. The reestimate is mostly due to better than projected FY 2015 loan performance. Actual purchases in the 504 Recovery Act program were less than a quarter of the purchases projected for FY 2015.

The 504 Jobs Act program had a net downward reestimate of $25.9 million. The reestimate is mostly due to better than projected FY 2015 loan performance. Actual purchases in the 504 Jobs Act program were less than a fifth of the purchases projected for FY 2015.

The 504 Debt Refinancing program had a net downward reestimate of $72.8 million. The reestimate is mostly due to better than projected FY 2015 loan performance. Actual purchases in the 504 Debt Refinancing program were less than a quarter of the purchases projected for FY 2015.

The Section 504 First Mortgage Loan Pooling program had a net downward reestimate of $7.3 million. Lower than projected purchases in the 2012 cohort offset higher than expected purchases in the 2010 and 2011 cohorts. Additionally, FY 2015 loan performance contributed to updated model assumptions, which resulted in decreased purchase projections.

The SBIC Debentures program had a net downward reestimate of $154.6 million. The primary driver of the reestimate was better than projected loan performance in FY 2015. Actual purchases were less than projected in FY 2015 for the 2004 through 2015 cohorts, while actual recoveries were greater than projected, specifically in the 2003 and 2008 cohorts. Additionally, updated performance expectation of the 2015 cohort contributed to the downward reestimate.

The SBIC Participating Securities program had a net downward reestimate of $76.9 million. The downward reestimate was due to better than expected loan performance in FY 2015, particularly for the 2002 and 2004 cohorts. The main driver of the downward reestimate was higher actual recoveries than projected in FY 2015. The better-than-projected recoveries were partially offset by higher than projected purchases and lower than projected reimbursements of prioritized payments in FY 2015.

The Secondary Market Guaranty program had a net upward reestimate of $84.5 million. This upward reestimate was driven mainly by actual loan terminations being lower than previously projected. Loan terminations accelerate pool payments to investors and reduce SBA's reliance on interest earnings to cover their guarantee of timely payment.

The America's Recovery Capital program had a net downward reestimate of $8.9 million. The majority of this reestimate is due to lower than projected purchases in FY 2015. The remainder of the reestimate is mostly due to lower purchase projections in future years as a result of recent actual loan performance.

BUSINESS DIRECT LOAN PROGRAMS

Net subsidy reestimates for business direct loan programs follows:

(Dollars in Thousands)

For the Years Ended September 30,	2015	2014
7(m) Microloan	$ (542)	$ (3,412)
7(m) Microloan - Recovery Act	1,491	(1,030)
Intermediary Lending Pilot Program	(1,885)	(73)
SBIC Preferred Stock	–	(2,095)
All Other Direct Loan Programs	(25)	(4)
Total Direct Loan Program Subsidy Reestimates	**$ (961)**	**$ (6,614)**

The 7(m) Direct Microloan program had a net downward reestimate of $0.5 million. The downward reestimate is due to better performance expectations for loans disbursed in FY 2015. These better performance expectations are partially offset by a decrease in expected recoveries for the 2006 through 2008 cohorts.

The 7(m) Direct Microloan Recovery Act program had a net upward reestimate of $1.5 million. The upward reestimate is primarily due to an increase in projected defaults and a decrease in projected recoveries in future years for both cohorts.

The Intermediary Lending Pilot program had a net downward reestimate of $1.9 million. The major driver of the downward reestimate is a decrease in SBA's cost of borrowing for the 2011 cohort from 4.11% to 2.51%.

DISASTER DIRECT LOAN PROGRAM

Net subsidy reestimates for the disaster direct loan programs follows:

(Dollars in Thousands)

For the Years Ended September 30,	2015	2014
Disaster	$ (117,764)	$ 6,563
Total Disaster Direct Loan Program Subsidy Reestimates	**$ (117,764)**	**$ 6,563**

The Disaster Assistance program had a net downward reestimate of $117.8 million. All Disaster cohorts (except for the 2014 and 2015 regular cohorts and the 2001 World Trade Center cohort) experienced downward reestimates as a result of better than expected performance in FY 2015 and revised performance assumptions. The 2014 cohort experienced an upward reestimate due to updated present value discount factors applied to projected cash flows. The 2015 cohort experienced an upward reestimate due to the actual average borrower's interest rate being lower than the original projected average borrower's interest rate.

NOTE 7 GENERAL PROPERTY AND EQUIPMENT, NET

The SBA capitalizes equipment with a cost of $50,000 or more per unit and a useful life of 2 years or more at full cost and depreciates using the straight-line method over the useful life. The SBA expenses equipment not meeting the capitalization criteria.

Leasehold improvements with modifications of $50,000 or more and a useful life of 2 years or more are capitalized and amortized using the straight-line method over the useful life of the improvement or the lease term, whichever is shorter. Leasehold improvements not meeting the capitalization criteria are expensed.

Software intended for internal use, whether internally developed, contractor developed or purchased, is capitalized at cost if the unit acquisition cost is $250,000 or more and service life is at least 2 years. Capitalized software costs include all direct and indirect costs incurred, including overhead to develop the software. Software for internal use is amortized using the straight-line method over its useful life, not to exceed 5 years. Amortization begins when the software is put into production. The costs of enhancements are capitalized when it is more likely than not that the enhancements will result in significant additional capabilities. Costs that do not meet the capitalization criteria are expensed when incurred.

Assets meeting the capitalization thresholds are detailed below.

(Dollars in Thousands)

As of September 30,	**2015**	**2014**
Equipment	$ 2,675	$ 2,675
Accumulated Depreciation	(2,663)	(2,491)
Net	**12**	**184**
Leasehold Improvements	1,811	1,811
Amortization of Leasehold Improvements	(1,004)	(853)
Net	**807**	**958**
Software in Use	35,863	35,926
Amortization of Software in Use	(34,120)	(32,339)
Net	**1,743**	**3,587**
Total General Property and Equipment, Net	**$ 2,562**	**$ 4,729**

NOTE 8 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources include contingent liabilities and liabilities for which congressional action is required before budgetary resources can be provided. These unfunded liabilities consisted of:

(Dollars in Thousands)

As of September 30,	**2015**	**2014**
Intragovernmental Liabilities - Other		
Employment Taxes Payable	$ 320	$ 1,536
Federal Employees' Compensation Act Payable	6,403	6,026
Total Intragovernmental Liabilities - Other	**6,723**	**7,562**
Federal Employees' Compensation Act Actuarial Liability	**31,691**	**34,627**
Surety Bond Guarantee Program Future Claims	**43,679**	**35,799**
Other Liabilities		
Prior Liens on Real Estate Payable	59	59
Accrued Unfunded Annual Leave	24,976	26,361
Total Other Liabilities	**25,035**	**26,420**
Total Liabilities Not Covered by Budgetary Resources	**$ 107,128**	**$ 104,408**

The liability for Surety Bond Guarantees is an estimate of future claims in the SBG program for guaranties outstanding at year-end.

NOTE 9 DEBT

Borrowings payable to the Treasury result from loans provided by the Treasury to fund the portion of direct loans not covered by subsidy appropriations and to fund the payment of downward subsidy reestimates and other credit program disbursements (see Note 15). The SBA makes periodic principal repayments to the Treasury based on the analysis of its cash balances and future disbursement needs.

All debt is intragovernmental and covered by budgetary resources. Debt transactions and resulting balances are:

INTRAGOVERNMENTAL DEBT

(Dollars in Thousands)

As of September 30,		**2015**		**2014**
Beginning Balance	**$**	**7,756,100**	**$**	**$8,088,099**
New Borrowing		564,871		852,468
Repayments		(1,145,627)		(1,184,467)
Ending Balance	**$**	**7,175,344**	**$**	**7,756,100**

NOTE 10 NET ASSETS OF LIQUIDATING FUNDS DUE TO TREASURY

Net Assets of Liquidating Funds Due to Treasury is the residual of the book value of assets less liabilities in the Liquidating Funds for loans made prior to FY 1992. The FY 2015 and FY 2014 balances include the transfer of the unobligated balance to Treasury at September 30.

(Dollars in Thousands)

As of September 30,		**2015**		**2014**
Disaster Loan Fund	$	2,497	$	3,297
Business Loan and Investment Fund		11,321		6,843
Total Due Treasury	**$**	**13,818**	**$**	**10,140**

NOTE 11 OTHER LIABILITIES

Other liabilities were:

(Dollars in Thousands)

As of September 30,	2015	2014
OTHER LIABILITIES - INTRAGOVERNMENTAL		
Entity		
Current		
Employment Taxes Payable	$ 2,486	$ 2,084
Advances from Other Agencies	932	332
Total Current	**3,418**	**2,416**
Non-current		
Employment Taxes Payable	320	1,536
Federal Employees' Compensation Act Payable	6,403	6,026
Total Non-current	**6,723**	**7,562**
Total Entity	**10,141**	**9,978**
Non-entity		
Current		
Payable to Treasury	6	6
Total Other Liabilities - Intragovernmental	**$ 10,147**	**$ 9,984**
OTHER LIABILITIES - PUBLIC		
Entity		
Current		
Accrued Funded Payroll and Benefits	$ 9,261	$ 13,778
Accrued Unfunded Annual Leave	24,976	26,361
Contingent Liability	–	464
Other Liabilities	955	
Suspense Accounts	578	1,128
Total Current	**35,770**	**41,731**
Non-current		
Prior Liens on Real Estate Payable	59	59
Total Non-current	**59**	**59**
Total Entity	35,829	41,790
Total Other Liabilities - Public	**$ 35,829**	**$ 41,790**

NOTE 12 LEASES

The SBA leases all of its facilities from the General Services Administration. The SBA enters into an Occupancy Agreement with GSA for each facility. GSA, in turn, leases commercial facilities or provides space in federal buildings. Agreements for space in federal buildings can be vacated with 120 to 180 days notice. However, the SBA anticipates continuing the same or similar facilities leases in the future. These leases with GSA are operating leases and are expensed in the Statement of Net Cost when incurred. FY 2015 and 2014 facilities lease costs were $44.9 million and $45.1 million. Future lease payments shown here assume a 3 percent inflation factor from the following years' projected totals as estimated by GSA, as well as continued costs during the next 5 years as leases expire and new leases are added. Payments after 5 years reflect only current leases that will still be in effect then, projected to the end of each lease term.

FUTURE FACILITIES OPERATING LEASE PAYMENTS

(Dollars in Thousands)

Fiscal Year		Lease Payments
2016	$	44,025
2017		45,345
2018		46,706
2019		48,107
2020		49,550
After 2020		35,435
Total	**$**	**269,168**

NOTE 13 NON-ENTITY REPORTING

Non-entity Assets are assets held by the SBA but not available to the SBA. The primary non-entity asset is for SBA's downward subsidy reestimates in its loan programs. Because the loan programs are discretionary, the downward reestimates are not available to the SBA and they are returned to the Treasury in the fiscal year following the accrual of the re-estimates. During the year, these general fund accounts contain SBA's prior year reestimates. At year-end, the funds are swept by the Treasury. Also at year-end, the SBA accrues the current year's reestimates, including downward reestimates as applicable. For the downward reestimates, in the loan financing funds, the SBA records an accrual adjustment that records a transfer out to the non-entity fund, a reduction of subsidy allowance or loan guaranty liability, and an account payable to the non-entity fund. In the loan program funds the SBA records a reduction of loan subsidy expense and the associated impact on the net cost. The non-entity Treasury general funds contain a corresponding account receivable in anticipation of the receipt of the downward reestimates in the following year and a Downward Reestimate Payable to the Treasury.

For consolidated financial statement presentation, the SBA eliminates the payable to the non-entity fund and the non-entity Treasury general fund receivable from the financing funds, since both are included in SBA's reporting entity. The Downward Reestimate Payable to the Treasury in the non-entity Treasury general fund is not eliminated and is reflected on the Balance Sheet as a liability line item.

(Dollars in Thousands)

As of September 30,		2015		2014
Entity				
Financing Fund Payable	$	(1,600,653)	$	(1,637,283)
Non-entity				
Miscellaneous Receipts Fund Receivable		1,600,653		1,637,283
Downward Reestimate Payable to Treasury		(1,600,653)		(1,637,283)
Balance Sheet Reported Payable	**$**	**(1,600,653)**	**$**	**(1,637,283)**

NOTE 14 CONSOLIDATED STATEMENT OF NET COST

Federal cost accounting standards require the SBA to report operating costs by strategic goal activity. Full costs include all direct and indirect costs for a strategic goal. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost.

Operating Cost

The full and net operating costs of SBA's major strategic goals are presented in the Consolidated Statement of Net Cost. Full costs are comprised of all direct costs for the strategic goals and those indirect costs which can be reasonably assigned or allocated to the strategic goals, including employee pension and other retirement benefit costs paid by the OPM and charged to the SBA.

Earned Revenue

Earned revenue arises from exchange transactions, and is deducted from the full cost of SBA's major strategic goals to arrive at net strategic goals costs. The SBA recognizes earned revenue when reimbursements are payable from other federal agencies and the public, as a result of costs incurred or services performed. A major source of earned revenue includes interest earned on SBA's outstanding Business and Disaster loan portfolios and interest earned on uninvested funds in the credit reform financing accounts.

Reporting by Strategic Goal

The SBA reports net costs consistent with its three strategic goals on a full cost allocation basis. Strategic Goal 1 (Growing Businesses and Creating Jobs) includes SBA's loan, disaster and other assistance programs, and STEP grants. Strategic Goal 2 (Serving as the Voice for Small Business) includes small business advocacy and programs to promote entrepreneurship in economic sectors and communities where market gaps remain. Strategic Goal 3 (Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses) contains lender oversight costs. Agency administrative overhead costs are fully allocated to the programs in Strategic Goals 1, 2, and 3. The Management's Discussion and Analysis section of SBA's annual Agency Financial Report includes additional detail on SBA's strategic goals. Costs Not Assigned to Strategic Goals include the Office of the Inspector General and grants made under congressionally mandated programs. The Office of the Inspector General's mission and funding is a separate, independent part of the SBA and is therefore excluded. Congressional mandated grants do not necessarily involve small business and are also excluded.

Intragovernmental Gross Cost is incurred by the SBA in exchange transactions with other federal agencies, and Gross Cost with the Public is incurred in exchange transactions with the Public. Intragovernmental Earned Revenue is earned by the SBA in exchange transactions with other federal agencies, and Earned Revenue from the Public is earned in exchange transactions with the Public. The General Services Administration and the Treasury Department are SBA's primary Intragovernmental trading partners.

The classification as Intragovernmental Costs or Gross Cost with the Public relate to the source of goods and services received by the SBA and not to the classification of related revenue. The classification of revenue or cost being defined as "intragovernmental" or "public" is defined on a transaction by transaction basis. The purpose of this classification is to enable the federal government to provide consolidated financial statements, and not to match the public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

SBA's Gross Cost with the Public in Strategic Goal 1 is largely determined by estimates and reestimates of its credit program costs (See Note 6I). Downward reestimates of these costs caused the credit to Gross Cost with the Public in FY 2015 and FY 2014.

INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

(Dollars in Thousands)

For the Years Ended September 30,	2015	2014
STRATEGIC GOAL 1: Growing Businesses and Creating Jobs		
Intragovernmental Gross Cost	$ 461,443	$ 506,417
Gross Cost with the Public	(827,119)	(613,675)
Total Strategic Goal 1 Gross Cost	**(365,676)**	**(107,258)**
Intragovernmental Earned Revenue	109,099	138,871
Earned Revenue from the Public	354,725	372,857
Total Strategic Goal 1 Earned Revenue	**463,824**	**511,728**
STRATEGIC GOAL 2: Serving as the Voice for Small Business		
Intragovernmental Gross Cost	$ 27,432	$ 26,178
Gross Cost with the Public	82,206	83,310
Total Strategic Goal 2 Gross Cost	**109,638**	**109,488**
STRATEGIC GOAL 3: Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses		
Intragovernmental Gross Cost	$ 10,115	$ 6,176
Gross Cost with the Public	30,312	19,654
Total Strategic Goal 3 Gross Cost	**40,427**	**25,830**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Intragovernmental Gross Cost	$ 8,718	$ 4,130
Gross Cost with the Public	26,127	13,144
Total Gross Cost Not Assigned to Strategic Goals	**34,845**	**17,274**
Net Cost of Operations	**$ (644,590)**	**$ (466,394)**

NOTE 15 STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources presents information about total budgetary resources available to the SBA and the status of those resources as of September 30, 2015 and 2014. SBA's total budgetary resources were $2.8 billion and $3.0 billion for the years ended September 30, 2015 and 2014. Additionally, $7.5 billion and $7.8 billion of nonbudgetary resources including borrowing authority and collections of loan principal, interest and fees in financing funds were reported for the years ended September 30, 2015 and 2014.

Permanent Indefinite Appropriations

The SBA receives permanent indefinite appropriations annually to fund increases in the projected subsidy costs of loan programs as determined by the reestimation process required by the Federal Credit Reform Act of 1990. The appropriations are received initially in the SBA Program Funds and then transferred to the Financing Funds where they are used to fund obligations. SBA's Liquidating Funds also receive permanent indefinite appropriations to fund obligations. The Financing Funds are used to account for credit program obligations made subsequent to FY 1991. Liquidating Funds are used to account for credit program obligations made prior to FY 1992.

Decreases in projected subsidy costs in the Financing Funds are returned to the Treasury through SBA's annual reestimation process. The prior year's ending unobligated balances in SBA's Liquidating Funds are also transferred to the Treasury annually.

Borrowing Authority and Terms of Borrowing

The SBA is authorized to borrow from the Treasury's Bureau of the Fiscal Service when funds needed to disburse direct loans and purchase guarantied loans exceed subsidy costs and collections in the nonbudgetary loan financing funds. In FY 2015 and FY 2014, the SBA received $0.6 billion and $0.8 billion of borrowing authority from the OMB. At the end of FY 2015, the SBA had $0.2 billion in borrowing authority carried over to fund direct loans and default claims to be disbursed in the future. At the end of FY 2014, the SBA had $0.2 billion in available borrowing authority. The SBA pays interest to the Treasury based on Treasury's cost of funds. The rate at which interest is paid to the Treasury on the amounts borrowed (or received from the Treasury on uninvested cash balances) in a loan financing fund for a particular cohort is a disbursement-weighted average discount rate for cohorts prior to FY 2001 and a single effective rate for cohorts beginning with FY 2001. The SBA calculates and repays borrowings not needed for working capital at midyear and at year-end for prior year cohorts. The SBA uses the loan principal, interest, and fees collected from the borrowers in its loan financing funds to repay its Treasury borrowings. The repayment maturity dates for the borrowing from the Treasury are based on the loan maturities used in the subsidy calculation. The maturities range from 16 years for Direct Business loans, 25 years for Guarantied Business loans and 30 years for Disaster loans.

Apportionment Categories of Obligations Incurred

During FY 2015 and FY 2014, the SBA incurred $5.318 billion and $5.114 billion of direct and reimbursable obligations of which $0.020 billion and $0.035 billion were apportioned in category A; $5.298 billion and $5.079 billion were apportioned in category B. Category A apportionments are restricted by quarter and program, category B apportionments are restricted by purpose and program.

Unobligated Balances

Unobligated balances at September 30, 2015 and 2014 are $5.0 billion and $5.7 billion which include $3.5 billion and $3.7 billion of unavailable unobligated balances. These balances are unavailable primarily because they are unapportioned by the OMB. The SBA accumulates the majority of these unobligated balances in its nonbudgetary financing accounts during the fiscal year ($3.7 billion in FY 2015 and $4.3 billion in FY 2014) from reestimates that are used primarily to pay default claims in the following fiscal year. In addition, unobligated balances are accumulated in budgetary accounts from appropriations ($1.3 billion in FY 2015 and $1.4 billion in FY 2014) that are used to finance SBA's ongoing program operations. The SBA requests OMB apportionments as needed, and after OMB approval, apportioned amounts are available for obligation.

Undelivered Orders

Undelivered orders are obligations that have not yet been disbursed by the SBA. Undelivered orders for the periods ended September 30, 2015 and 2014 were $0.5 billion and $0.6 billion.

Differences between the Statement of Budgetary Resources and the Budget of the U. S. Government

There was no material difference between the FY 2014 Statement of Budgetary Resources and the President's FY 2016 budget submission. The President's FY 2017 Budget with actual numbers for FY 2015 has not yet been published. The SBA expects no material differences between the President's Budget "actual" column and the FY 2015 reported results when the budget becomes available in February 2016.

NOTE 16 RECONCILIATION OF BUDGETARY OBLIGATIONS INCURRED TO NET COST OF OPERATIONS

The SBA presents the Statement of Net Cost using the accrual basis of accounting. This differs from the obligation-based measurement of total resources supplied, both budgetary and from other sources, on the Statement of Budgetary Resources.

