Agency Financial Report • Fiscal Year - 2016

Today's SBA: Smart, Bold & Accessible

ABOUT THIS REPORT

The U.S. Small Business Administration's Agency Financial Report (AFR) for FY 2016 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 of two annual reports for federal agencies. The *FY 2016 Annual Performance Report* (APR) is the other report and is part of the *FY 2018 Congressional Budget Justification* (CBJ). The CBJ/APR is scheduled for publication in spring of 2017. The reports can be found at www.sba.gov/performance.

ABOUT THE COVER

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

FY 2016 HIGHLIGHTS

(Dollars in Thousands)	**FY 2013**	**FY 2014**	**FY 2015**	**FY 2016**
Loan Portfolio[1]	$ 109,757,990	$ 114,450,173	$ 118,767,451	$ 124,118,505
Regular FTE Employees	2,148	2,137	1,966	1,940
Disaster FTE Employees	1,628	991	991	1,162
Total Employees[2]	3,776	3,128	2,957	3,102
Total Assets	$ 13,846,170	$ 13,184,251	$ 12,020,867	$ 12,657,172
Total Liabilities	$ 12,462,316	$ 11,695,803	$ 10,682,837	$ 11,882,988
Total Net Position	$ 1,383,854	$ 1,488,448	$ 1,338,030	$ 774,184
Total Net Cost of Operations	$ 524,086	$ (466,394)	$ (644,590)	$ 339,477
Total Budgetary Resources	$ 14,059,594	$ 10,826,659	$ 10,296,788	$ 10,878,012

[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.

[2] The total excludes 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

Or, you may write to:

U.S. Small Business Administration
Office of Performance Management
and Chief Financial Officer
409 Third Street, S.W.
Washington, DC 20416

Or, you may call:

Jason Bossie
Director
Office of Performance Management
(202) 205-6449

Follow us on: www.facebook.com/sbagov, www.twitter.com/sbagov and www.youtube.com/sba

TABLE OF CONTENTS

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 2016 Agency Financial Report (AFR)* provides financial and performance information for the fiscal year beginning October 1, 2015 and ending September 30, 2016. This report presents SBA's operations, accomplishments, and challenges. Following a message from the SBA Administrator are four principal sections: Management's Discussion and Analysis, Financial Reporting, Other Information, and Appendices. "Did You Know?" facts about the SBA appear throughout the report and are accompanied by a "Success Story" highlighting a small business entrepreneur.

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 websites and telephone numbers, a glossary, and a detailed report on audit follow-up activity.

MESSAGE FROM THE ADMINISTRATOR

November 14, 2016

I am pleased to present the U.S. Small Business Administration's *FY 2016 Agency Financial Report*.

When I was sworn in as SBA Administrator in 2014, I set an agency-wide goal to make the SBA "Smart, Bold, and Accessible" with smarter systems, bolder steps into new markets, and programs that are more accessible to entrepreneurs in every corner of our nation. This report helps highlight the areas where we've made great strides in nurturing America's entrepreneurial spirit and supporting our nation's small businesses, the greatest job-creating engine for our economy.

In the pages to follow, we have outlined our key accomplishments in the areas of capital, contracts, and counseling