The Federal Financial Accounting Standard No. 7 requires "a reconciliation of proprietary and budgetary information in a way that helps users relate the two." The focus of this presentation is to reconcile budgetary net obligations to the net cost of operations. The objective of this information is to categorize the differences between budgetary and financial (proprietary) accounting.

CONSOLIDATED RECONCILIATION OF BUDGETARY OBLIGATIONS TO NET COST

(Dollars in Thousands)

For the Years Ended September 30,	2015	2014
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$ 5,318,123	$ 5,114,412
Less: Spending Authority from Offsetting Collections and Recoveries	4,157,947	4,584,340
Obligations Net of Offsetting Collections and Recoveries	1,160,176	530,072
Less: Offsetting Receipts	1,871,715	1,123,155
Net Obligations	**(711,539)**	**(593,083)**
Other Resources		
Imputed Financing	16,050	21,893
Other Financing Sources	(1,841,457)	(1,648,365)
Net Other Resources Used to Finance Activities	**(1,825,407)**	**(1,626,472)**
Total Resources Used to Finance Activities	**(2,536,946)**	**(2,219,555)**
RESOURCES THAT DO NOT FINANCE NET COST OF OPERATIONS		
(Increase) Decrease in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided	(6,803)	450,569
Resources that Fund Expenses Recognized in Prior Periods	(201,087)	(362,689)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations		
Credit Program Collections	3,725,160	3,923,558
Offsetting Receipts	1,871,715	1,123,155
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(3,771,717)	(3,591,420)
Other - Current Year Liquidating Equity Activity	12,736	3,218
Other Resources that Do Not Affect Net Cost of Operations	72	38
Total Resources that Do Not Finance Net Cost of Operations	**1,630,076**	**1,546,429**
Total Resources Used to Finance the Net Cost of Operations	**(906,870)**	**(673,126)**
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods		
Change in Annual Leave Liability	(1,385)	(510)
Change in Contingent Liability	(464)	464
Upward Reestimates of Credit Subsidy Expense	263,633	200,923
Change in Revenue Receivable from Public	(5,627)	(65)
Provision for Losses on Estimated Guaranties	7,880	4,795
Change in Unfunded Employee Benefits	(3,775)	1,136
Total Components Requiring or Generating Resources in Future Periods	**260,262**	**206,743**
Components Not Requiring or Generating Resources		
Depreciation or Amortization	2,104	2,252
Change in Bad Debt Expense - Pre-1992 Loans	24	(2,057)
Other (Income) Expenses Not Requiring Budgetary Resources	(110)	(206)
Total Components Not Requiring or Generating Resources	**2,018**	**(11)**
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**262,280**	**206,732**
Net Cost of Operations	**$ (644,590)**	**$ (466,394)**

Liabilities Not Covered by Budgetary Resources on the Balance Sheet (Note 8) differs from Components Requiring or Generating Resources in Future Periods in this reconciliation primarily due to reestimated subsidy costs of loan programs. The subsidy costs are shown in the Statement of Net Cost and are to be covered by budgetary resources but these resources, while available under permanent and indefinite authority, were not provided by year-end. Additionally, there will always be a difference for existing liabilities because the Reconciliation of Budgetary Obligations Incurred to Net Cost of Operations reports only current year changes, not balances.

The following table details these differences:

(Dollars in Thousands)

As of September 30,		**2015**		**2014**
Current Year Liabilities Not Covered By Budgetary Resources	$	107,128	$	104,408
Less: Prior Year		104,408		99,012
Change in Liabilities Not Covered By Budgetary Resources		2,720		5,396
Upward Reestimates of Credit Subsidy Expense		263,633		200,923
Change in Revenue Receivable from Public		(5,627)		(65)
All Other		(464)		489
Components (of Net Cost) Generating Resources in Future Periods (Per Reconciliation Above)	**$**	**260,262**	**$**	**206,743**

REQUIRED SUPPLEMENTARY INFORMATION

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2015

(Dollars in Thousands)	BLIF		DLF		SBGRF	PCECGF
	Budgetary	**Nonbudgetary Financing**	**Budgetary**	**Nonbudgetary Financing**	**Budgetary**	**Budgetary**
BUDGETARY RESOURCES						
Unobligated Balance Brought Forward, October 1	$ 240,087	$ 3,865,480	$ 738,382	$ 483,716	$ 80,750	$ –
Recoveries of Prior Year Obligations	16,850	4,759	3,594	38,494	–	–
Other Changes in Unobligated Balance	(100,321)	(750)	–	–	–	–
Unobligated Balance from Prior Year Budget Authority, net	156,616	3,869,489	741,976	522,210	80,750	–
Appropriations (discretionary and mandatory)	419,630	–	222,132	–	–	–
Borrowing Authority (discretionary and mandatory)	–	244,331	–	306,617	–	–
Spending Authority from Offsetting Collections	1,083	2,511,161	–	21,286	18,303	–
Total Budgetary Resources	**$ 577,329**	**$ 6,624,981**	**$ 964,108**	**$ 850,113**	**$ 99,053**	**$ –**
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred	$ 401,582	$ 3,203,697	$ 258,551	$ 579,191	$ 13,800	$ –
Unobligated Balance, end of year:						
Apportioned	19,364	1,013,190	100,663	68,534	4,494	–
Unapportioned	156,383	2,408,094	604,894	202,388	80,759	–
Total Unobligated Balance, end of year	175,747	3,421,284	705,557	270,922	85,253	–
Total Status of Budgetary Resources	**$ 577,329**	**$ 6,624,981**	**$ 964,108**	**$ 850,113**	**$ 99,053**	**$ –**
CHANGE IN OBLIGATED BALANCES						
Unpaid Obligations:						
Unpaid Obligations, Brought Forward, October 1	$ 128,778	$ 87,589	$ 15,048	$ 157,972	$ 29	$ –
Obligations Incurred	401,582	3,203,697	258,551	579,191	13,800	–
Gross Outlays	(431,591)	(3,203,774)	(256,129)	(580,441)	(13,825)	–
Recoveries of Prior Year Unpaid Obligations	(16,850)	(4,759)	(3,594)	(38,494)	–	–
Unpaid Obligations, end of year	81,919	82,753	13,876	118,228	4	–
Uncollected Payments:						
Uncollected Payments, Federal sources brought forward, October 1	–	(127,881)	–	(15,128)	–	–
Change in Uncollected Payments, Federal Sources	–	46,752	–	1,082	–	–
Uncollected Payments, Federal Sources, end of year	–	(81,129)	–	(14,046)	–	–
Memorandum (non-add) entries:						
Obligated Balance, start of year	**$ 128,778**	**$ (40,292)**	**$ 15,048**	**$ 142,844**	**$ 29**	**$ –**
Obligated Balance, end of year	**$ 81,919**	**$ 1,624**	**$ 13,876**	**$ 104,182**	**$ 4**	**$ –**
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, gross (discretionary and mandatory)	$ 420,713	$ 2,755,492	$ 222,132	$ 327,903	$ 18,303	$ –
Actual Offsetting Collections (discretionary and mandatory)	(9,380)	(2,719,444)	(1,182)	(1,005,716)	(18,302)	(36)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	46,752	–	1,082	–	–
Budget Authority, net (discretionary and mandatory)	**$ 411,333**	**$ 82,800**	**$ 220,950**	**$ (676,731)**	**$ 1**	**$ (36)**
Gross Outlays (discretionary and mandatory)	$ 431,591	$ 3,203,774	$ 256,129	$ 580,441	$ 13,825	$ –
Actual Offsetting Collections (discretionary and mandatory)	(9,380)	(2,719,444)	(1,182)	(1,005,716)	(18,302)	(36)
Net Outlays (discretionary and mandatory)	422,211	484,330	254,947	(425,275)	(4,477)	(36)
Distributed Offsetting Receipts	–	(1,832,733)	–	(32,618)	–	–
Agency Outlays, net (discretionary and mandatory)	**$ 422,211**	**$ (1,348,403)**	**$ 254,947**	**$ (457,893)**	**$ (4,477)**	**$ (36)**

REQUIRED SUPPLEMENTARY INFORMATION (continued)

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2015

(Dollars in Thousands)	SE	OIG	ADVOCACY	EDP	BATF	TOTAL	TOTAL	
	Budgetary	**Budgetary**	**Budgetary**	**Budgetary**	**Budgetary**	**Budgetary**	**Nonbudgetary Financing**	**Total**
BUDGETARY RESOURCES								
Unobligated Balance Brought Forward, October 1	$ 287,233	$ 11,232	$ 817	$ 4,391	$ 159	$ 1,363,051	$ 4,349,196	$ 5,712,247
Recoveries of Prior Year Obligations	25,062	62	15	3,445	–	49,028	43,253	92,281
Other Changes in Unobligated Balance	(16,055)	(116)	–	–	–	(116,492)	(750)	(117,242)
Unobligated Balance from Prior Year Budget Authority, net	296,240	11,178	832	7,836	159	1,295,587	4,391,699	5,687,286
Appropriations (discretionary and mandatory)	256,310	19,400	9,120	220,690	–	1,147,282	–	1,147,282
Borrowing Authority (discretionary and mandatory)	–	–	–	–	–	–	550,948	550,948
Spending Authority from Offsetting Collections	358,354	1,014	2	4	65	378,825	2,532,447	2,911,272
Total Budgetary Resources	**$ 910,904**	**$ 31,592**	**$ 9,954**	**$ 228,530**	**$ 224**	**$ 2,821,694**	**$ 7,475,094**	**$ 10,296,788**
STATUS OF BUDGETARY RESOURCES								
Obligations Incurred	$ 614,785	$ 19,977	$ 9,264	$ 217,257	$ 19	$ 1,535,235	$ 3,782,888	$ 5,318,123
Unobligated Balance, end of year:								
Apportioned	248,431	7,114	690	9,684	140	390,580	1,081,724	1,472,304
Unapportioned	47,688	4,501	–	1,589	65	895,879	2,610,482	3,506,361
Total Unobligated Balance, end of year	296,119	11,615	690	11,273	205	1,286,459	3,692,206	4,978,665
Total Status of Budgetary Resources	**$ 910,904**	**$ 31,592**	**$ 9,954**	**$ 228,530**	**$ 224**	**$ 2,821,694**	**$ 7,475,094**	**$ 10,296,788**
CHANGE IN OBLIGATED BALANCES								
Unpaid Obligations:								
Unpaid Obligations, Brought Forward, October 1	$ 201,533	$ 1,949	$ 906	$ 136,951	$ 4	$ 485,198	$ 245,561	$ 730,759
Obligations Incurred	614,785	19,977	9,264	217,257	19	1,535,235	3,782,888	5,318,123
Gross Outlays	(617,216)	(19,297)	(8,493)	(167,375)	(19)	(1,513,945)	(3,784,215)	(5,298,160)
Recoveries of Prior Year Unpaid Obligations	(25,062)	(62)	(15)	(3,445)	–	(49,028)	(43,253)	(92,281)
Unpaid Obligations, end of year	174,040	2,567	1,662	183,388	4	457,460	200,981	658,441
Uncollected Payments:								
Uncollected Payments, Federal sources brought forward, October 1	–	–	–	–	–	–	(143,009)	(143,009)
Change in Uncollected Payments, Federal Sources	–	–	–	–	–	–	47,834	47,834
Uncollected Payments, Federal Sources, end of year	–	–	–	–	–	–	(95,175)	(95,175)
Memorandum (non-add) entries:								
Obligated Balance, start of year	**$ 201,533**	**$ 1,949**	**$ 906**	**$ 136,951**	**$ 4**	**$ 485,198**	**$ 102,552**	**$ 587,750**
Obligated Balance, end of year	**$ 174,040**	**$ 2,567**	**$ 1,662**	**$ 183,388**	**$ 4**	**$ 457,460**	**$ 105,806**	**$ 563,266**
BUDGET AUTHORITY AND OUTLAYS, NET								
Budget Authority, gross (discretionary and mandatory)	$ 614,664	$ 20,414	$ 9,122	$ 220,694	$ 65	$ 1,526,107	$ 3,083,395	$ 4,609,502
Actual Offsetting Collections (discretionary and mandatory)	(358,353)	(1,015)	(1)	(5)	(66)	(388,340)	(3,725,160)	(4,113,500)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	–	–	–	–	–	47,834	47,834
Budget Authority, net (discretionary and mandatory)	**$ 256,311**	**$ 19,399**	**$ 9,121**	**$ 220,689**	**$ (1)**	**$ 1,137,767**	**$ (593,931)**	**$ 543,836**
Gross Outlays (discretionary and mandatory)	$ 617,216	$ 19,297	$ 8,493	$ 167,375	$ 19	$ 1,513,945	$ 3,784,215	$ 5,298,160
Actual Offsetting Collections (discretionary and mandatory)	(358,353)	(1,015)	(1)	(5)	(66)	(388,340)	(3,725,160)	(4,113,500)
Net Outlays (discretionary and mandatory)	258,863	18,282	8,492	167,370	(47)	1,125,605	59,055	1,184,660
Distributed Offsetting Receipts	(6,364)	–	–	–	–	(6,364)	(1,865,351)	(1,871,715)
Agency Outlays, net (discretionary and mandatory)	**$ 252,499**	**$ 18,282**	**$ 8,492**	**$ 167,370**	**$ (47)**	**$ 1,119,241**	**$ (1,806,296)**	**$ (687,055)**

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION STEWARDSHIP INVESTMENTS IN HUMAN CAPITAL

(Unaudited)

Human Capital investments are expenses included in net cost for education and training programs that are intended to increase or maintain national economic productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. The definition excludes education and training expenses for federal personnel.

Small Business Development Centers provide advising and training services to small businesses and prospective business owners using an extensive network of lead centers and outreach locations. SBDCs deliver professional business advising in key management areas to small business clients throughout the U.S. that generates business revenue, creates and retains jobs, and enhances local and regional economies.

SCORE is a nonprofit association comprised of over 11,000 volunteer business mentors that serve entrepreneurs with in-person mentoring, local training workshops, and online resources. SCORE adapts its structure and services to meet the needs of specific small businesses.

Women's Business Centers provide advising and training primarily to women entrepreneurs through over 100 non-profit educational centers across the nation. Many of the training courses focus on business and financial planning that help women entrepreneurs gain financial literacy. They also provide direct advising to clients and help them access loans, federal contracts, and exporting opportunities.

Microloan Program helps the smallest of small businesses become established and achieve success. Community-based intermediary lenders provide business-based training and technical assistance to microbusinesses. The program is an important source of training assistance for low income, women, veteran, and minority entrepreneurs.

SBA's Consulting and Training Programs include SBA's work to develop or expand consulting and training programs focused on key areas, including underserved markets, procurement, exports, and emerging and expanding technological sectors. These small business advising and training programs are provided by or facilitated through an SBA district office for the delivery of a structured program providing knowledge, information, or experience on a business-related subject. Training is available on a number of subjects of interest to a small business person and may be delivered to an individual, a class, or online.

Veterans Outreach includes comprehensive outreach through veterans business outreach centers and technical assistance and training to transitioning veterans that are interested in starting a new or growing an existing business through programs such as Boots-to-Business, Veteran Women Igniting the Spirit of Entrepreneurship, and Entrepreneurship Boot Camp for Veterans with Disabilities. Consistent with the new strategic plan, this item was broken out in FY 2014 (previously it was included in All Other Training and Assistance Programs).

All Other Assistance Programs not separately detailed include PRIME Technical Assistance, Native American Outreach and the 7(j) program.

Performance results are provided in the Management's Discussion and Analysis section of SBA's annual Agency Financial Report in "SBA by the Numbers" and "Primer of SBA's Principal Programs."

Significant Human Capital investments occur within the following programs:

(Dollars in Thousands)

For the Five Years Ended September 30,	2015	2014	2013	2012	2011
Small Business Development Centers	$ 89,225	$ 154,400	$ 93,427	$ 152,835	$ 123,097
SCORE	19,615	5,758	10,894	9,331	14,094
Women's Business Centers	18,658	24,842	21,049	25,006	13,080
Microloan Technical Assistance	19,216	21,552	16,525	22,487	30,485
SBA's Consulting and Training Programs	51,510	54,620	44,313	28,365	28,006
Veterans Outreach	27,031	13,244	–	–	–
All Other Training and Assistance Programs	9,010	12,832	6,924	12,689	8,603
Total	**$ 234,265**	**$ 287,248**	**$ 193,132**	**$ 250,713**	**$ 217,365**

Other Information

SUCCESS STORY

Contributing to Community is a Business Principle

DSFederal
Rockville, MD

In 2007 **Sophia Parker** founded DSFederal, a company specializing in grant program management and data analytics, training and education, and information technology solutions. Within a year, the company grew to 120 employees with locations in eight states. DSFederal revenue increased from \$179,000 in 2009 to \$10.9 million in 2013. Major clients include the Department of Health and Human Services and the Department of Homeland Security, among others. The company's annual income has reached \$12 million, and it has been ranked 55th among all rapidly growing small and medium-size enterprises nationwide.

Developing and cultivating a culture of innovation is also a key component to DSFederal's success. The company developed innovative methods for spreading government information using mobile apps, in line with the 2011 Digital Government Strategy.

Ms. Parker remembers humble beginnings, when she was the only employee and had \$600 in the bank. No one was willing to lend her the money she needed to keep her business afloat. She began working with a counselor at the Maryland Small Business Development Center and secured a \$26,000 SBA-guarantied loan which helped carry her through a lean year. She successfully applied to SBA's 8(a) Business Development program in 2008 and has been actively pursuing and winning contracts ever since, enabling DSFederal to increase revenue every year since 2009. "DSFederal would never be here if it weren't for SBA," she said.

U. S. Small Business Administration

Schedule of Spending

For the Years Ended September 30, 2015 and 2014 (Unaudited)

(Dollars in Thousands)

	2015			2014		
	Budgetary	**Non-budgetary Financing**	**Total**	**Budgetary**	**Non-budgetary Financing**	**Total**
What Money is Available to Spend?						
Total Resources	$ 2,821,694	$ 7,475,094	$ 10,296,788	$ 3,024,249	$ 7,802,410	$ 10,826,659
Less Amount Not Approved for Spending by SBA	390,580	1,081,724	1,472,304	398,548	1,586,238	1,984,786
Less Amount Approved for Spending by OMB	895,879	2,610,482	3,506,361	964,503	2,762,958	3,727,461
Total Amounts Agreed to be Spent	**$ 1,535,235**	**$ 3,782,888**	**$ 5,318,123**	**$ 1,661,198**	**$ 3,453,214**	**$ 5,114,412**

	Budgetary	**Non-budgetary Financing**	**Total**	**Budgetary**	**Non-budgetary Financing**	**Total**
How was the Money Spent /Issued?						
Salary & Benefits	$ 391,177	$ –	$ 391,177	$ 410,302	$ –	$ 410,302
Grants	195,892	–	195,892	177,934	–	177,934
Rent	45,434	–	45,434	45,461	–	45,461
Contracts	104,337	–	104,337	116,398	–	116,398
Travel	13,712	–	13,712	10,305	–	10,305
Other Administrative Expenses	99,704	–	99,704	84,049	–	84,049
Telecommunications	11,047	–	11,047	9,926	–	9,926
Surety Bonds Defaults	13,799	–	13,799	11,273	–	11,273
Business Loans	46,586	54,799	101,385	50,356	55,156	105,512
Business Loan Guarantees	354,996	3,148,898	3,503,894	487,900	2,769,909	3,257,809
Disaster Lending	258,551	579,191	837,742	257,294	628,149	885,443
Total Amounts Agreed to be Spent	**$ 1,535,235**	**$ 3,782,888**	**$ 5,318,123**	**$ 1,661,198**	**$ 3,453,214**	**$ 5,114,412**

	Budgetary	**Non-budgetary Financing**	**Total**	**Budgetary**	**Non-budgetary Financing**	**Total**
Who did the Money go to?						
Other Federal Agencies	$ 340,201	$ 2,172,935	$ 2,513,136	$ 355,061	$ 1,469,413	$ 1,824,474
Public Individuals and Organizations	1,195,034	1,609,953	2,804,987	1,306,137	1,983,801	3,289,938
Total Amounts Agreed to be Spent	**$ 1,535,235**	**$ 3,782,888**	**$ 5,318,123**	**$ 1,661,198**	**$ 3,453,214**	**$ 5,114,412**

The Schedule of Spending (SOS) was developed to bridge the gap between budgetary accounting reports, such as the Statement of Budgetary Resources (SBR), and the public's desire for a transparent view of how federal money was spent. The SOS allows the reader to review SBA's spending in more understandable terms and also provides the public with a high level view of who benefited from federal funds. Payments to Other Federal Agencies include rent to the General Service Administration and Downward Subsidy Reestimates payable to Treasury. Subsidy reestimates are discussed in Note 6A of the Consolidated Financial Statements.

To obtain a more detailed view of SBA's beneficiaries, the public can access general information about individual awards on USASpending.gov. The data provided on the USAspending.gov website however does not include all spending information provided in the SBR and SOS. For example, SBA is primarily a federal credit agency and SBA's nonbudgetary financing items, which are related to the direct and guarantee loan guarantee programs, are not included on USAspending.gov.

OIG REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES

REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES IN FISCAL YEAR 2016

October 15, 2015

REPORT NUMBER 16-01

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

Memorandum
Management Challenges

DATE: October 15, 2015

TO: Maria Contreras-Sweet
Administrator

FROM: Peggy E. Gustafson
Inspector General

SUBJECT: Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2016

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General's (OIG) *Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration (SBA) in Fiscal Year (FY) 2016*. The overall goal is to focus attention on significant issues with the objective of working with Agency managers to enhance the effectiveness of SBA's programs and operations. We have prepared similar reports since FY 2000.

Within each management challenge is a series of recommended actions to enhance the effectiveness of agency programs and operations. Each recommended action is assigned a color score to indicate its status. The scores are as follows: green for "implemented," yellow for "substantial progress," orange for "limited progress," and red for "no progress." If a recommended action was added since last year's report, no color score was assigned, and the recommended action has been designated as "new." Actions that were scored green last year, which remained green this year, have been moved up to the "history bar" above the recommended actions. The history bar highlights any progress that the Agency has made on a challenge over the past 4 fiscal years (or as long as the challenge has existed, if shorter) by showing the number of actions that have moved to green each year. In addition, an arrow in the color box indicates that the color score went up or down from the prior year.

The following table provides a summary of the most serious management and performance challenges facing SBA in FY 2016.

Table 1. Summary of the Most Serious Management and Performance Challenges Facing the SBA in FY 2016

		Color Scores					
		Status at End of FY 2015				Change from Prior Year	
	Challenge	Green	Yellow	Orange	Red	Up ↑	Down ↓
1	Small Business Contracting		1				
2	IT Security		2	3			1
3	Human Capital	1	2			1	
4	Lender Oversight		2				
5	8(a) Business Development Program			2	1		
6	Loan Agent Fraud	1	2	1		2	
7	Loan Management and Accounting System	4				4	
8	Improper Payments – 7(a) program	1	3			1	
9	Disaster Loan program (NEW)						
10	Acquisition Management	1		4		1	
	TOTAL	8	12	10	1	9	1

A significant change in this year's report involves small business contracting (Challenge 1). SBA is responsible for managing and overseeing the small business procurement process throughout the Federal Government. Last year, we reported that procurement flaws allow large firms to obtain small business awards and allow agencies to count contracts performed by large firms towards their small business goals. While large firms continue to receive contracts that are counted towards small business goals, we have realigned the discussion to include our concerns regarding weaknesses in small business contracting programs and the reliability of data used to calculate contracting goal achievements.

In addition, we added a new challenge regarding SBA's Disaster Assistance Program (Challenge 9). SBA's disaster assistance helps people and businesses recover from disasters by providing affordable, timely, and accessible loans to homeowners, renters, and businesses. However, there is an inherent risk of non-repayment for disaster loans because these loans repair or replace existing property, which means that loan recipients may be paying twice to maintain the same assets. In carrying out its mission, SBA must balance competing priorities to deliver timely assistance and reduce the risk of fraud and default.

We also removed the challenge pertaining to SBA's implementation of a quality control program in its loan centers (previously Challenge 4). SBA has made progress in implementing a quality control program for all of its loan centers. SBA's program is designed to verify and document compliance with the loan process, from origination to close-out, and to identify where material deficiencies exist so that the Agency can take remedial action. While SBA has made progress in implementing a quality control program, further improvement is needed for SBA to continue to demonstrate that all elements of the program are being completed and that the program is effective at identifying and correcting material deficiencies. We will continue to monitor SBA's quality control program during FY 2016 to verify that reviews are completed and effective at identifying and correcting material deficiencies.

The management challenge process is an important tool that we hope will assist the Agency in prioritizing its efforts to improve program performance and enhance its operations. We look forward to continuing to work with SBA's leadership team in addressing the Agency's management challenges.

CONTENTS

Challenge 1. Weaknesses in Small Business Contracting Programs and Inaccurate Procurement Data Undermine the Reliability of Contracting Goals Achievements

The Small Business Act established a Government-wide goal that 23 percent of all prime contracts be awarded to small businesses each fiscal year. As the advocate for small business, SBA should strive to ensure that only eligible small firms obtain and perform small business awards. Further, SBA should ensure that procuring agencies accurately report contracts awarded to small businesses when representing their progress in meeting small business contracting goals. However, over the years, Congress has expressed concerns about the accuracy of the Small Business Goaling Report; this has been substantiated by OIG audits and other Government studies, which have shown widespread misreporting by procuring agencies, since many contract awards that were reported as having gone to small firms have actually been substantially performed by larger companies. Awards made to ineligible firms impact procurement opportunities for small businesses and damage SBA's credibility in reporting accurate small business contracting goals achievements. While some contractors may misrepresent or erroneously calculate their size, the incorrect reporting also results from errors made by Government contracting personnel, including the misapplication of small business contracting rules. Without reliable data, SBA cannot accurately measure the Federal Government's small business procurement goals achievements, which in turn weakens the ability of Congress and other Federal policy makers to determine whether the Government is maximizing contracting opportunities for small businesses.

In September 2014, we issued Report 14-18, which identified over $400 million in FY 2013 contract actions that may have been awarded to ineligible firms. We also found that over $1.5 billion dollars in FY 2013 contract actions went to firms that were no longer in the 8(a) Business Development or Historically Underutilized Business Zone (HUBZone) Programs. SBA regulations permit procuring agencies to claim small disadvantaged business and HUBZone goaling credit on certain contract actions, even after firms have left the program. In our opinion, the amount of dollars that SBA reports to Congress and the public as being performed by 8(a) and HUBZone firms in the Small Business Goaling Report is overstated by including contract actions performed by former program participants. Further, in Report 13-03, we identified weaknesses in the 8(a) Mentor Protégé Program that could also allow procuring agencies to include in their small business goal achievements contracts awarded to small businesses in which large businesses perform most of the work. In addressing deficiencies identified in these reports, SBA has begun to correct weaknesses within its small business information systems that impact the accuracy of goaling data. While SBA has taken steps to address reporting accuracy, further progress is needed.

In addition, OIG and GAO have both recently reported weaknesses in SBA's controls that would ensure only eligible firms receive contracts set-aside for the Women Owned Small Business Federal Contracting Program (WOSBP). The National Defense Authorization Acts (NDAA) for FY 2013 and FY 2015 made major programmatic changes to WOSBP. Specifically, the NDAA for 2013 removed previously existing contract caps on set-aside awards for which WOSB and economically disadvantaged WOSB firms were able to compete. The NDAA for 2015 granted contracting officers the authority to award sole-source awards to firms in WOSBP and required firms to be certified by a Federal agency, a State government, the Administrator, or a national certifying entity approved by the Administrator. However, SBA has opted to implement the sole-source authority provision first—separate from a certification program. We believe allowing sole source contracting authority in WOSBP, without implementing the contemporaneously required certification program, is inconsistent with SBA's statutory authorization and exposes the program to abuse. Absent a certification program, the Government is more likely to award WOSBP contracts to ineligible firms.

Likewise, SBA failed to reduce the size standard of businesses it defines as small when the Agency's own analysis indicated it was appropriate to do so. Because SBA has not adhered to its own analysis, small businesses will need to compete against larger companies within certain North American Industry Classification System (NAICS) codes.[1] Within those NAICS codes, the benefits intended for small business contractors may instead go to larger concerns. Similarly, small

1 NAICS classifies business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. economy. SBA uses NAICS as a basis for its size standards.

businesses will compete against larger concerns within those NAICS codes so that the goaling numbers may be further distorted.

SBA performs surveillance reviews to assess Federal contracting agencies' compliance with small business programs' requirements and to verify that agencies are properly measuring their small business goal achievements. SBA has implemented a new Standard Operating Procedure (SOP) to ensure consistency in conducting its surveillance reviews. According to SBA, it has conducted over 60 surveillance reviews using the new SOP, and it continues to improve its surveillance review process. We are working with the Agency to verify that the reviews are conducted in a thorough and consistent manner.

Although SBA relies on Federal agencies to implement its programs and maximize procurement opportunities for small businesses, SBA is ultimately responsible for ensuring that small businesses receive a fair and equitable opportunity to participate in Federal contracts. As such, SBA needs to enhance its controls and continue to collaborate with other agencies to improve procurement data accuracy supporting small business contracting goals. Similarly, SBA needs the full range of Federal program enforcement tools at its disposal. To this end, the Agency should modify its Program Fraud Civil Remedies Act (PFCRA) regulations so that SBA can pursue any small business contracting program violations, subject to the PFCRA's jurisdictional limits, under that statute.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2005)	2011: 1	2012: 1	2013: 0	2014: 1

Recommended Actions for FY 2016	Status at end of FY 2015
1. Revise the surveillance review process to ensure that reviews are conducted in a thorough and consistent manner. (Previously action 2)	**Yellow**
2. Strengthen controls to ensure the accuracy of the Federal Government's annual small business procurement goals achievements reported in the Small Business Goaling Report.	New
3. Implement a certification process for WOSBP.	New
4. Revise SBA's Program Fraud Civil Remedies Act regulations so that SBA can pursue violations of its Federal contracting programs and demonstrate a capacity for taking enforcement actions under that statute.	New

-Implemented -Substantial Progress -Limited Progress -No Progress

Challenge 2. Weaknesses in Information Systems' Security Controls Pose Significant Risks to the Agency

Recent Government-wide security breaches have heightened the importance of continuously monitoring networks and software applications. OIG and its external auditor have identified weaknesses when on-boarding and separating SBA personnel. In addition, SBA needs to address long-standing security weaknesses in the following areas:

- SBA's system software controls have long-standing recommendations relating to timely baseline configurations of SBA's IT platforms and patching operating systems, devices, and database management systems.
- SBA's segregation of duty controls continue to have open recommendations relating to restricting access to system software and effectively reviewing system and application logs.
- SBA's IT security management program continues to have open recommendations relating to IT security oversight as well as improvements in SBA's compliance with guidance provided in the Federal Information Security Management Act of 2002 (FISMA).

To show improvement in the above areas, SBA's Office of the Chief Information Officer, in conjunction with SBA's various program offices, will need to implement tools and capabilities to provide effective oversight and continuously monitor computer security controls.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 1999)	2011: 1	2012: 0	2013: 1	2014: 0
Recommended Actions for FY 2016				**Status at end of FY 2015**
1. Access controls are in place and operating effectively, and contractors are not granted system access until they have obtained the required background investigations and/or security clearances.				**Orange ↓**
2. System software controls are in place and operating effectively.				**Orange**
3. Segregation of duty controls are in place and operating effectively.				**Orange**
4. The plan of action and milestones accurately report all computer security weaknesses and corrective actions.				**Yellow**
5. The IT security management program effectively addresses information security in systems that support the operations and assets of the organization.				**Yellow**

-Implemented -Substantial Progress -Limited Progress -No Progress

Challenge 3. SBA Needs Effective Human Capital Strategies to Carry Out its Mission Successfully and Become a High-Performing Organization

The Office of Human Resource Solutions (OHRS) made significant progress toward its workforce and succession planning goals during FY 2015. By the beginning of the fiscal year, the Agency had contracted the services of the Office of Personnel Management's (OPM) fee-for-service arm, HR Solutions, who would review existing competency models, related job materials, and job analysis information in order to provide feedback for SBA's existing competency models. OPM will then facilitate focus groups to update and validate the model based on HR Solutions' feedback. Using the updated and validated competency model, OHRS will also perform a competency gap analysis for each mission-critical occupation and provide a report on the gaps existing in the workforce, recruitment, retention, and employee development program decisions. HR Solutions is expected to complete its work in FY 2016. In order to complete this recommended action, SBA's workforce and succession planning goals should establish appropriate metrics to gauge its success at having the right people, in the right jobs, at the right time.

OHRS also continues to make substantial progress to update and establish standard operating procedures (SOP) for human capital management. In FY 2015, OHRS issued one SOP and advanced two other critical SOPs into the final stages of the clearance process. In addition, OHRS issued the Merit Promotion Plan SOP, updated the Delegation Examination Handbook, and moved two other SOPs into the formal clearance process not previously identified in this challenge. OHRS plans to work on updating the last SOP included in OIG's recommended actions—Discipline and Adverse Actions—in FY 2016.

The Agency has implemented the third recommended action under this management challenge. In FY 2015, OHRS established an employee engagement working group to complement the ongoing SBA Way Initiative established in FY 2013. The employee engagement working group meets bi-weekly and is responding to the White House, Office of Management and Budget (OMB), and OPM guidance with a four-pronged approach: (1) individual accountability, (2) organizational performance, (3) communication, and (4) initiative and activity.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2001, revised FY 2007)	2011: 0	2012: 0	2013: 1	2014: 0
Recommended Actions for FY 2016				**Status at end of FY 2015**
1. Ensure the Agency has an effective, comprehensive workforce and succession plan that aligns talent needs and capabilities with SBA's FY 2011-2016 strategic plan. SBA's workforce and succession planning goals should reflect the need to recruit and retain the appropriate talent, and should establish appropriate metrics to gauge SBA's success at having the right people, in the right jobs, at the right time.				**Yellow**
2. Ensure that human capital management SOPs are updated and appropriately structured to support the Agency's long-term goals and objectives and Government-wide human capital management initiatives. *(Previously recommended action #3)*				**Yellow**
3. Demonstrate sustained progress toward a high-performing, employee-driven culture through activity and effort as prioritized by SBA's employee engagement initiative for two consecutive years (end of FY 2015) *(Previously recommended action #4, modified in February 2014).*				**Green ↑**

-Implemented -Substantial Progress -Limited Progress -No Progress

Challenge 4. SBA Needs to Further Strengthen its Oversight of Lending Participants

Prior OIG and GAO reports disclosed weaknesses in SBA's oversight of lenders that participate in its programs. The risks inherent in delegated lending require an effective oversight program to (1) monitor compliance with SBA policies and procedures and (2) take corrective actions when a material noncompliance is detected. However, in prior years, we have found that SBA had not established sufficient controls that would identify—and safeguard against—the risks some lenders pose. For example, in a September 2012 audit report, OIG found that SBA did not always recognize the significance of lender weaknesses or determine the risks they posed to the Agency during its onsite reviews (Report 12-20R). The Agency also did not link the risks associated with these weaknesses to the lenders' corresponding risk ratings and assessments of operations. Further, SBA did not require lenders to correct performance problems that could have exposed SBA to unacceptable levels of financial risk.

However, since this management challenge was first issued in 2001, SBA has made substantial progress in its oversight of lending participants. In FY 2013, SBA (1) developed risk profiles and lender performance thresholds, (2) developed a select analytical review process to allow for virtual risk-based reviews, (3) updated its lender risk rating model to better stratify and predict risk, and (4) conducted test reviews under the new risk-based review protocol. These efforts have demonstrated that onsite reviews are now conducted on the highest-risk lending participants based on expanded selection criteria.

Further, in FY 2014, SBA improved its monitoring and verification of lender corrective actions by: (1) developing corrective action assessment procedures, (2) finalizing a system to facilitate the corrective action process, and (3) populating the system with lender oversight results requiring corrective action. In FY 2015, SBA's Office of Credit Risk Management (OCRM) engaged contractor support to expand on its corrective action follow-up process. Additionally, OCRM issued its FY 2015 Risk Management Oversight Plan, which included plans to conduct 170 corrective action reviews between 7(a) and 504 lenders.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2001)	2011: 0	2012 7(a) loans: 1 504 loans: 1	2013 7(a) loans: 2 504 loans: 2	2014 7(a) loans: 0 504 loans: 0

Recommended Actions for FY 2016	**Status at end of FY 2015**	
	7(a)	**504**
1. Monitor and verify implementation of corrective actions to ensure effective resolution prior to close-out. *(Previously Recommended Action #3)*	**Yellow**	**Yellow**

-Implemented -Substantial Progress -Limited Progress -No Progress

Challenge 5. SBA Needs to Modify the Section 8(a) Business Development Program So More Firms Receive Business Development Assistance, Standards for Determining Economic Disadvantage are Justifiable, and Firms Follow 8(a) Regulations When Completing Contracts

SBA's 8(a) Program was created to provide business development assistance to eligible small disadvantaged businesses seeking to compete in the American economy. SBA's challenge has been to ensure that 8(a) guidance, controls, and practices truly prepare participating firms for a competitive market. In the past, SBA had not placed adequate emphasis on business development to enhance the ability of 8(a) firms to compete and did not adequately ensure that only 8(a) firms with economically disadvantaged owners in need of business development remained in the program.

SBA continues to address issues that hinder its ability to deliver an effective 8(a) Program. For example, SBA has made its assistance more readily available to program participants by using resource partners such as small business development centers. SBA has also taken steps to ensure business opportunity specialists assess program participants' business development needs during site visits. SBA also revised its regulations, effective March 2011, to ensure that companies deemed "business successes" graduate from the program, rather than allowing them to remain in the program and receive 8(a) contracts, which caused fewer companies to receive the majority of 8(a) contract dollars and many to receive none. These regulations also establish additional standards to address the definition of "economic disadvantage."

However, for the third consecutive year, SBA has not finalized its 8(a) Program SOP to reflect the March 2011 regulatory changes. In October 2015, SBA submitted the SOP through its internal clearance process. Further, although the March 2011 regulations establish the threshold for "economic disadvantage," we have concerns that SBA's standards for determining economic disadvantage are not justified or objective because they are not based on economic analysis. Agency officials stated that the rule-making process served as an adequate proxy to objectively and reasonably determine effective measures for economic disadvantage, and were not aware of any reliable sources of data to determine economic disadvantage. However, we continue to maintain that SBA's standards for determining economic disadvantage are not justified or objective based on the absence of an economic analysis. Finally, monitoring efforts have made limited progress. For example, although SBA awarded a $1.9 million contract in December 2011 to develop and deploy a new IT system to assist in monitoring 8(a) Program participants, in 2014, SBA decided not to deploy this new system. Instead, SBA is now attempting to develop and implement another IT system.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2003)	2011: 0	2012: 0	2013: 0	2014: 0
Recommended Actions for FY 2016				**Status at end of FY 2015**
1. Develop and implement a plan, including SOP provisions, which ensures that the 8(a) Business Development Program identifies and addresses program participants' business development needs on an individualized basis.				Orange
2. Update and issue the 8(a) Business Development SOP to reflect the March 2011 regulatory changes.				Orange
3. Establish objective and reasonable criteria that effectively measure "economic disadvantage," and implement the new criteria.				Red

-Implemented -Substantial Progress -Limited Progress -No Progress

Challenge 6. Effective Tracking and Enforcement Would Reduce Financial Losses from Loan Agent Fraud

For years, OIG investigations have revealed a pattern of fraud by loan packagers and other for-fee agents in the 7(a) Loan Program, involving hundreds of millions of dollars. Since 2005, SBA OIG has investigated at least 22 cases with confirmed loan agent fraud totaling at least $335 million. Further, OIG has determined that loan agents were involved in approximately 15 percent of all 7(a) loans and resulted in increased risk of default. Yet SBA's oversight of loan agents has been limited, putting taxpayer dollars at risk. Prior OIG audits and investigations have identified that SBA does not have a way to effectively identify and track loan agent involvement in 7(a) portfolios, does not adequately list suspended loan agents to prevent their involvement in the program, and may have outdated enforcement regulations. As loan agent involvement in the 7(a) Program continues to increase, it will become all the more important for SBA to have oversight tools in place to identify and track loan agent involvement in this sizeable program.

In response to this challenge, SBA has made gradual progress. First, to track loan agent activity, SBA eventually decided to have lenders fax a loan agent disclosure form (Form 159) to SBA's fiscal and transfer agent (FTA) and require the FTA to enter the data into a database accessible to SBA. SBA also began linking Form 159 information with its loan data. However, as a recent OIG report identified significant issues in the data quality on the Form 159 information, SBA will likely need to make further modifications to this process. For example, the FTA is testing an automated Form 159. Additionally, in response to OIG concerns that SBA loan agent enforcement regulations are outdated, SBA drafted revised regulations, which the Office of Management and Budget is reviewing.

Lenders need to ensure that agents involved with their loans have not been subject to enforcement action by SBA. SBA now lists the names of loan agents and others named in SBA enforcement actions on its website, and updated an SOP in FY 2014 to instruct lenders to consult this list to avoid problematic loan agents. However, SBA also needs to develop a system to assign a unique identifier to loan agents that participate in the 7(a) Program. Otherwise, suspended agents could circumvent SBA by simply changing their name and continuing participating in the program. In response to our loan agents report, SBA stated it will explore the feasibility of implementing a registration system (Report 15-16).

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2000)	2011: 0	2012: 1	2013: 0	2014: 0
Recommended Actions for FY 2016				**Status at end of FY 2015**
1. Develop an effective method of disclosing and tracking loan agent involvement in SBA business loan programs.				**Yellow**
2. Update regulations (13 CFR Part 103) regarding loan agents to provide effective enforcement procedures.				**Yellow ↑**
3. Issue guidance that lenders must (1) review SBA's webpage list of loan agents that have been subject to an enforcement action and (2) refrain from doing business with any agent appearing on the list during the time that an agent is suspended or revoked from the 7(a) Program.				**Green ↑**
4. Implement a loan agent registration system, including the issuance of a unique identifying number for each agent.				**Orange**

-Implemented -Substantial Progress -Limited Progress -No Progress

Challenge 7. SBA Needs to Modernize its Loan Accounting System and Migrate it Off the Mainframe

The Loan Accounting System is the core system of record used to account for SBA's $115 billion loan portfolio. In November 2005, SBA initiated the loan management accounting system (LMAS) project, intended to update and modernize the old system and migrate it off the mainframe. Since 2010, the LMAS modernization effort has been structured into multiple components, or incremental improvement projects (IIPs).

SBA successfully migrated its Loan Accounting System off its legacy mainframe in January 2015, thereby ending SBA's reliance on the proprietary mainframe platform. The most recent transition to production planning IIP included testing the new system and migrating code and financial data to the new production environment. This project was critical to SBA's overall effort to move off the proprietary mainframe. Our most recent review found that SBA's multiple tests—including system, integration, performance, and user acceptance tests—successfully ensured that the new system operated correctly. We also found that SBA completed nearly all outstanding recommendations related to the recommended actions below.

While SBA has successfully closed out the LMAS project, we have observed that the Agency needs to complete additional, complex IT projects timely and successfully. This effort may pose a challenge for the Agency because SBA does not have experienced IT program managers and also lacks continuity within the Office of the Chief Information Officer. Consequently, it will be difficult for the Agency to consistently ensure that its IT investments yield the intended results. As a result, OIG will continue to evaluate whether SBA's capital investment controls adhere to system development methodologies and criteria.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2010)	2011: 0	2012: 0	2013: 0	2014: 0
Recommended Actions for FY 2016				**Status at end of FY 2015**
1. Migrate LMAS to a new operating platform before the current mainframe contract expires in 2015..				Green ↑
2. Modify the LMAS quality assurance/independent verification and validation (IV&V) contract and establish an effective quality assurance (QA) process which provides senior management independent assurance that LMAS development activities and related project deliverables meet SBA quality standards.				Green ↑
3. Establish a process for reviewing and accepting LMAS deliverables that complies with quality assurance and systems development methodology requirements. This includes hiring or fully staffing an IV&V entity to validate deliverable acceptance.				Green ↑
4. Implement a quality assurance process in LMAS in accordance with SBA's Enterprise QA Plan.				Green ↑

-Implemented -Substantial Progress -Limited Progress -No Progress

Challenge 8. SBA Needs to Accurately Report, Significantly Reduce, and Strengthen Efforts to Recover Improper Payments in the 7(a) Loan Program

Previous OIG audits have determined that SBA has significantly understated its improper payment rates for 7(a) loan approvals and purchases because it did not adequately review loans, used flawed sampling methodologies, and did not accurately project review findings. In FY 2011, SBA reported a 1.73 percent improper payment rate for 7(a) purchases, or $40.7 million, when the rate could have been as high as 20 percent, or about $472 million. Similarly, even though SBA in FY 2011 reported no improper payments for 7(a) loan approvals, an OIG audit estimated that at least 1,196 Recovery Act 7(a) loans were not originated and closed in compliance with SBA requirements, resulting in at least $869.5 million in inappropriate or unsupported loan approvals.

Recent OIG audits have also identified 7(a) loans that were ineligible, lacked repayment ability, or were not properly closed. In 2012, we reported that the limited reviews of lender underwriting performed during guaranty purchase reviews were contrary to SBA procedures, resulting in improper payments. We also reported that high-dollar, early-defaulted loans were not reviewed with the scrutiny required to identify improper payments. In 2014, we reported that six SBA-approved loans with material underwriting deficiencies defaulted, resulting in $4.8 million in unnecessary losses. In 2015, we reported another $1.8 million in recommended recoveries on purchased 7(a) loans. Additionally, we reported that due to a change in testing procedures, SBA missed identifying improper payments and, consequently, its FY 2014 reported improper payment rate for 7(a) purchases was understated.

The Office of Capital Access (OCA) has taken actions to accurately report and reduce improper payments in SBA's 7(a) Loan Program. OCA has (1) formalized its improper payment sampling, (2) demonstrated that its review process is effective for 7(a) loan approvals, (3) formalized its process to review disputed cases, (4) formalized the recovery process and time standards for 7(a) purchases, (5) developed appropriate corrective action plans for 7(a) loans, (6) established repayment ability review requirements that are effective at identifying improper payments, (7) revised improper payment review checklists, and (8) demonstrated recovery from lenders in a timely manner during FY 2015. However, OCA still needs to demonstrate that its process over disputed cases ensures adequate and timely resolution.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2001)	2011: 0	2012: 0	2013 7(a) Approvals:1 7(a) Purchases: 0	2014 7(a) Approvals:1 7(a) Purchases:1

Recommended Actions for FY 2016	**Status at end of FY 2015**	
	7(a) Approvals	**7(a) Purchases**
1. Reassign responsibility for final approval of disputed denial, repair, and improper payment decisions from the Office of Financial Assistance (OFA) to the Office of Credit Risk Management (OCRM) to ensure an adequate and timely resolution of disputes.	N/A	**Yellow**
2. Establish a process and time standards to expeditiously recover improper payments identified during Agency reviews and OIG audits.	N/A	**Green ↑**
3. Demonstrate that corrective action plans are effective in reducing improper payments in the 7(a) Loan Program.	**Yellow**	**Yellow**

-Implemented -Substantial Progress -Limited Progress -No Progress

Challenge 9. Disaster Assistance Must Balance Competing Priorities to Deliver Timely Assistance and Reduce Improper Payments

SBA's disaster loans are vulnerable to fraud and losses because (1) loan transactions are often expedited in order to provide quick relief to disaster survivors, (2) lending personnel hired in connection with a disaster declaration may lack sufficient training or experience, and (3) the volume of loan applications may overwhelm SBA's resources and its ability to exercise careful oversight of lending transactions. Both OIG and GAO audits have determined that because SBA had not taken sufficient steps to prepare for large-scale disasters, such as properly preparing and training a new workforce for high application volumes, the program has often been unable to provide timely assistance in the aftermath of major disasters. Even in the wake of disasters like Hurricane Sandy, SBA did not effectively develop and utilize programmatic innovations intended to assist in disbursing funds quickly and effectively. For instance, SBA did not implement three new guaranteed disaster loan programs mandated by Congress in 2008 that would provide expedited disaster loans in partnership with private sector lenders. SBA solicited feedback from lenders on these proposed programs and they objected to the requirements regarding loan terms, interest rates and loan fee limits. Further, the expedited loan processes implemented in response to Hurricane Sandy did not significantly reduce loan approval times.

Additionally, in FY 2014, the default component of the disaster direct loan program subsidy rate was 15 percent, and the program's improper payment rate was 12 percent. While the improper payment rate represents a gradual decrease compared to the past several years, it remains above the 10 percent level required to be in compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). In addition, the Disaster Direct Loan Program exceeds the threshold for significant improper payments defined by IPERA ($10 million and 2.5 percent of program outlays)—Improper payments were $70 million of the $585.6 million in program outlays in FY 2014. To reduce improper payments with disaster loans, SBA's Office of Disaster Assistance (ODA) should strengthen controls related to verification and documentation of loan eligibility, insurance coverage, and other program requirements that have been identified as the most prevalent errors in the program. If properly addressed, SBA can effectively reduce the improper payment rate in future years.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2015)	2011: N/A	2012: N/A	2013: N/A/	2014: N/A
Recommended Actions for FY 2016				**Status at end of FY 2015**
1. Implement pilot programs of the new guaranteed disaster programs mandated by Congress.				OCA New
2. Demonstrate that the Agency has adequately trained loan processing resources that can be quickly mobilized in the event of the disaster.				ODA New
3. Reduce the improper payment rate to 9.5 percent or lower in FY 2016, in accordance with the reduction targets established in the FY 2014 Agency Financial Report.				ODA New

-Implemented -Substantial Progress -Limited Progress -No Progress

Challenge 10: SBA Needs to Effectively Manage Its Acquisition Program

SBA improved its acquisition process by reducing its improper payment rate for contract disbursements, providing training to acquisition personnel, conducting annual advanced strategic acquisition planning, and using the Contract Review Board for making acquisition decisions. However, challenges still exist, including: (1) inadequate acquisition planning, (2) poorly defined requirements, (3) incomplete systems interface, (4) lack of effective controls for interagency acquisition, and (5) an incomplete acquisition SOP.

We identified instances where SBA inadequately planned its requirements for procuring IT products and services. While SBA, for the most part, interfaced the contract management system with the financial system, it has not completed the interface for blanket purchase agreements and indefinite delivery indefinite quantity contracts—potentially exposing an internal control deficiency. SBA also did not comply with Federal regulations when determining whether using interagency acquisitions was the best procurement approach. Further, its acquisition SOP does not include procedures on the use of modular contracting for major system acquisitions, interagency acquisitions, or post-award contract administration requirements.

In July 2014, the Office of the Chief Financial Officer (OCFO) awarded a contract to assess its acquisition function. The assessment was completed in March 2015; however, as of September 2015, OCFO had not implemented a comprehensive improvement plan to address deficiencies identified by the assessment. Until SBA can demonstrate that it has developed and implemented a comprehensive improvement plan to address the control deficiencies within its acquisition function, it will continue to experience challenges.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2013)	2011: N/A	2012: N/A (New)	2013: 0	2014: 0
Recommended Actions for FY 2016				**Status at end of FY 2015**
1. Complete an assessment of the Agency's acquisition activities using OMB's Guidelines for Assessing the Acquisition Function.				Green ↑
2. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions, and timeframes to address deficiencies identified in the organizational alignment and leadership assessment area.				Orange
3. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions, and timeframes to address deficiencies identified in the acquisition policies and processes assessment area (i.e. acquisition management SOP).				Orange
4. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions, and timeframes to address deficiencies identified in the acquisition workforce assessment area.				Orange
5. Create and implement a comprehensive improvement plan—based on the results of the acquisition function assessment—that has measurable goals, objectives, prioritized actions, and timeframes to address deficiencies identified in the knowledge management and information systems assessment area.				Orange

-Implemented -Substantial Progress -Limited Progress -No Progress

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

As required by OMB Circular A-136, Section II.5.7, the following summarizes SBA's Financial Statement Audit and Management Assurances:

SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion	Unmodified					
Restatement	No					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0

SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements.					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0

Conformance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. System Requirements	No lack of substantial compliance noted	No lack of substantial compliance noted
2. Accounting Standards	No lack of substantial compliance noted	No lack of substantial compliance noted
3. USSGL at Transaction Level	No lack of substantial compliance noted	No lack of substantial compliance noted

IMPROPER PAYMENTS

As required by the Improper Payment Information Act of 2002 (IPIA), its amendments, and OMB Circular No. 123, Appendix C, *Management's Responsibility for Internal Control: Requirements for Effective Estimation and Remediation of Improper Payments,* the SBA reviews programs identified as susceptible to improper payments.

Improper payment reviews are a multi-layered process that starts with a risk assessment. If an assessment indicates a program is susceptible to improper payments, then testing is performed using a statistically valid sampling technique. Based upon the testing results, a corrective action plan is determined for the types of errors uncovered. If a significant amount of recoverable dollars is found, the SBA considers the appropriateness of performing a recapture audit.

The Disaster Relief Appropriations Act, 2013 provided funding for disaster relief in response to Hurricane Sandy to certain agencies including the SBA. Agencies were required to ensure the funds were used for their intended purpose. The Act deemed all Hurricane Sandy funds as susceptible to significant improper payments and, regardless of risk assessment results, mandated that agencies report an improper payment estimate for the funds. The SBA received Hurricane Sandy Disaster Relief (HSDR) funds for the Disaster Direct loan program, including the administrative expenses related to the program, and certain grant programs. Improper payment assessments of those relevant grant programs and payments to federal employees did not determine them to be susceptible to improper payments; however, the SBA conducted improper payment reviews and is reporting the results to comply with the Disaster Relief Appropriations Act, 2013.

The SBA reviewed nine programs and activities for improper payments – three major credit programs as mandated by OMB, disbursements for goods and services, and Hurricane Sandy Disaster Relief (HSDR) funds for grants, payroll, travel, and purchase cards. The three major credit programs are:

- 7(a) business loan program that includes guaranty purchases and guaranty approvals;
- 504 certified development company loan guaranty approvals; and
- Disaster direct loan disbursements.

A fourth major credit program, the Small Business Investment Company (SBIC) program, retains approval from OMB for relief from reporting due to the low occurrence of improper payments determined by several years' review and low probability for improper payments.

The next sections discuss SBA efforts and results related to improper payment assessments and reviews.

Part I - Risk Assessments

OMB Circular No. A-123, Appendix C requires risk assessments at least once every three years for programs not deemed risk susceptible or if a program was subjected to a significant change in legislation or funding level. The SBA last conducted risk assessments for all programs and activities, including payments made to employees, for susceptibility to improper payments in FY 2014. The risk assessments did not identify any additional programs as susceptible to improper payments. Since no significant changes occurred to any SBA program or activity during FY 2015, the SBA did not conduct any new risk assessments.

Parts II and V - Statistical Sampling and Corrective Actions

To provide more clarity for the reader, this section is organized by the nine programs subjected to review for improper payments and provides statistical sampling information coupled with corrective actions where applicable.

7(A) LOAN GUARANTY PURCHASES

Statistical Sampling

Using Probability Proportional to Size (PPS) sampling with replacement, the 7(a) purchase sample cases were chosen from all purchases approved during the 12 month period ending March 31, 2015. The purchase population was divided into four strata based on the following factors: which of three servicing offices processed the purchase and if the loan was considered an early default, regardless of servicing office. Using the PPS approach, the SBA determined the appropriate total sample size to be 261 loans from the population. The sample included aggregate purchase outlays of $148,317,727 and an absolute value of improper payments of $1,785,487 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) guaranty purchase population is .90 percent.

The 7(a) loan guaranty purchase reviews were conducted to examine if the lender complied materially with the 7(a) loan program origination requirements including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 7(a) loan program. The purchase reviews were to determine if the lender (1) originated, serviced, and liquidated the loan in a prudent and commercially reasonable manner; (2) misrepresented or failed to disclose a material fact to the SBA; and/or (3) put SBA's financial interest at risk.

Corrective Action

The improper payment rate of 0.90 percent and $7.91 million does not exceed the 1.5 percent and $10 million threshold for reporting a corrective action.

7(A) LOAN GUARANTY APPROVALS

Statistical Sampling

Using PPS sampling with replacement, the 7(a) approval sample cases were chosen from all loan guaranties approved during the 12 month period ending March 31, 2015. The loan guaranties were approved through SBA's loan processing centers, consisting of the 7(a) Loan Guaranty Processing Center with dual locations in Sacramento, California and Hazard, Kentucky. The approval population was divided into two strata based on whether the loan was SBAExpress or not. The SBA determined the appropriate total sample size to be 141 loans from the population. The sample included net guarantied approvals of $162,199,500 and improper payments of $6,217,068 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate was calculated as 5.59 percent.

The 7(a) loan guaranty approval reviews were conducted to examine if the lender complied materially with the 7(a) loan program origination requirements including statutory provisions, SBA regulations, any agreement the lender executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 7(a) loan program. The approval reviews were to determine if the lender (1) originated the loan in a prudent and commercially reasonable manner; (2) misrepresented or failed to disclose a material fact to the SBA; and/or (3) put SBA's financial interest at risk.

Corrective Action

In FY 2015, the most prevalent root cause for 7(a) loan approval improper payments stemmed from administrative or process errors made by the participating lender at origination. Improper payments generally arose when the participating lender failed to comply with loan program requirements. The primary reasons for 7(a) approval errors in FY 2015 included:

- ineligible loan structures;
- lack of repayment ability; and
- improper determination of eligibility by lenders or SBA loan officers.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 7(a) loan guaranty approval centers. Specific corrective actions are determined based upon the primary reason for the error with the purpose of both remedying the error and ensuring the error does not occur in the future. Plans for improvement include:

- revise and issue updated SOP 50 10 5(G) and ensure clear guidance is provided as it relates to the 7(a) guaranty purchase process;
- the Office of Financial Program Operations will collaborate with the Office of Credit Risk Management to ensure specific lender deficiencies are monitored and incorporated into risk based reviews;
- external training for lenders to avoid ineligible loan structures, ensure proper use of loan proceeds, and accurately determine loan eligibility; and
- internal training for loan approvers to ensure appropriate documentation is obtained and analyzed prior to loan approval.

The aforementioned corrective actions to ensure errors do not continue to occur are currently underway. Revisions to the SOP are anticipated to be completed by the end of FY 2016. The Office of Financial Program Operations (OFPO) shared the loan level and lender deficiencies with the Office of Credit Risk Management (OCRM) in August 2015, and will continue its efforts to ensure lender deficiencies are monitored and incorporated into lender's Risk Based Reviews. External and internal training will be provided by the end of the second quarter of FY 2016.

Corrective actions are tracked at the loan level through a centralized database. The Quality Control Specialist for 7(a) loan guaranty approvals monitors errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met. All improper payments identified as a result of the FY 2015 IPERIA reviews have been recaptured through obtaining additional documentation, loan modification, or cancellation of the loan guaranty. Corrective actions were generally completed at the loan level within 60 days with all actions taken by the end of the fiscal year.

504 CDC LOAN GUARANTY APPROVALS

Statistical Sampling

Using PPS sampling with replacement, the 504 CDC loan approval sample cases were chosen from all loan guaranties approved during the 12-month period ending March 31, 2015. The loan guaranties were approved at SBA's Sacramento Loan Processing Center and closed at various SBA district offices, with servicing subsequently handled by the Fresno, California Commercial Loan Servicing Center and the Little Rock, Arkansas Commercial Loan Servicing Center. The approval population was not stratified. The SBA determined the appropriate total sample size to be 192 loans from the population. The sample included net approval outlays of $294,277,000 and improper payments of $16,663,014 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate was calculated as 3.78 percent.

The 504 CDC loan approval reviews were conducted to examine if the lender complied materially with the program's origination requirements including statutory provisions, SBA regulations, any agreement the CDC executed with the SBA, standard operating procedures, loan authorizations, and official SBA notices and forms applicable to the 504 CDC loan program. The reviews were to determine if the CDC (1) originated the loan in a prudent and commercially reasonable manner; (2) misrepresented or failed to disclose a material fact to the SBA; and/or (3) put SBA's financial interest at risk.

Corrective Action

In FY 2015, the most prevalent root cause for 504 approval improper payments stemmed from administrative or process errors made by the participating lender at origination and the CDC's failure to verify eligibility data. Improper payments generally arose when the participating lender failed to comply with loan program requirement. The primary reasons for 504 approval errors in FY 2015 included:

- lack of substantiating financial documents; and
- inadequate affiliate and size standard analysis.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 504 loan approval center. Specific corrective actions are determined based upon the primary reason for the error with the purpose of both remedying the immediate error and ensuring the error does not occur in the future. Plans to ensure reduction targets are met include:

- the Office of Financial Program Operations will collaborate with the Office of Credit Risk Management (OCRM) to ensure specific lender deficiencies are monitored and incorporated into risk based reviews;
- external training for CDCs focusing on substantiating financial documents including analysis, affiliate and size standard analysis, and accurately determining loan eligibility;
- internal training for loan approvers focusing on calculating a borrower's repayment ability, and affiliate and size standard analysis; and
- enhanced internal quality control reviews to test 504 pre-closing servicing actions.

The aforementioned corrective actions to ensure errors do not continue to occur are currently underway. OFPO shared the loan level and lender deficiencies with OCRM in August 2015, and will continue its efforts to ensure lender deficiencies are monitored and incorporated into lender's Risk Based Reviews. External and internal training will be provided by the end of the second quarter of FY 2016. The Quality Control program has designed the review process for 504 pre-closing servicing actions, and anticipates incorporating such reviews by the end of the second quarter in FY 2016.

Corrective actions are tracked at the loan level through a centralized database. The Quality Control Specialist for 504 loan guaranty approvals monitors errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met. All improper payments identified as a result of the FY 2015 IPERIA reviews have been recaptured through obtaining additional documentation or through a loan modification. Corrective actions were generally completed at the loan level within 60 days with all actions taken by the end of the fiscal year.

DISASTER DIRECT LOAN PROGRAM

Statistical Sampling

The Office of Disaster Assistance performs a Quality Assurance Review (QAR) of the approved loan portfolio annually. A part of the QAR is to identify any deficiency that would result in an improper payment. The statistical methodology used follow widely accepted practices and was approved by the Office of Management and Budget. The review population consisted of disaster loan disbursements, including HSDR funds, made during the 12-month period ending June 30, 2015 with total disbursements of $302,288,000. A sample of 500 payments was selected for which testing yielded a weighted estimated improper payment rate of 8.13 percent. Based on the sample results, the estimated amount of improper payments was $24,575,000. This represents a substantial reduction in the improper payment rate and dollars over the last fiscal year which reported a rate of 12 percent and $70 million.

The scope of ODA's review covers three primary compliance areas: (1) basic eligibility; (2) adherence to relevant laws, rules, regulations, and standard operating procedures; and (3) credit worthiness.

Corrective Action

In FY 2015, the most prevalent root cause for Disaster Direct loan program improper payments stemmed from administrative and documentation errors. The loan processing and disbursement staff did not consistently follow the guidance provided in the SOP and policy memos. Specifically, errors arose when:

- proper dates and type of insurance coverage, which accounts for approximately 71 percent of all improper payments in this program, were not confirmed;
- disbursements were made to parties that were ineligible for disaster loan assistance; and
- underpayments that incorrectly lowered borrowers' loan amount eligibility.

As a result, ODA plans to continue the following corrective actions:

- Intense training on the various types of insurance coverage will be conducted for the disbursement staff (case managers and attorneys) at the Processing and Disbursement Center in Fort Worth, Texas. The training will be completed by the end of FY 2016 first quarter, December 31, 2015.
- Secondary reviews of specified (based on dollar amount) disbursements to ensure the proper insurance coverage is in effect. The second review is currently ongoing and will be performed on every specified dollar amount disbursement

DISBURSEMENTS FOR GOODS AND SERVICES

Statistical Sampling

Disbursements for goods and services samples were chosen using PPS with replacement methodology from payments completed during the 12 months ending March 31, 2015. The total number of disbursements was 3,255, and the total dollar amount was $105,444,360. The SBA determined the appropriate sample size to be 214 unique invoices having total outlays of $54,201,465. Based upon the sample results, the estimated improper payment rate exceeded the estimated rate used in the sampling methodology and therefore an additional of 91 unique invoices totaling $8,982,495 were sampled. Based upon both sample results, the estimated FY 2015 disbursements for goods and services improper payment rate is 13.52 percent for an estimated total of $14,260,252. This was a significant increase from last year's estimated improper payment rate for disbursements for good and services of 8.46 percent and a slight increase from FY 2013 rate of 11.6 percent.

The scope of the review covered three areas: invoice accuracy, compliance with contract terms, and accuracy of invoice processing.

Corrective Action

In FY 2015, the root cause of the improper payments was administrative and documentation errors. All payments corresponded to valid goods and services received. The types of errors included:

- lack of review of contract documents prior to issuance;
- inadequate comparison of the invoice to the contract to verify period of performance, terms, or labor rates and categories to ensure they agree; and
- payment accuracy issues where the financial system was not updated at the time of payment with current vendor payment information from the System for Award Management (SAM).

To prevent the administrative and documentation errors noted in the improper payment review, the SBA will complete the following corrective actions:

- develop an internal review process on contracts based on Federal Acquisition Regulations by January 29, 2016;
- provide training to all contracting staff on reviewing and approving invoices by January 31, 2016; and
- install patches for the interface between the financial system and SAM by January 31, 2016; continue manual procedures until the interface between the financial system and SAM is developed

HURRICANE SANDY DISASTER RELIEF GRANTS

Statistical Sampling

Hurricane Sandy Disaster Relief (HSDR) grant population for disbursements completed during the 12 months ending March 31, 2015 consisted of 43 disbursements for the total dollar amount of $4,267,246.63. In FY 2014 samples were chosen using PPS with replacement methodology; however, after assessing the cost of a statistician's services to select a sample in FY 2014 and evaluating the small volume of disbursements, it was determined that it was not cost effective to contract with a statistician to select a sample. For this reason, 100 percent of the HSDR grant disbursements were reviewed for improper payments. The 100 percent test of disbursements will continue in future years until the funds are fully expended. Based upon the test results, the estimated FY 2015 improper payment rate was 3 percent for a total of $130,050.76.

Corrective Action

The improper payment rate of 3.02 percent and $130,050.76 exceeds the 1.5 percent but does not exceed $10 million threshold for reporting a corrective action plan.

HURRICANE SANDY DISASTER RELIEF ADMINISTRATIVE EXPENSES – PAYROLL

Statistical Sampling

Hurricane Sandy Disaster Relief payroll administrative expense samples were chosen using PPS with replacement methodology from payments completed during the 12 months ending February 28, 2014. The administrative expenses were inadvertently not reported in FY 2014 so expenses from March 1, 2013 to February 28, 2014 are being reported in FY 2015; subsequent HSDR administrative expenses will be reported in future years. The total dollar amount expended was $136,739,099. The SBA determined the appropriate sample size to be 119 line items having total outlays of $704,982.43. Based upon the sample results, the estimated FY2015 improper payment rate was .30 percent for a total of $407,630.

Corrective Action

The improper payment rate of .30 percent and $407,630 does not exceed the 1.5 percent and $10 million threshold for reporting a corrective action plan.

HURRICANE SANDY DISASTER RELIEF ADMINISTRATIVE EXPENSES – TRAVEL

Statistical Sampling

Hurricane Sandy Disaster Relief travel administrative expense samples were chosen using PPS with replacement methodology from payments completed during the 12 months ending February 28, 2014. The administrative expenses were inadvertently not reported in FY 2014 so expenses from March 1, 2013 to February 28, 2014 are being reported in FY 2015; subsequent HSDR administrative expenses will be reported in future years. The travel population was divided into three strata based on the following factors: reimbursements to employees for travel; payments associated with centrally billed accounts; and travel related relocation expenses. There were 7,278 expenditures with a total dollar amount of $10,115,680. Using the PPS approach, the SBA determined the appropriate sample size to be 145 disbursements. Based upon the sample results, the estimated FY2015 improper payment rate was 0.12 percent for a total of $12,065.

Corrective Action

The improper payment rate of 0.12 percent and $12,065 does not exceed the 1.5 percent and $10 million threshold for reporting a corrective action plan.

HURRICANE SANDY DISASTER RELIEF ADMINISTRATIVE EXPENSES – PURCHASE CARDS

Statistical Sampling

There were 690 Hurricane Sandy Disaster Relief purchase card administrative expense payments during the 12 months ending February 28, 2014 that totaled $514,813.55. The administrative expenses were inadvertently not reported in FY 2014 so expenses from March 1, 2013 to February 28, 2014 are being reported in FY 2015; subsequent HSDR administrative expenses will be reported in future years. After assessing the cost of a statistician's services to select a sample and evaluating the small volume of disbursements, it was determined that it was not cost effective to contract with a statistician to select a sample. For this reason, 100 percent of the HSDR purchase card disbursements were tested for improper payments. The 100 percent test of disbursements will continue in future years until the funds are fully expended. Based upon the test results, the estimated FY 2015 improper payment rate was 1 percent for a total of $5,171.59.

Corrective Action

The improper payment rate of 1 percent and $5,171.59 does not exceed the 1.5 percent and $10 million threshold for reporting a corrective action plan.

Part III - Improper Payment Reporting

Table 1 presents a summary of SBA's improper payment review results and reduction outlook.

TABLE 1 IMPROPER PAYMENT REDUCTION OUTLOOK ($ IN MILLIONS)

Program	FY 2014			FY 2015					FY 2016			FY 2017			FY 2018		
	Outlays[1] $	IP %	IP $	Outlays[1] $	IP %	IP $	Over-paid $	Under-paid $	Outlays[1] $ Est.	IP %[5]	IP $	Outlays[1] $ Est.	IP %[5]	IP $	Outlays[1] $ Est.	IP %[5]	IP $
7(a) Guaranty Purchases[1, 3, 5]	858.6	1.75	15.0	880.16	0.9	7.91	4.05	3.86	900.00	1.00	9.00	925.00	1.00	9.20	950.00	1.00	9.50
7(a) Guaranty Approvals[1,2]	11,741.1	5.15	605.0	15,160.48	5.59	848.08	848.08	0.00	15,240.00	4.75	723.90	15,500.00	4.65	720.75	15,750.00	4.55	716.63
504 CDC Guaranty Approvals	4,571.5	1.09	49.9	4,189.53	3.78	158.20	158.20	0.00	4,200.00	3.50	147.00	4,250.00	3.40	144.50	4,300.00	3.30	141.90
Disaster Loan Disbursements[1]	585.6	12.00	70.2	302.28	8.13	24.57	24.49	0.08	600.00	7.29	43.74	600.00	6.56	39.27	600.00	5.90	35.42
Disbursements for Goods and Services	92.6	8.46	7.8	105.44	13.52	14.26	14.26	0.00	115.00	13.00	11.30	115.00	12.50	10.87	115.00	12.00	10.43
Hurricane Sandy Disaster Relief Grants	5.5	3.00	0.17	4.3	3.02	0.13	0.13	0.00	5.60	2.00	0.11	0.00	N/A	N/A	0.00	N/A	N/A
Hurricane Sandy Disaster Relief Administrative Funds - Payroll[4]	N/A	N/A	N/A	136.74	0.30	0.41	0.28	0.13	26.99	0.20	0.01	0.00	N/A	N/A	0.00	N/A	N/A
Hurricane Sandy Disaster Relief Administrative Funds - Travel[4]	N/A	N/A	N/A	10.12	0.12	0.012	0.009	0.003	0.27	0.10	0.00	0.00	N/A	N/A	0.00	N/A	N/A
Hurricane Sandy Disaster Relief Administrative Funds - Purchase Cards[4]	N/A	N/A	N/A	0.51	1.00	0.005	0.005	0.00	0.15	0.80	0.01	0.00	N/A	N/A	0.00	N/A	N/A
Total[6, 7]	17,854.9	4.19	748.07	20,789.56	5.07	1,053.58	1,049.50	4.07	21,088.01	4.43	935.07	21,390.00	4.32	924.59	21,715.00	4.21	913.88

1 Outlays in this report represent the base amount of the program activity related to SBA improper payments; and this amount will differ from the amount reported as outlays in SBA's President's Budget submissions because they include reestimates of subsidy cost, reimbursements to SBA administrative funds and other costs. Outlays for 7(a) Guaranty Purchases are the amount of disbursements for the purchase of defaulted guarantied loans. Outlays for 7(a) Guaranty Approvals are the amount of new guaranty approvals by banks and other SBA lending partners. Outlays for 504 CDC Loans Guarantied are approvals irrespective of disbursement, net of approval increases, decreases, reinstatements and cancellations for the current year. Outlay figures for Disaster are loan disbursements on current year approvals.

2 For 7(a) Guaranty Approvals, amounts reported are based on the guarantied amount only.

3 Improper payment rate of 1.33 percent in the amount of $11.4 reported in FY 2014; however an additional improper payment was identified and the rate was adjusted to 1.75 percent and $15.0 million.

4 Data reported is for period March 1, 2013 through February 28, 2014 due to inadvertent lack of reporting in FY 2014.

5 Improper payment rate for 7(a) Guaranty Purchase is being projected as 1.0 percent for FY 2016 - FY 2018. As new loan products and processes are released a minimal impact is anticipated; however, the improper payment rate is anticipated to remain at 1 percent. This is an acceptable level to the Agency.

6 Total improper payment estimates and improper payment percentages do not represent a true statistical estimate for the Agency.

7 Total does not include Hurricane Sandy Disaster Relief Indirect Expenses of $9.5 million; SBA recorded funds with 'regular' indirect administrative Disaster program funds as was allowed by appropriation law.Improper payments for Hurricane Sandy Disaster Relief direct funds for administrative expenses of payroll, travel and purchase cards were reported above.

Part IV - Improper Payment Root Cause Categories

Table 2 presents a summary of the root causes of SBA's improper payments.

TABLE 2 IMPROPER PAYMENT ROOT CAUSE CATEGORIES BY PROGRAM MATRIX ($ IN MILLIONS)

Reason for Improper Payment		7(a) Guaranty Purchases		7(a) Guaranty Approvals		504 CDC Guaranty Approvals		Disaster Direct Loan Disbursements		Disbursements for Good and Services		Hurricane Sandy Disaster Relief Grants		HSDR Administrative Expense - Payroll		HSDR Administrative Expense - Travel		HSDR Administrative Expense - Purchase Card	
		Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment	Over payment	Under payment
Program Design or Structural Issue																			
Inability to Authenticate Eligibility								2.99	0.08					0.23					
Failure to Verify:	Death Data																		
	Financial Data																		
	Excluded Party Data																		
	Prisoner Data																		
	Other Eligibility Data[1]			728.09		153.83													
Administrative/ Process Error Made by:	Federal Agency	4.05	3.86	119.99		4.37				14.07		0.13		0.05	0.13	0.009	0.003		
	State or Local Agency																		
	Other party																		
Medical Necessity																			
Insufficient Documentation to Determine										0.19								0.005	
Other Reason[2]								21.50											
Total Estimated Improper Payments		**4.05**	**3.86**	**848.08**		**158.20**		**24.49**	**0.08**	**14.26**		**0.13**		**0.28**	**0.13**	**0.009**	**0.003**	**0.005**	

1 Documentation provided by delegated lender was not sufficient to establish the eligibility of the loan

2 This category consists of lack of documents to support ODA's policies concerning: a) insurance - $12,714,232; b) contractors compliance - $1,010,468; c) building permits - $5,464, 995; d) titling/mortgage issues - $1,095,502; and e) miscellaneous - $1,213,486.

Part V – Corrective Actions

To provide more clarity for the reader, the Corrective Actions section was coupled with the statistical sampling information in Part II, organized by the nine programs subjected to review for improper payments.

Part VI – Internal Control Over Payments

The SBA is committed to establishing, maintaining, and monitoring internal controls over improper payments. Reducing improper payments is a top management priority and has been included in management and staff individual performance goals in recent years. Responsibilities are clearly defined and individuals are held accountable as appropriate for their role in the process. Offices perform periodic risk assessments to identify if adequate mitigating controls exist. As an example, the Administrative Accounting Branch, which processes all payments for the SBA, performed a new risk assessment in FY 2015 to ensure all risks have been identified and controls are in place to mitigate the risk to an acceptable level. Based on the assessment, the Administrative Accounting Branch developed process plans to strengthen internal controls as needed.

Each office has established adequate internal controls to mitigate the risks identified. The processes for all loan programs and contracts with vendors include a comprehensive eligibility review which includes such activities as checking Treasury's Do Not Pay portal or other system, (e.g., the Credit Alert Verification Reporting System or CAIVRS), verifying income, confirming small business classification, and in the case of Disaster direct loans, conducting on-site visits to determine the cost of repair or replacement of the damaged property. Other requirements for specific loan programs and specific contracts are also reviewed prior to approval. All disbursements are approved using the "Rule of Two", meaning that two people review and approve the disbursement at the office level; the disbursements are reviewed again in the Administrative Accounting office using the "Rule of Two". Finally, all disbursements are batched and processed through Treasury's Do Not Pay portal at time of payment.

SBA management has established controls throughout both the loan and contracting processes and is responsible for training staff to perform the manual controls effectively and to communicate any change to the programs or controls timely. Due to the different levels of staff knowledge and skills in performing controls, the 7(a) Guaranty Approval, 7(a) Guaranty Purchase, 504 CDC Guaranty Approval, and the Disaster loan centers have established robust Quality Control (QC) programs to monitor the quality of loan approvals, purchases, and disbursements and to provide feedback to management. High risk loans, based on specific characteristics such as dollar value, loan type, and loan delegation, are reviewed prior to any funds being disbursed, or in the case of guaranties, committed to the lender. Reviews are documented in databases which provide timely information to management, such as types of errors, corrective actions taken or planned, and areas that may require additional training. The Acquisition Division will be implementing a review process on contracts in FY 2016.

SBA management believes adequate controls are in place and are generally working effectively; however, it appears that the SBA needs to enhance its documentation procedures to evidence payments are proper. Per the definition provided in OMB Circular A-123, Appendix C, if an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must be considered as an improper payment. Lack of proper and/or accurate documentation appears to be the predominant reason for most improper payments at the SBA.

Table 3 reflects managements' assessment of internal controls in their respective offices.

Part VII – Accountability

The focus of SBA's Strategic Goal 3 is to build an SBA that meets the needs of today's and tomorrow's small businesses. Strategic Objective 3.1 is designed to strengthen SBA's core programs and operations to ensure that they are high performing, effective, and relevant to the needs of the small business community. SBA's strategic goals are included in annual performance plans for all of its programs as business objectives, which are included in employee performance plans. SBA management monitors accomplishments of these business objectives and takes action when progress toward goal achievement is not on target. Executive and management bonuses are based on the accomplishment of business objectives included in employee annual performance plans. This management process helps assure accountability for improper payment reduction.

TABLE 3 STATUS OF INTERNAL CONTROLS

Internal Control Standards	7(a) Guaranty Approvals	504 CDC Approvals	Disaster Loan Disbursements	Disbursements for Goods and Services
Control Environment	4	4	4	4
Risk Assessment	3	3	2	3
Control Activities	3	3	3	3
Information & Communication	3	3	2	3
Monitoring	4	4	3	3

4 = Sufficient controls are in place to prevent improper payments

3 = Controls are in place to prevent improper payments but there is room for improvement

2 = Minimal controls are in place to prevent improper payments

1 = Controls are not in place to prevent improper payments

Part VIII - Information Systems and Other Infrastructure

7(a) loan guaranty purchases are supported by the Guaranty Purchase Tracking System. It is continually updated to enhance the overall integrity of the purchase process. Resources as they relate to human capital are currently adequate; however, the 7(a) guaranty purchase program would benefit from additional staffing resources.

7(a) loan guaranty approvals and 504 CDC loan guaranty approvals have adequate internal controls and are supported by E-Tran, SBA's electronic loan processing/servicing system. Both the SBA and delegated lenders process applications through the system. Lenders may also handle unilateral servicing actions electronically. The system provides increased efficiency and decreased costs in the loan guaranty origination and servicing processes. Resources as they relate to human capital are currently adequate; however, the 7(a) guaranty approval and 504 guaranty approval programs would benefit from additional staffing resources.

Disaster direct loan program has the information systems and other infrastructure it needs to reduce improper payments to targeted levels. For example, the Office Disaster Assistance (ODA) has an integrated, electronic loan processing system, the Disaster Credit Management System (DCMS), to streamline, enhance and improve the loan-making process. This system supports workflow management, electronic file management and document generation functions. Many of the business rules governing DCMS have been designed to improve the quality assurance process. In fact, the ODA quality assurance team works continually with the DCMS development team to improve the quality assurance process with a goal to minimize future improper payments as much as possible. The Disaster direct loan program has adequate human capital to maintain its internal controls.

Disbursements for goods and services are handled by the Oracle Federal Financial System. PRISM, a contract management system, is used to process SBA's acquisitions. The SBA acquisition and accounts payable teams continue work to improve interfaces between PRISM, the financial system, and external databases such as SAM to streamline the acquisition process from start to finish. The effectiveness of internal controls will need to be enhanced to reduce improper payments; human capital resources are adequate but the Acquisition Division and Office of Chief Financial Officer would benefit from additional staffing resources.

Part IX - Statutory or Regulatory Barriers

The SBA does not have any statutory or regulatory barriers limiting improvement to its performance on the improper payments initiative.

Part X - Recapture of Improper Payments

On September 15, 2011, the SBA submitted a Payment Recapture Audit Cost-Effective Analysis to the Office of Management and Budget. The analysis discussed the 7(a) Business Loan Guaranty Program, the 504 Certified Development Company Loan Guaranty Program, the Disaster Direct Loan Program, Contracts/Acquisition (now reported as Disbursements for Goods and Services), the Small Business Investment Company Financing Guaranty Program (SBIC), the Surety Bond Guaranty Program, and Grants, which included all grant programs. The analysis described the program, the controls over financial disbursements, and the size of the program and concluded for each program that recapture audits would not be cost effective due to low error rates, complexity of the program, or limited amount of outlays. For the latter three listed programs, assessments in 2014 further supported the lack of cost-effectiveness of recapture audits by identifying that the programs are not susceptible to improper payments.

Agency efforts to recapture improper payments are discussed by program.

7(a) loan guaranty purchase improper payment reviews, quality control reviews, and OMB Circular A-123 Appendix A reviews indicated in FY 2014 that payment recapture audits would be cost effective and a recapture audit was conducted in FY 2015. Similar to the IPERIA reviews, the recapture audit was conducted to determine if the lender and SBA materially complied with the 7(a) loan program's origination, servicing, liquidation, and purchase requirements, and to recapture any funds improperly issued as a result of a lender's or SBA's non-compliance.

Loans were randomly selected on a monthly basis for a 12 month period ending March 31, 2015; samples were determined using the "Random Sample" function in Excel, and were comprised of 10 percent of the previous month's 7(a) guaranty purchase. A total of 256 loans were reviewed as part of the recapture audit, including aggregate purchase outlays of $99,478,911. Deficiencies were identified on 65 loans, totaling $2,084,425. Using a straight line calculation, the deficiencies identified totaled 2.10 percent of the 7(a) guaranty purchase dollars reviewed. The most prevalent root cause of the deficiencies identified was insufficient documentation specifically relating to the reimbursement of lender expenses that were not fully justified. All ineligible funds identified as part of the recapture audit have since been recaptured through additional documentation or lender billing.

The SBA intends to continue performing recapture audits as part of its QC Program in FY 2016; however, due to the improvements seen in the 7(a) guaranty purchase program and its improper payment rate, the audit process and results will not be formally reported in FY 2016.

7(a) loan guaranty approval and 504 CDC loan approval are not subject to payment recapture audits as no payment is made at the time of approval; payment is made only if the lender requests that the SBA honor its guaranty. Improper payments identified through both the annual improper payment and continuous quality control reviews are recovered from the lender through the cancellation of the SBA guaranty, reduction in loan guaranty percentage, or loan modification, as appropriate. This determination is made on a case-by-case basis, which varies substantially depending on the circumstances of the loan approval and lender authority.

Disaster direct loans recapture audits would not be cost effective as improper payments are generally the result of loan documentation errors and do not result in a disaster victim receiving funds for which they are not eligible. Loan documentation legally obligates the recipient of a disaster loan to pay back the entire loan amount whether or not the loan contains any improper payments. Therefore, improper payments are not recovered upon discovery but realized as the borrower makes each payment on the loan. Further, the majority of loans are collateralized which promotes maximum recovery. The FY 2015 IPERIA review of 500 disbursements identified 63 disbursements in 58 loans as improper payments for a total of $6,675,951. Pertaining to recovery of the 63 improper payments, 71 percent of the disbursements, or 87 percent of the dollars, were for paperwork issues and are not subject to recovery. Of the remaining payments only one was identified as recoverable in the amount of $20,000 which, extrapolated out to the population would indicate an overall recoverable amount of $90,486. The improper payment audit was completed using 4,400 hours of staff time and cost approximately$185,850. Based on the cost to audit versus the estimated dollars of recovery, it is clear that further expenditures for a separate recovery audit is not cost effective.

Disbursements for goods and services recapture audits would not be cost effective. The improper payment testing required 618 labor hours at a cost of $40,265. Payments identified during the improper payment review as eligible for recapture totaled $5,851.09; thus the cost of the review exceeds the return.

Hurricane Sandy Disaster Relief grants would not benefit from a recapture audit. The overpayments identified were

TABLE 4 IMPROPER PAYMENT RECAPTURES WITH AND WITHOUT AUDIT PROGRAMS ($ IN MILLIONS)

	Overpayments Recaptured through Payment Recapture Audits							Overpayments Recaptured outside of Payment Recapture Audits	
	Loans					Total			
Program or Activity	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
7(a) Guaranty Purchase[1]	2.08	2.08	100%	100%	100%	2.08	2.08		
Contract IP Review[1]								0.0058	0.0052
TOTAL	2.08	2.08	100%	100%	100%	2.08	2.08	0.0058	0.0052

1 Period of review is for the 12 month ending 3/31/15

TABLE 5 DISPOSITION OF FUNDS RECAPTURED THROUGH PAYMENT RECAPTURE AUDITS ($ IN MILLIONS)			
Program or Activity	**Amount Recovered**	**Type of Payment**	**Original Purpose**
7(a) Guaranty Purchase	2.08	Loan	2.08
TOTAL	2.08	Loan	2.08

TABLE 6 AGING OF OUTSTANDING OVERPAYMENTS IDENTIFIED IN THE PAYMENT RECAPTURE AUDITS ($ IN MILLIONS)					
Program or Activity	**Type of Payment**	**Amount Outstanding (0 - 6 months)**	**Amount Outstanding (6 months to 1 year)**	**Amount Outstanding (over 1 year)**	**Amount determined to not be collectable**
7(a) Guaranty Purchase	Loan	0	0	0	0
TOTAL		0	0	0	0

from administrative errors and these payments are not eligible for recapture.

Overpayments recaptured outside of payment recapture audits for SBA credit programs are applicable only to 7(a) Loan Guaranty Purchases, as payments made within this program area are recoverable from lenders as appropriate. Amounts reported this year for the program were done within an SBA recapture audit. Cash disbursements related to goods and services made for an inaccurate amount or not according to contract terms total $5,851.09, of which $5,229.19 has been recaptured.

Part XI – Additional Comments

A significant portion of the 7(a) guaranty approval and 504 guaranty approval programs' improper payments stemmed from documentation errors, including missing or incomplete documents, at the time of loan approval. All documentation errors have been corrected through the receipt of additional information and were included in the annual estimation. An estimation excluding corrected documentation was also performed. A comparison of the two estimation approaches is illustrated below:

IMPACT OF NEW IPERIA REPORTING REQUIREMENTS ($ REPORTED IN MILLIONS)				
	FY 2015 Improper Payment Estimation – All Errors		**FY 2015 Improper Payment Estimation – Corrected Documentation Errors Excluded**	
Loan Program	**Improper Payment Rate**	**Improper Payment Amount**	**Improper Payment Rate**	**Improper Payment Amount**
7(a) Guaranty Approval	5.59%	848.08	3.01%	455.66
504 Guaranty Approval	3.78%	158.20	2.73%	114.56

If the corrected documentation errors were excluded from the improper payment estimations, the 7(a) guaranty approval improper payment rate would decrease by more than 2.5 percentage points, with the estimated improper payments decreasing by almost $400 million; the 504 guaranty approval improper payment rate also decreases by more than 1.0 percentage point, with the estimated improper payment amount decreasing by approximately $35 million. While the SBA understands that the definition of an improper payment includes loan guaranty commitments, it is important to note that any loan submitted for guaranty purchase must undergo a rigorous review – including an analysis of the guaranty approval – prior to guaranty purchase. In the event a lender fails to materially comply with the SBA's program requirements at any point in the life of the loan, the SBA can deny payment of the guaranty to the lender. As such, it is SBA's position that the estimation excluding the corrected documentation errors reflects a more accurate representation of the improper payment estimations for the 7(a) guaranty approval and 504 guaranty approval programs.

The improper payment rate for disaster direct loans does not indicate such loans were disbursed to disaster victims that were not eligible under the Disaster loan program. The improper payments consisted of 79 disbursements out of the 500 disbursements reviewed. Of the 79 considered to be improper payments, 61 were for "paperwork" issues not eligibility issues. The paperwork issues did not result in a disaster loan borrower receiving any loan funds that they were not eligible to receive or have any impact on SBA's ability to collect on the disaster loans.

Part XI – Agency Reduction of Improper Payments with the Do Not Pay Initiative

The SBA has implemented the Do Not Pay (DNP) Initiative and subjects its disbursements to comparison against the Death Master File (DMF) and SAM Exclusion Records – Restricted at the time of payment. The comparison between SBA and DNP data is completed on a daily basis using current disbursement data. SBA staff manually review and adjudicate the findings of the data matches, with the majority of matches received from the DMF. The FY 2015 DNP process examined SBA disbursements between October 2014 and August 2015. September 2015 data was not available from DNP at the time of this report. Using the DNP database has not impacted improper payments as evidenced in Table 7. The table also reflects the root cause of the improper payments in the Disaster Direct loan program. The payments classified as improper were the result of refunds on paid- in-full loans paid to deceased borrowers.

The improper payments were not directly caused by a failure to use a DNP database but rather a failure to review internal databases that had identified the borrower as deceased. This brings to light an opportunity to review SBA's internal control for this particular process and evaluate the need for an improvement.

TABLE 7 RESULTS OF THE DO NOT PAY INITIATIVE IN PREVENTING IMPROPER PAYMENTS ($ IN MILLIONS)

	Number (#) of payts reviewed for possible improper payments	Dollars $ of payments reviewed for improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of improper payments reviewed and not stopped	Dollars ($) of improper payments reviewed and not stopped
Reviews with the IPERIA specified databases	204,726	$1,608.45	0	$0	16	0.004
Reviews with databases not listed in IPERIA	$0	$0	0	$0	0	0

Reason for Improper Payment		Disaster Direct Loans	
		Over Payment	Under Payment
Failure to Verify:	Death Data	0.004	
	Financial Data		
	Excluded Party Data		
	Prisoner Data		
	Other Eligibility Data		

The SBA has incorporated the use of the DNP databases Death Master File (DMF), Debt Check Database, and SAM Exclusion Records - Restricted for eligibility checks in the processing of 7(a) commercial loan program applications at the 7(a) Loan Guaranty Processing Center. This has improved the process for determining eligibility. There are current plans to expand the use of DNP database for eligibility checks to the SBA 504 loan program.

The 7(a) loan guaranty purchase process now requires the SBA to complete a CAIVRS search prior to guaranty purchase. The 7(a) loan guaranty approvals and 504 CDC loan guaranty approval processes also require lenders and the SBA, depending on loan delegation, to review CAIVRS and Debt Check during the loan approval process.

In FY 2016, the SBA will continue to incorporate CAIVRS and Debt Check into its review processes, as well as the Do Not Pay portal, but it does not have the capacity to monitor the impact of funds not issued to a participating lender or CDC.

SUCCESS STORY

2015 National Exporter of the Year

Sawyer Manufacturing Company
Tulsa, Oklahoma

Sawyer Manufacturing Company, a global provider of pipeline and welding equipment with headquarters in Tulsa, Oklahoma, is the *2015 SBA Small Business Exporter of the Year.*

Founded in 1948, Sawyer Manufacturing has grown to a 40-staff firm that exports to more than 50 countries, was recognized as part of Tulsa's "Fast 40," a ranking of the metro area's fastest growing companies, and is an active mentor for other local businesses.

Sawyer's production line is primarily focused on midstream transportation, storage, and the general movement of pipeline materials from production to distribution. Since its founding, the company has been exporting globally to more than 50 countries. In recent years, international business has accounted for nearly 50 percent of the company's total revenue, and the company has added more than 20 overseas distributors in the past four years.

Sawyer's experience in global markets has positioned the company as a mentor for other local businesses interested in global market participation.

The company's achievement is a testament to its export leadership team: Vice President **Dave Hembree**; Operations Manager **Scott Pearson**; Shop Manager **John Moorelock**; and Sales and Marketing Director **Andrew Martins**.

FREEZE THE FOOTPRINT REPORT

Section 3 of the Office of Management and Budget Memorandum (OMB) M-12-12, Promoting Efficient Spending to Support Agency Operations, directs that all Chief Financial Officers Act Executive Branch departments and agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to the FY 2012 baseline. This is referred to as the "Freeze the Footprint" policy.

On an annual basis, an agency shall not increase the size of its domestic real estate inventory, measured in square footage, for space predominately used for offices and warehouses. Progress in meeting the "Freeze the Footprint" policy is based on an annual evaluation of an agency's total office and warehouse square footage.

Since the establishment of OMB Memorandum M-12-12, the Small Business Administration has successfully reduced its real estate footprint. SBA's Freeze the Footprint 2012 baseline was 1,374,644 square feet. In FY 2013, the SBA reduced its footprint by 1.6 percent, to 1,352,162 square feet. In 2014, SBA's footprint further reduced to 1,319,731 square feet. The table below summarizes the status of current SBA space management projects:

Following is the SBA annual report:

FREEZE THE FOOTPRINT BASELINE COMPARISON

	FY 2012 Baseline	FY 2014 Actuals (CY - 1)	Change (FY 2012 Baseline-2014 (CY-1))
Square Footage (SF in Millions)	1.375	1.319	0.056

Reporting of O&M Costs – Owned and Direct Lease Buildings

The SBA only occupies buildings that are leased by GSA and subject to Occupancy Agreements between GSA and the SBA, which are explicitly excluded from reporting in the Circular A-11.

The space reductions mentioned in the 2013 Agency Freeze the Footprint update were completed in 2014 and 2015. Additional space reductions may become possible as a result of the ongoing space utilization survey and will be included in future updates. In FY 2015, the SBA reduced the footprint by approximately 26,415 square feet. SBA's preliminary projection for FY 2016 is 10,505 square feet of space reduction; however this projection will be reviewed and finalized in the upcoming Five Year Real Property Efficiency Plan. Due to changing mission requirements, the SBA added small amounts of space in Washington, D.C. and Federal Way, Washington, and is in the process of adding additional space in Atlanta, Georgia.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. To improve compliance with the Act, and in response to multiple audits and recommendations, agencies must report the most recent inflationary adjustments to civil monetary penalties to ensure penalty adjustments are both timely and accurate.

At this time, the SBA does not have any Federal Civil Penalties

Appendices

SUCCESS STORY

2015 Jody C. Raskind Microlender of the Year Award

Justine Petersen Housing & Reinvestment Corporation
St. Louis, Missouri

Inspired by the legacy of the late Justine M. Petersen, a pioneer in implementing community reinvestment in St. Louis, **Robert Boyle** founded the Justine PETERSEN Housing & Reinvestment Corporation to help low-wealth individuals and families develop, maintain, and increase their financial assets, including homeownership. Recognizing the important role that small businesses play in promoting community stabilization, economic opportunity and job creation, the Justine PETERSEN Housing & Reinvestment Corporation became one of the first SBA microlenders in1992. Under Boyle's leadership, and with the help of a dedicated staff, the microlender placed $2.6 million in microloan capital into underserved markets in Missouri, Illinois, and Kansas (390 loans), the most in both dollars and number of loans among all SBA microlenders in FY 2014.

The *Microlender of the Year Award* honors Jody C. Raskind, a long-time SBA employee. Jody was a pioneer in U.S. microlending and a leading force behind the establishment of the SBA Microloan program in 1992. She headed the program for many years until last September when she lost a protracted battle with cancer. During her association with the program, about 55,000 microloans were made totaling $655 million.

The Justine PETERSEN Housing & Reinvestment Corp. is the winner of the first-ever *SBA Jody C. Raskind Microlender of the Year Award.*

APPENDIX 1 - CONTACT SBA: USEFUL SITES AND NUMBERS

The SBA home page is www.sba.gov. Information on SBA programs may be accessed from this site. Several of the more frequently visited sites are listed here:

SBA INFORMATION	
About SBA	www.sba.gov/about-sba
SBA Performance, Budget and Planning	www.sba.gov/performance
SBA Strategic Plan	www.sba.gov/AgencyStrategicPlan
Business USA	http://business.usa.gov/
STARTING AND MANAGING A BUSINESS	
What is a Small Business?	www.sba.gov/content/am-i-small-business-concern
Thinking about Starting a Business?	http://www.sba.gov/thinking-about-starting/
Local Assistance	www.sba.gov/local-assistance
Lender Resources	www.sba.gov/lender_resources
Financing Growth	www.sba.gov/content/financing-growth
Explore Exporting	www.sba.gov/exporting
Health Care	www.sba.gov/healthcare
LOANS, GRANTS and FUNDING	
Small Business Loans	www.sba.gov/financialassistance
Surety Bonds	www.sba.gov/content/surety-bonds-explained
Venture Capital	www.sba.gov/content/venture-capital#
Grants	www.sba.gov/content/facts-about-government-grants
CONTRACTING	
Government Contracting	www.sba.gov/contracting
Register as a Contractor	www.sam.gov
Size Standards	www.sba.gov/size
ADVISING, MENTORING, and TRAINING	
SBA Learning Center	www.sba.gov/training
Small Business Development Centers	www.sba.gov/sbdc
Women's Business Centers	www.sba.gov/offices/headquarters/wbo
SCORE Business Mentors	www.sba.gov/score
Veterans Outreach	www.sba.gov/content/veterans-business-outreach-centers

DISASTER ASSISTANCE	
Disaster Assistance	www.sba.gov/disaster
Disaster Area Office Locations	www.sba.gov/about-offices-list/4
Response Office Locations for a Declared Disaster	Go to www.sba.gov/content/current-disaster-declarations and then select the disaster/affected area in question
FEMA Information	www.fema.gov

ADDITIONAL RESOURCES	
Office of Advocacy	www.sba.gov/advocacy
Office of the National Ombudsman	www.sba.gov/ombudsman
Office of the Inspector General	www.sba.gov/oig

SBA National Answer Desk (Toll Free) (800) 827-5722
Disaster Customer Service Center (Toll Free) (800) 659-2955

Facebook: www.facebook.com/sbagov
Twitter: www.twitter.com/sbagov
YouTube: www.youtube.com/sba
SBA blog: www.sba.gov/blogs/

DID YOU KNOW

SBICs invested more than **$6 billion** in American small businesses, the largest amount of capital ever.

APPENDIX 2 - GLOSSARY

Available at: www.sba.gov/performance, (Agency Financial Report)

504 — **504 Certified Development Loan Program**
Provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings, and long-life capital equipment.

7(a) — **7(a) Loan Guaranty Program**
SBA's primary loan program, provides general loan financing for a wide variety of purposes.

7(j) — **The 7(j) Management and Technical Assistance Program**
Provides specialized assistance to underserved small businesses.

7(m) — **The 7(m) Microloan Program**
Provides small, short-term loans to small business concerns and small non-profit child care centers.

8(a) — **8(a) Business Development Program**
Assists firms owned and controlled by socially and economically disadvantaged individuals to enter and succeed in the economic mainstream.

A-123 — **Designation for OMB Circular on Internal Control Systems**
It prescribes policies and procedures to be followed by executive departments and agencies in establishing, maintaining, evaluating, improving, and reporting on internal controls in their program and administrative activities.

AFR — **Agency Financial Report**
Performance and Accountability reports required of federal.

APG — **Agency Priority Goal**
The Government Performance and Results Modernization Act of 2010 requires federal agencies to establish a set of two-year APGs that reflect the highest priorities of agency leadership. The SBA has established four outcome-focused APGs.

APR — **Annual Performance Report**
Required by the Government Performance and Results Act, it presents a federal agency's progress in achieving the goals in its strategic plan and performance budget.

BATF — **Business Assistance Trust Fund**
A trust fund in the U.S. Treasury maintained to receive and account for donations made by private entities for activities to assist small business.

BD — **Business Development**
The Office of Business Development uses SBA's statutory authority to provide business development and federal contract support to small disadvantaged firms.

BLIF — **Business Loan and Investment Fund**
Fund operated by the U.S. Department of the Treasury to maintain the accounting records of loans approved prior to 1992.

CAP — **Cross-Agency Priority Goals**
The SBA participates in many of the government-wide federal Cross-Agency Priority goals. CAP goals are Presidential priorities. They are identified in areas where increased cross-agency coordination on outcome-focused areas is likely to improve progress.

CBJ — **Congressional Budget Justification**
A federal agency's annual budget request to Congress.

CDC — **Certified Development Company**
Refers to the Section 504 Certified Development Company debenture program.

CFO — **Chief Financial Officer**
The CFO is responsible for the financial leadership of the Agency, including responsibility for all Agency disbursements,

management, and coordination of Agency planning, budgeting, analysis, and accountability processes.

CIO — **Chief Information Officer**
The CIO is responsible for the management of information technology for the Agency, including the design, implementation, and continuing successful operation(s) of information programs and initiatives.

COTS — **Commercial Off-The-Shelf**
Software or hardware products that are ready-made and available for sale to the public.

CSAM — **Cyber Security Assessment and Management**

DCIA — **Debt Collection Improvement Act**

The Debt Collection Improvement Act of 1996 provides federal agencies with new and enhanced delinquent debt collection tools.

DCMS — **Disaster Credit Management System**
The electronic system used to process loan applications for all new disaster declarations.

DLF — **Disaster Loan Fund**
Assists eligible small businesses impacted by disasters.

FCRA — **Federal Credit Reform Act**
A law enacted to provide a more realistic picture of the cost of U.S. government direct loans and loan guaranties.

FECA — **Federal Employees' Compensation Act**
Provides compensation benefits to federal civilian employees and to their surviving dependents for work-related injuries or illnesses.

FERS — **Federal Employees Retirement System**
A three-tiered retirement plan for federal employees hired after 1984, composed of Social Security benefits, a basic benefit plan, and contributions to a TSP.

FFMIA — **Federal Financial Management Improvement Act**
A law that requires each agency to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the USSGL.

FISMA — **Federal Information Security Management Act**
A law that defines a comprehensive framework to protect government information, operations, and assets against natural or man-made threats.

FMFIA — **Federal Managers Financial Integrity Act**
A law that primarily requires ongoing evaluations and reports on the adequacy of the internal accounting and administrative control systems of executive agencies. It also requires evaluations and reports on the conformance of financial management systems.

FTA — The SBA Fiscal Transfer Agent is the agent tasked with the responsibility to administer each SBA Pool or Individual Certificate. It is to maintain a registry of Registered Holders and other information as the SBA requires.

FTE — **Full Time Equivalent**
Indicates the workload of an employed person; an FTE of 1.0 means that the person is equivalent to a full-time worker, while an FTE of 0.5 signals that the worker is only half-time.

FY — **Fiscal Year**
The federal government fiscal year begins October 1 and ends the following September 30.

GAO — **U.S. Government Accountability Office**
The audit, evaluation, and investigative arm of Congress.

GC/BD — **Office of Government Contracting and Business Development**
Works to create an environment for maximum participation by small, disadvantaged, and women-owned business in federal government contract awards and large prime subcontract awards.

GSA — **General Services Administration**
A federal agency of the Executive Branch whose mission is to deliver the best value in real estate, acquisition, and technology services to government and the American people.

HUBZone — **Historically Underutilized Business Zone**
SBA program that encourages economic development by the establishment of federal contract award preferences for small businesses located in historically underutilized business zones.

IIP — **Incremental Improvement Project**
Information technology projects intended to upgrade existing financial software and application modules in SBA's Loan Accounting System.

IPIA — **Improper Payment Information Act**
A federal law enacted in 2002 to identify and reduce erroneous payments in the government's programs and activities.

IT — **Information Technology**
Refers to matters concerned with the design, development, installation, and implementation of information systems and applications.

IV&V — **Independent Validation and Verification**
An IV&V review executes independent procedures by a third party that are used for checking that a model, product, service, or system meets requirements and specifications and that it fulfills its intended purpose. IV&V reviews of SBA's Office of Financial Analysis and Modeling financial models are conducted to assure that they are accurate and properly functioning.

Jobs Act — **Small Business Jobs Act of 2010**
Most often referred to as the Jobs Act in SBA documents, may also be referred to as SBJA.

LAS — **Loan Accounting System**
SBA's loan origination servicing and disbursement system.

LMAS — **Loan Management and Accounting System**
Financial management system that supports loan accounting.

MAS — **The GSA Multiple Award Schedule**

MD&A — **Management's Discussion and Analysis**
The MD&A is required supplementary information for federal financial statements and is designed to provide a high level overview of the Agency.

MRA — **Master Reserve Account**
SBA's fiscal agent maintains this escrow fund to facilitate the operation of the Certified Development Company program.

MRF — **Master Reserve Fund**
SBA's fiscal and transfer agent maintains this reserve fund to facilitate the operation of the 7(a) secondary market program.

NBER — **National Bureau of Economic Research**

OCA — **Office of Capital Access**
The SBA office responsible for small business loans, lender oversight, and the surety bond program.

OCFO — **Office of the Chief Financial Officer**
Responsible for the financial leadership of the Agency, including all Agency disbursements, management, and coordination of Agency planning, budgeting, analysis, and accountability processes.

OCRM — **Office of Credit Risk Management**
SBA office that manages program credit risk, monitors lender performance, and enforces lending program requirements.

ODA — **Office of Disaster Assistance**
SBA office that promotes economic recovery in disaster ravaged areas. SBA disaster loans are the primary form of federal assistance for non-farm, private sector disaster losses for individuals and businesses.

OFA — **Office of Financial Assistance**
SBA office that administers various loan programs to assist small businesses.

OFPO **Office of Financial Program Operations**
Leads the financial services industry in quality products and services to SBA partners and customers, and to protect the integrity of SBA programs.

OHRS **Office of Human Resources Solutions**
Develops and provides innovative human capital strategies. The office advises SBA management with respect to selecting, developing, and managing a high quality, productive workforce.

OIC **Office of Internal Controls**
Office within the Office of the Chief Financial Officer that has the lead in ensuring managers comply with internal control standards.

OIG **Office of Inspector General**
Conducts and supervises audits, inspections, and investigations relating to SBA programs and operations.

OMB **U .S. Office of Management and Budget**
White House office that oversees preparation of the federal budget and supervises its administration in Executive Branch agencies.

OPM **U.S. Office of Personnel Management**
The federal government's human resources agency.

OPM&CFO **Office of Performance Management and Chief Financial Officer**
Conducts and promotes effective financial management activities for the SBA including budget, credit subsidy, financial operations, financial systems, internal controls, and acquisitions.

ORACLE **The accounting program used by SBA's Administrative Accounting Division**

PAR **Performance and Accountability Report**
Annual report that presents financial, budgetary, and performance information to OMB, Congress, and the public.

PCECGF **Pollution Control Equipment Contract Guaranty Fund**
Supports costs associated with the credit portfolio of pre-October 1991 pollution control equipment loans and guaranties being liquidated by the SBA.

PPS **Probability Proportional to Size**

QA **Quality Assurance**
Functions to assure that project deliverables meet SBA's requirements and quality standards.

QAR **Quality Assurance Review**

RGDP **Real Gross Domestic Production**

SAM **System for Award Management**
The federal government system that tracks grant awards.

SAT **Senior Assessment Team**
SBA's SAT is chaired by the Chief Financial Officer and comprised of SBA managers from the major programs and support offices to oversee the assessment of internal controls for financial reporting performed by the Office of Internal Controls.

SBA **U.S. Small Business Administration**
A federal agency of the Executive Branch whose mission is to maintain and strengthen the nation's economy by enabling the establishment and vitality of small businesses and by assisting in the economic recovery of communities after disasters.

SBDC **Small Business Development Center program**
SBDCs provide management and technical assistance, economic development, and management training to existing and prospective small businesses through cooperative agreements with universities and colleges and government organizations.

SBG **Surety Bond Guarantee program**
Provides guaranties, bid, performance, and payment bonds for contracts up to $2.0 million for eligible small businesses that cannot obtain surety bonds through regular commercial channels.

SBGRF — **Surety Bond Guaranty Revolving Fund**
All the contractor and surety fees collected by the SBA are deposited in the SBGRF at the U.S. Department of the Treasury, which is used to pay claims.

SBIC — **Small Business Investment Company**
Provides long-term loans, debt-equity investments, and management assistance to small businesses, particularly during their growth stages.

SBIR — **Small Business Innovation Research Program**
A highly competitive SBA program that encourages domestic small businesses to engage in federal research/Research and Development (R/R&D) that has the potential for commercialization.

SBJA — **Small Business Jobs Act of 2010**
Most often referred to as the Jobs Act in SBA documents.

SBLC — **Small Business Lending Company**
Non-depository small business lending companies listed by the SBA Office of Capital Access.

SCORE — A volunteer organization sponsored by the SBA that offers mentoring and training for small business owners who are starting, building, or growing their businesses.

SOP — **Standard Operating Procedure**
SOPs are the primary source of the Agency's internal control.

SPFI — **Summary of Performance and Financial Information**
One of three annual financial and performance reports required of federal agencies.

STEP — **State Trade and Export Promotion Program or Grant**
A pilot export initiative to make matching-fund awards to states to help small businesses enter and succeed in the international marketplace.

VAT — **Vulnerability Assessment Team**
Performs monthly scans of network-attached devices to identify and remedy network vulnerabilities.

WBC — **Women's Business Center Program**
WBCs provide long-term training and advising to women who own or manage a business, including financial, management, marketing, and technical assistance and procurement.

DID YOU KNOW

The SBA awarded **$400,000** to eight growth accelerators and awarded $100,000 in Startup in a Day prizes for the creation of centralized, streamlined platforms, making it easier for entrepreneurs to start businesses in Native American communities.

APPENDIX 3 – OIG AUDIT FOLLOW-UP ACTIVITY

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 beneficial to the SBA's management. If SBA management disagrees with an OIG recommendation, the OIG may revise the recommendation or refer the issue to a higher level of SBA management. When both SBA management and the OIG agree on the recommendation, SBA management develops a corrective action plan, including a target date for completion. This recommendation is identified as having a "Management Decision." When the corrective action plan is implemented and the recommendation has been fully addressed, the recommendation is identified as having a "Final Action."

The OCFO maintains a database to track the recommendations through to the conclusion, or Final Action. During FY 2015 there were 146 Final Actions, resulting from 19 monetary and 127 non-monetary recommendations. The status of the corrective actions is updated regularly and is available for review on the SBA Intranet.

The following tables depict the SBA's final action activity for FY 2015 and the status of corrective action plans not implemented within one year:

- Table I: Final Action on Audit Recommendations with Disallowed or Questioned Costs, with accompanying pages describing the detail activity by report number.
- Table II: Final Action on Audit Recommendations with Funds Put to Better Use, with accompanying pages describing the detail activity by report number.
- Table III: Final Action on Audit Recommendations Not Completed with One Year.

TABLE I FINAL ACTION ON AUDIT RECOMMENDATIONS WITH DISALLOWED / QUESTIONED COSTS OCTOBER 1, 2014 – SEPTEMBER 30, 2015

	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.	14	$8,872
B. Recommendations on which management decisions were made during the period.	8	3,188
C. Total recommendations pending final action during period.	22	$12,060
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	3.5	$2,558
(b) Property		
(c) Other	7.5	4,000
2. Write-Offs	1	715
3. Total	12	$7,273
E. Recommendations needing final action at the end of the period.	10	$4,787

The above table reflects an adjusted beginning balance from FY 2014 report, which reflected 19 open recommendations for a total of $55,613 (in thousands). Amounts were adjusted as six items were later identified by the OIG as "Funds for Better Use" rather than "Questionable Costs" as originally reported and one item that was previously reported as non-monetary that was later identified as having questionable costs.

Detail of Final Action Activity

DISALLOWED / QUESTIONED COSTS

Report #13-07, Audit of SBA's 7(a) Guaranty Purchases Improper Payments

Summary: : The audit objective was to determine whether SBA accurately estimated its FY2011 Improper Payment Rate for 7(a) Loan Program purchases. The OIG identified questioned costs for six loans, two of which were $1,016,116 and $714,444. The former amount was collected from the lender and the latter was written off as the bank has closed and therefore recovery was not possible.

Final Action: $1,016,116 collected/$714,444 written off)

Report #13-08, Audit of SBA's 8(a) Information Technology Contracts

Summary: The audit objective was to determine whether the SAB effectively managed information technology contracts awarded to Isika Technologies, Inc. The OIG identified a duplicate payment of $12,073 and recommended that SBA seek recovery. SBA was unsuccessful in collecting the debt which remains an open receivable.

Final Action: $12,073 not collected (other).

Report # 13-16R, Purchase Reviews Allowed $4.6 Million in Improper Payments on 7(a) Recovery Act Loans

Summary: The audit objective was to determine if the SBA is mitigating its risk of loss. Specifically, whether the SBA is ensuring that 7(a) Recovery Act Loans were originated, closed, liquidated, and purchased in accordance with SBA's policies and procedures and prudent lending standards. The OIG identified questioned costs for six loans, four of which total $3,618,447. The audit recommended that the SBA seek recovery from the banks for the guarantied amount paid. The Office of Financial Program Operations, the Office of Credit Risk Management, and the Office of Financial Assistance submitted their opinion to the OIG that the purchase of this loan did not constitute an improper payment and each recommended not to seek recovery. The OIG accepted their opinion and no recovery was sought.

Final Action: $3,618,447 not collected (other).

Report # 14-02, Audit of SBA's FY 2012 Reported Improper Payment Rate for Disbursements and Contracting.

Summary: : The audit objective was to determine if the accuracy of SBA's FY 2012 reported improper payment rate for disbursements and contracting invoices and whether invoicing and payment processes for disbursements and contracting will prevent improper payments. The OIG identified two invoices for which the invoiced services did not match the contracts. SBA determined that the errors were in the contract documentation and because the services were requested and performed no recovery was possible. The OIG accepted this explanation and no recovery was sought.

Final Action: $235,672.09 not collected (other)

Report # 14-09, Audit of Improper Payments on 7(a) Recovery Act Loans

Summary: The audit was a second in a series of ongoing audits of purchased 7(a) Recovery Act Loans. The audit objective was to determine if the SBA is mitigating its risk of loss. Specifically, whether the SBA is ensuring that 7(a) Recovery Act Loans were originated, closed, liquidated, and purchased in accordance with SBA's policies and procedures and prudent lending standards. The OIG identified questioned costs for three loans, one of which was $1,473,770. The audit recommended that the SBA seek recovery from the bank for the guaranteed amount paid less any amounts received from liquidation. The amount collected was $1,473,770.

Final Action: $1,473,770 collected / $0.00 written off.

Report # 14-19, Audit of SBA's Oversight of the Financial Management of the District of Columbia Small Business Development Center

Summary: The audit objective was to determine whether the Small Business Development Centers complied with matching requirements for grants funding. The OIG recommended SBA implement controls to ensure Lead Centers use the appropriate indirect cost rate and category when computing indirect costs. SBA provided individual training to

SBDC Network hosts on direct cost rate agreements and calculations during the 2015 proposal review process. SBA revised the form "Schedule of Indirect Cost" to facilitate indirect cost determinations. The OIG questioned costs of $143,811 related to this issue; subsequently an over-match of $9,598 was identified and the remaining $134,213 was confirmed to be acceptable. In addition, a recalculation of indirect costs based on the 2012 financial statement recovered $58,862.27.
Final Action: $68,460.27 collected/$134,213 not collected (other)

TABLE II FINAL ACTION ON AUDIT RECOMMENDATIONS WITH FUNDS PUT TO BETTER USE
OCTOBER 1, 2014 – SEPTEMBER 30, 2015

	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	$2,500
B. Recommendations on which management decisions were made during the period.	1	$43,000
C. Total recommendations pending final action during period.	2	$45,500
D. Recommendations on which final action was taken during the period..		
1. Value of recommendations implemented (completed).	1.5	$43,800
2. Value of recommendations that management concluded should not or could not be implemented or completed.	.5	$1,700
3. Total	2	$45,500
E. Recommendations needing final action at the end of the period.	0	$0

The above table reflects an adjusted beginning balance from FY 2014 report, which reflected zero open recommendations. Amounts were adjusted as six items were later identified by the OIG as "Funds for Better Use" rather than "Questionable Costs" as originally reported and one was previously identified as non-monetary.

Detail of Final Action Activity

FUNDS FOR BETTER USE

Report #12-14, Audit of Disaster Loans in Liquidation

Summary: The audit objective was to assess SBA's effectiveness in managing disaster loans in liquidation to maximize debt recovery and minimize losses. One specific objective was to assess whether SBA complied with the Debt Collection Improvement Act for disaster loans in liquidation status. The OIG recommended that (1) specific actions be taken for loans over 180 days delinquent that are secured by collateral with funds for better use of $3,400,000; and (2) immediately charge-off loans over 180 days delinquent not secured by collateral with funds for better use of $3,900,000. Resolution activities included (1) creating procedures to identify the feasibility of foreclosure and the creation of a report to identify loans that will be charged-off when foreclosure on the collateral is not feasible; and (2) generation of a report to identify disaster loans in liquidation status that are delinquent over 180 days and not secured or exempt from referral to Treasury.

Final Action: $7.3 million implemented; $0 not implemented

Report # 13-18, Audit of Defaulted Disaster Loans from 2006 to 2011

Summary: The objective of the audit was to determine whether SBA effectively managed delinquent disaster loans to maximize recovery and minimize losses, were in compliance with applicable laws and regulations and was aligned with Federal debt collection objectives. The OIG recommended that SBA 1) transfer of all eligible charged-off loans to Treasury for cross-servicing; (2) transfer of all eligible charge-off loans to Treasury, including those with unliquidated collateral; (3) transfer of all legally enforceable debts already charged-off to Treasury for cross-servicing; (4) transfer of all debtors associated with charged-off debts to Treasury. SBA developed a new profile for charged-off loans secured by collateral with insufficient equity and is now transferring all eligible debt to Treasury for cross-servicing.

Final Action: $39.5 million implemented; $0 not implemented

Report #14-13, Audit of 7(a) Loan Guaranty Approval Process

Summary: The objective of the audit was to determine the extent to which the SBA was managing the 7(a) loan approval process to mitigate its risk of loss. The OIG identified six loans that were at risk for loss and determined $4.8 million as funds for better use and recommended SBA allocate resources to ensure risk is mitigated and quality is emphasized. SBA implemented risk-based processing which allowed more resources to be allocated to larger, more complex loans, hired an additional supervisor to provide additional oversight, and transferred or streamlined processes to reallocate resources to loan processing. SBA supported the identification of funds for better use for three of the six loans, or $2.3 million and the OIG accepted their opinion.

Final Action: $2.3 million implemented; $2.5 million not implemented

Report #15-15, Audit of Disaster Technical Assistance Grants

Summary: The objective of the audit was to determine whether SBA's oversight of Hurricane Sandy technical assistance grant funds ensured programs goals and objectives were achieved and whether requests for advances and reimbursements were supported by valid grant expenditures. The OIG recommended that SBA de-obligate funds unexpended by August 31, 2015 in the amount of $9,108,271. SBA obtained a waiver from the Office of Management and Budget which extended the funding to August 31, 2016.

Final Action: $9.108 million implemented; $0 not implemented

Report # 4-34, SBA's Process for Complying With the FMFIA Reporting Requirements

Program: OCFO

Date Issued: 07/29/2004

Management Decision Date: 09/09/2004

Explanation: The two recommendations remaining open are to the Office of the Chief Financial Officer (OCFO) to revise, clear and issue the draft SOP 00-02-3 and clearly define material weakness as it relates to SBA and at the different levels of management within the Agency. A draft SOP was completed in FY 2014; however, it was not submitted for clearance, awaiting the Office of Management and Budget's issuance of the revised OMB Circular A-123, Management's Responsibility for Internal Control, to ensure compliance with the new guidance. The anticipated completion date is 9/30/16.

Report # 8-12, Oversight of SBA Supervised Lenders

Program: OCA

Date Issued: 05/09/2008

Management Decision Date: 06/26/2008

Explanation: One recommendation remains open to the Office of Capital Access (OCA) to establish risk mitigation goals applicable to each loan program and the entire lending portfolio. OCA planned to develop program level performance benchmarks and risk mitigation goals for each 7(a) loan program and the entire 7(a) portfolio based on OCRM's PARRiS framework. However, it was discovered that the PARRiS framework does not support program benchmarks and OCA has requested an extension of the target date for completion to change their approach. Expected completion of this final action is 9/30/16.

Report #ROM 11-04, Audit of SBA's Recovery Act Data on Public Websites.

Program: OCFO

Date Issued: 3/22/11

Management Decision Date: 06/30/2012

Explanation: The three recommendations are to the Office of the Chief Financial Officer to determine if awards were made or funds should be de-obligated on 66 purchase requisitions; to deploy an independent statistical verification and validation of all SBA transactions; and to determine if Recovery Act funds were used to fund 13 contracts. The OCFO is researching and documenting the 66 purchase requisitions and anticipates resolution by May 2016. The independent verification and validation of SBA transactions was believed to have been implemented and follow-up is being provided to resolve by May 2016; and the documentation to support corrective action on the Recovery Act funded contracts has been submitted to the OIG for resolution in October 2015.

Report # 11-06, Audit of FY2010 Federal Information Security Management Act Review

Program: CIO

Date Issued: 01/28/2011

Management Decision Date: 03/28/2011

Explanation: The one remaining recommendation is to develop and document baseline configuration for each information system. System owners are conducting a gap analysis for software and hardware applications that have configuration baselines properly documented. OCIO is implementing a BigFix Security and Compliance Analytics function to monitor configuration and coordinating with program office to ensure configuration baseline documents are stored. Final action is estimated to be completed by March 31, 2016.

Report #11-14, Audit of Funding of Information Technology contracts Awarded to Isika Technologies, Inc.

Program: CFO

Date Issued: 06/02/2011

Management Decision Date: 12/11/2011

Explanation: The one remaining recommendation to the Office of the Chief Financial Officer is a review of SBA's funding procedures. The OCFO has updated the Acquisitions Standard Operating Procedures (SOP) and management is reviewing written policies and procedures to ensure work is performed in compliance with the FAR. Final action completion date is estimated to be 9/30/16.

Report #12-02, Audit of FY 2011 Financial Statements

Program: OCIO

Date Issued: 11/14/11

Management Decision Date: 12/22/2011

Explanation: The three remaining recommendations are to the Office of the Chief Information Officer and require (1) coordination with SBA program offices to enhance security vulnerability management processes; (2) Oversight of the review and validation of financial system accounts quarterly; and (3) implementation of configuration management policies and procedures for document retention for operating system changes. Resolution activities include (1) development of a more thorough approach to track and mitigate configuration management vulnerabilities identified during monthly scans. BigFix, the tool used to manage vulnerabilities, will be configured to appropriate standards. OCIO will also institute a quality assurance process to validate patch success and completion. Estimated completion date is 9/30/16. (2) SOP 90-47-3 requires that account reviews should be done semi-annually. The OCIO and programs offices conduct this activity according to the SOP. Supporting evidence is being generated to formally close this finding with the OIG. Estimated completion is 9/30/16; and (3) SBA currently follows the operating procedures outlined in the ECCB charger IAW SOP 90 42 0. An Architect Review Charter has been approved and a draft Configuration Management policy is under management review. Estimated completion date is 9/30/16.

Report #12-15, Audit of FY 2011 Federal Information Security Management Act Review

Program: OCIO

Date Issued: 7/16/12

Management Decision Date: 8/16/12

Explanation: The two remaining recommendations are to the Office of the Chief Information Officer and require (1) perform recertification reviews of agency general support systems or design compensating controls; and (2) continuously monitor remote access audit logs for unauthorized activity. The OCIO performs account reviews semi-annually in accordance with SOP 90-47-3 and will submit documentation to the OIG to resolve this recommendation. At this time SBA does not have access to any AT&T remote access logs but will coordinate with AT&T representatives to determine if the contract allows access to the audit logs. Estimated completion date is 9/30/16.

Report #12-22, Audit of SBA's Ratification Process

Program: OCFO

Date Issued: 9/28/12

Management Decision Date: 10/12/12

Explanation: The two remaining recommendations are to the Office of the Chief Financial Officer and requires that a review of ratification actions for Anti-Deficiency Act violations. The OCFO reviewed the ratified commitments and confirmed that no Anti-Deficiency violations occurred. The OCFO will conclude the analysis once supplemental budgetary information analyzed. Anticipated completion date is 4/30/16.

Report #13-01, Audit of SBA's Section 8(a) Program's use of Internal Revenue Service Tax Verification Form 4506T

Program: OBD

Date Issued: 10/4/12

Management Decision Date: 3/11/13

Explanation: The four recommendations are to the Office of Business Development and require changes to SOP 80 05 A to ensure (1) completion of Form 4506T and prompt submission; (2) completion of Form 4506T prior to the start of the annual review and prompt submission; (3) suspension of the firm if tax returns submitted to SBA do not agree with those submitted to the IRS; and (4) comparison of IRS transcripts with the tax return and advise OIG of discrepancies. OBD has submitted closures for the four recommendations to OIG and is awaiting OIG confirmation on the proposed closure status of the recommendations.

Report #13-03, Audit of Mentor Protégé Joint Ventures

Program: GCBD

Date Issued: 10/23/12

Management Decision Date: 1/24/13

Explanation: The ten remaining recommendations are to the Office of the Government Contracting and Business Development and require a review of the Mentor-Protégé Program to (1) develop specific measurements to evaluate the benefits of joint venture agreements; (2) assess risk of the program; (3) verify information submitted by 8(a) firms as part of the annual review; (4) conduct site visits of 8(a) firms as part of the annual review; (5) collect quarterly or semiannual contract status updates as part of the annual review; (6) collect work performance reports as part of the annual review; (7) conduct a joint venture closeout evaluation as part of the annual review; (8) maintain complete data on 8(a) firms while deploying a new information system; (9) maintain joint venture arrangement data; and (10) interface data system with other systems. Resolution activities include (1) development of metrics to measure benefits of Mentor-Protégé and Joint Venture relationships; (2) development of risk assessment procedures; (3) through (7) enhancement of annual review procedures; and (8) through (10) implementation of One-Track CMS system to collect and maintain up-to-date data. GCBD has submitted documentation to the OIG for closure. Estimated completion date is 12/31/15.

Report #13-04, Audit of SBA's FY 2012 Financial Statements

Program: OCIO

Date Issued: 11/14/12

Management Decision Date: 3/8/13

Explanation: The one remaining recommendation is to the Office of the Chief Information Officer and requires procedures to ensure system access is removed for terminated/transferred users in a timely manner. OCIO is coordinating with the Office of Human Resource Solutions and program offices to redesign and improve the separation process to ensure timely removal of system access. Estimated completion date is 3/30/17.

Report #13-06i, Audit of SBA's Section 8(a) Annual Review

Program: BD

Date Issued: 11/13/12

Management Decision Date: 3/11/13

Explanation: The two recommendations are to the Office of the Business Development and require that SOP 80 05 3 be revised to extend time for annual reviews, subject firms to termination if information is not provided, and allow SBA to place an 8(a) firm in a "decision pending" category during the additional period. Resolution will be achieved with the update of the SOP. Estimated completion date is 9/30/16.

Report #13-08, Audit of SBA's 8(a) Information Technology Contracts

Program: OCFO

Date Issued: 12/3/12

Management Decision Date: 1/18/13

Explanation: The eight remaining recommendations are to the Office of the Chief Financial Officer and require (1) demonstration of proficiency in price analysis; (2) retention of records used to establish price; (3) verification of price analysis procedures; (4) enhance internal controls in response to any weaknesses identified in OMB Circular A-123 Acquisition Assessment; (5) update payment processing internal controls; (6) provide a list of approvers to payment personnel; (7) implement attachment of a receiving report to each invoice; and (8) implement an automatic interface between systems to tie payments to a contract number instead of purchase order numbers. Resolution activities include (1) Training has been provided to current contracting officers on price analysis; procedures will be documented in a revised SOP which is under management review; (2) documents are retained and retention requirements will be incorporated in the revised SOP; (3) price analysis procedures will be documented in the revised SOP; (4) an acquisition assessment to comply with OMB Circular A-123 was conducted and the draft report is under review; internal controls will be enhanced if any weaknesses are identified in the assessment; (5) payment processing controls are in place and will be documented in the revised SOP; (6) providing a list of approvers to payment personnel will be addressed in the revised SOP; (7) a process for receipts will be included in the revised SOP; and (8) an interface between systems to ensure the contract number and purchase order number are the same is being evaluated. Estimated completion date is 1/31/17.

Report # 13-14, Audit of 417 Unauthorized Commitments

Program: OCFO

Date Issued: 3/28/13

Management Decision Date N/A

Explanation: Two remaining recommendations to the Office of the Chief Financial Officer require (1) Incorporation of COR Acceptance Letter and FAR into COR's annual performance assessment; and (2) provide annual training to employees on managing contracts to avoid unauthorized commitments. Resolution activities include (1) working with OHRS to incorporate COR requirements in the annual performance assessment for CORS; estimated completion 7/31/16; and (2) technical training has been developed and uploaded into the Talent Management Center system and is being reviewed by management; once deployed and 80% of employees have completed the training, OCFO will submit the matter to the OIG for closure. Estimated completion date is 7/31/16.

Report # 13-16R, Audit of SBA's 7(a) Guaranty Purchase of Recovery Act Loans Improper Payments
Program: OCA
Date Issued: 6/14/13
Management Decision Date 3/28/14
Explanation: The one remaining recommendation requires the Office of the Capital Access to recover $680,900 from a lender. The file is in the dispute resolution process. Estimated completion date is 12/31/15.

Report # 13-17, Audit of SBA's Portfolio Risk Management Program
Program: OCA
Date Issued: 6/14/13
Management Decision Date 9/30/13
Explanation: Two remaining recommendations to the Office of Capital Access require (1) use of portfolio risk management program data to support risk-based decisions in its loan programs; and (2) implementation of additional controls to mitigate identified risks where necessary. Resolution activities include (1) developing a Data Analytics Model that will be used as a data source to store portfolio benchmark data and monitor risk tolerance limits; and (2) developing a Monitoring and Observation Tool to mitigate identified risk based on established benchmark levels and enhancing or adding additional controls as necessary. Estimated completion date 9/30/16.

Report # 13-18, Audit of SBA's Defaulted Disaster Loans
Program: OCA
Date Issued: 9/27/13
Management Decision Date 3/31/14
Explanation: Four recommendations to the Office of Capital Access require (1) transfer of loans in litigation after charge-off to Treasury if litigation is dismissed; (2) develop and implement controls and processes related to workouts; (3) develop and implement controls and processes related to liquidation; and (4) publish a mission statement, update the SOP, establish a performance management process for the disaster loan liquidation center. Resolution activities include (1) creation of management controls to ensure all eligible charge-off loans are transferred to Treasury; (2) development and implementation of controls and processes related to workouts; (3) development and implementation of controls and processes related to liquidation; (4) SOP 50-52 has been updated and documentation has been submitted to the OIG to close this recommendation. Estimated completion date for all recommendations is 9/30/16.

Report # 13-21, Audit of SBA's Enterprise-Wide Controls over Co-Sponsored Activities
Program: OCPL, OFO, and OGC
Date Issued: 9/26/13
Management Decision Date 1/23/14 and N/A
Explanation: Five remaining recommendations include four to the Office of Communications and Public Liaison that require (1) co-sponsorship agreement update to include all specific roles and responsibilities for fiscal agents and other accountable parties; (2) establishment of controls to ensure all activities are properly closed out and all documents are obtained; (3) periodic reviews of co-sponsorship files; and (4) training for staff. Resolution activities include (1) OCPL and OGC have drafted a revised SOP with significantly expanded coverage of the roles and responsibilities of fiscal agents and other cosponsors. The draft SOP, 90-75-4, is being reviewed by the AA/OCPL before being submitted for review by the Administrator. After the SOP is effective, OCPL and OGC likely will issue new revisions to the co-sponsorship template to reflect policies set forth in the SOP; (2) exploration of technology to collect co-sponsorship information and track agreements; (3) exploration of partnership with OGC to work together on file review; and (4) providing training

focused on roles and responsibilities of fiscal agents. Estimated completion date is 12/31/16. One recommendation is to the Office of General Counsel and requires revision of SOP 90 75 3 to include specific procedures on the disposition of excess funds that remain after co-sponsored activities. The General Counsel convened a task force to revise SOP 90 75 3. A revised SOP (SOP 90-75-4) on all outreach activities including co-sponsorships is under review. The revised SOP draft contains several pages describing proper disposal of excess co-sponsorship funds. Estimated completion date for all recommendations is 9/30/16.

Report # 14-03, Audit of HUBZone Certifications

Program: GCBD

Date Issued: 11/19/2013

Management Decision Date: 11/14/2013

Explanation: The two open recommendations to the Office of Government Contracting and Business Development that require (1) an Update to the HUBZone guidance based on the current certification process; and (2) a review of the HUBZone certification process to identify potential improvements to meet deadlines established by regulation. Resolution activities include (1) Updating and publishing HUBZone Standard Operating Procedures; and (2) amending the certification process so that actions are completed within an average of 90 days from the date application is electronically verified. Estimated completion date is 9/30/16.

Report # 14-04, Audit of SBA's FY 2013 Financial Statements

Program: OCIO and OCA

Date Issued: 12/16/13

Management Decision Date: 4/9/14

Explanation: Five recommendations include four that require the Office of the Chief Information Officer (1) implement procedures to periodically review user access; (2) enforce a network security baseline across the network; (3) improve information system logging and auditing program; and (4) grant elevated network privileges based on business need only and monitor privileged network accounts. Resolution activities include; (1) periodic review of user access has been implemented and the OCIO is working with OIG to close this recommendation; (2) the OCIO has enforced a security baseline across the LAN/WAN and the supporting evidence is being generated to close this recommendation; (3) the OCIO is deploying Splunk to provide robust logging and auditing capabilities on the LAN/WAN with an expected final action date of 2/1/16; and (4) the OCIO has deployed a segregation of duties matrix to prevent issuance of excessive privileged network accounts and is generating the supporting documentation to close this recommendation. Estimated completion date for all recommendations is 9/30/16. One recommendation requires the Office of Capital Access to implement controls to prevent and detect unauthorized changes to production programs. OCA is in the process of procuring software controls and estimates a completion date of 3/31/16.

Report # 14-07, Audit of SBA's FY 2013 Financial Statements – Management Letter

Program: OCFO

Date Issued: 12/16/13

Management Decision Date: 9/5/14

Explanation: The one remaining recommendation requires the Office of the Chief Financial Officer to develop, formalize and implement an up-to-date Standard Operating Procedure for monitoring and closing obligations. The SOP has been drafted and is under management review. Estimated completion date is 12/31/16.

Report # 14-08, Audit of Quality Control at Loan Operation Centers

Program: OCA

Date Issued: 1/17/14

Management Decision Date: 1/17/14

Explanation: The one remaining recommendation requires the Office of Capital Access, Office of Credit Risk Management, to establish and implement a plan to conduct quality assurance activities at SBA loan operation centers. OCRM is in the process of identifying a quality assurance staff and developing procedures. Estimated completion is 9/30/16.

Report # 14-09, Audit of 7(a) Recovery Act Loans

Program: OCA

Date Issued: 1/29/14

Management Decision Date: 1/29/14

Explanation: The one remaining recommendation requires the Office of Capital Access to recover $685,691 from a lender. The file is going through the dispute resolution process. Estimated completion date is 3/31/16.

Report # 14-12, FY2013 Federal Information Security Management Act Review

Program: OCIO

Date Issued: 4/30/14

Management Decision Date: 4/30/14

Explanation: The five remaining recommendations require the Office of the Chief Information Officer (1) implement Personal Identification Verification (PIV) card logical access to all SBA systems, (2) improve Security Authorization Packages for retain all documentation; (3) upgrade remote access solution to include required encryption standards; (4) upgrade remote access solution to time-out after 30 minutes of inactivity; and (5) enhance security training for personnel with specialized security positions. Resolution activities include (1) PIV has been implemented for 85% unprivileged and 90% privileged accounts; estimated completion date is December 31, 2015, (2) SBA's Security Assessment and Authorization process has been updated to meet the requirements of FIPS 200 and aligned to the guidance with NIST 800-53 and NIST 800-37; a work plan has been developed to migrate to NIST 800-53 Rev 4 which addresses a recordable, repeatable process in the development of authorization documentation; (3) remote access system has been upgraded to meet FIPS 140-2 encryption requirements and documentation is being submitted to the OIG to close this recommendation; (4) remote access systems have been programmed to time-out after 30 minutes of inactivity and documentation is being submitted to the OIG to close this recommendation; and (5) users with specialized security access were identified and required to complete role-based security training with non-compliance resulting in disabled accounts until the training was completed; documentation is being submitted to the OIG for closure of this recommendation. Estimated completion date for all recommendations is 9/30/16.

Report # 14-14, Audit of Performance Reporting of Disaster Loan Processing Time

Program: ODA

Date Issued: 6/30/14

Management Decision Date: N/A

Explanation: The two remaining recommendations require the Office of Disaster Assistance to (1) report processing time for separately for automatically declined, pre-loss verification declined, and other processing declined applications; and (2) establish and report processing based on actual average processing times, net of automatic and pre-loss verification declined applications. ODA disagrees with both of these recommendations and is entering the dispute resolution process. Estimated completion date is 9/30/16.

Report # 14-15, Audit of Non-Manufacturer Rules Waiver Program

Program: GCBD

Date Issued: 8/14/14

Management Decision Date: 8/11/14

Explanation: The two remaining recommendations require the Office of Government Contracting and Business Development to publish a Standard Operating Procedure for the Non-Manufacturer Rules Waiver Program and establish procedures to ensure all data and memorandums are complete, accurate, and up-to-date. The Office of Government Contracting is developing an SOP for the Non-Manufacturer Rules Waiver Program which will include procedures for maintaining file documentation. Estimated completion date is 9/30/16.

Report # 14-17, Audit of 2013 and 2014 Cash Gifts

Program: OCPL

Date Issued: 8/27/14

Management Decision Date: 8/27/14

Explanation: The one remaining recommendation requires the Office of Office of Communication and Public Liaison to establish controls to ensure cash gifts from co-sponsored activities are documented and properly closed out. OCPL is working with the Office of General Counsel's outreach taskforce to establish controls including the development and implementation of a reporting system. Estimated completion date is 9/30/16.

Report # 14-18, Audit of Small Disadvantaged Business and HUBZone Goaling

Program: GCBD

Date Issued: 9/24/14

Management Decision Date: 9/10/14

Explanation: The two remaining recommendations require the Office of Government Contracting and Business Development to strengthen controls to ensure accuracy of 8(a) and HUBZone certification data in FPDS-NG; and to either modify system to allow 8(a) and HUBZone firm profiles and certification information remains visible and accurate to contracting officers or develop an alternative list to verify a firm's status. Resolution activities include identifying interface issues to determine the root cause(s) for inaccurate certification data in FPDS-NG and implement appropriate corrective actions. Estimated completion is 9/30/17.

Report # 14-19, Audit of the District of Columbia Small Business Development Center

Program: SBDC

Date Issued: 9/29/14

Management Decision Date: 9/29/14

Explanation: The two remaining recommendations require the Office of the Small Business Development Centers to updated their Standard Operating Procedures to address statutory and regulatory changes and to establish corresponding internal controls; and to implement Lead Center controls to exclude excess sub-recipient costs when computing indirect costs. The Office of the Small Business Development Centers is updating their SOPs to include statutory and regulatory changes and estimate a completion date of 3/31/16. The enhancement of controls over indirect cost computation will be documented in a specific SOP with an estimated completion date of 9/30/16.

Report # 14-20, Audit of Economic Injury Disaster Loans

Program: ODA

Date Issued: 9/29/14

Management Decision Date: 9/18/14

Explanation: The one remaining recommendation requires the Office of Disaster Assistance to develop a checklist for key requirements in approving a loan. A checklist was developed and accepted by the OIG and will be incorporated into a system change by 12/22/15.

Report # 14-21, Audit of LMAS Incremental Improvement Projects

Program: OCIO

Date Issued: 9/30/14

Management Decision Date: 9/25/14

Explanation: The one remaining recommendation requires the Chief Information Officer to modify its Enterprise Architecture Roadmap to include all provisions of the LMAS IIPs. The planned action is to incorporate the LMAS architecture and new capability requirements plan once it is received from the Office of Capital Access into the enterprise architecture. Estimated completion date is 3/31/16.

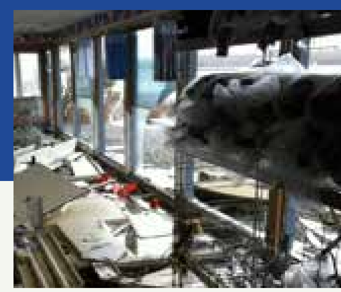
DID YOU KNOW?

The SBA proudly recognized the **Small Business Development Center program** on 35 years of service to small business. The SBDC network counseled more than 1.2 million clients from 2009 through 2014, fueled by $750 million in grants from the SBA. This funding has resulted in 82,000 new small business starts, access to $24 billion in capital, and $131 billion in small business revenue.

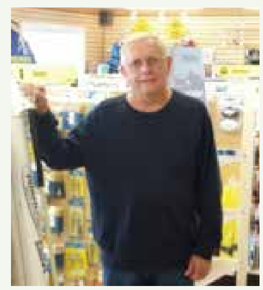
SUCCESS STORY

Phoenix Award for Outstanding Small Business Disaster Recovery

Moriches Inlet Marine, Inc.
East Moriches, New York



Conrad Kreuter's retail shop and marina in East Moriches, New York typically stores about 500 boats each year. With a background in electrical engineering, Conrad's mind envisioned – with dread – the extent of the damages to the marine after Hurricane Sandy devastated the area on October 29, 2012. Windows were broken, and the destroyed walls exposed insulation and wiring. Sand and seaweed were attached to everything. Wet papers, twisted supply racks, light fixtures littered the floor, and the smell of dead fish was overwhelming.



Moving quickly, Conrad created a chart to plot the first tasks needed to mount a successful recovery. The damage was estimated at $825,000. He set a goal of reopening on April 1, the beginning of the boating season.

Conrad kept his suppliers informed about his recovery efforts, and they in turn became a valuable resource. One vendor sent salespeople to help Conrad and his team remove debris and restock shelves. With the support of an SBA disaster loan, Conrad was able to keep his staff employed, rebuild his business, and contribute to the restoration of the local economy, which depends on the vibrant marina industry.

Conrad Kreuter, President of Moriches Inlet Marine, Inc., is the recipient of the *SBA 2015 Phoenix Award for Outstanding Small Business Disaster Recovery.*

ACKNOWLEDGMENTS

This Agency Financial Report was produced with the energies and talents of the SBA staff. To these individuals, the Office of Performance Management and the Chief Financial Officer would like to offer sincere thanks and acknowledgement.

We would also like to acknowledge the Office of the Inspector General and KPMG LLP for the professional manner in which they conducted the audit of the Fiscal Year 2015 Financial Statements. We offer our special thanks to Innovative Consultants International and Corporate Visions, Inc. for outstanding contributions to producing this report.

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

For the past nine years, FY 2006 to FY 2014, the U.S. Small Business Administration is proud to have received the prestigious *Certificate of Excellence in Accountability Reporting* (CEAR) award from the Association of Government Accountants (AGA) for its Agency Financial Report (AFR). The CEAR program was established by the AGA in conjunction with the Chief Financial Officers Council. The award recognizes high-quality Performance and Accountability Reports and Annual Financial Reports that effectively illustrate and assess financial and program performance, accomplishments and challenges, cost and accountability.

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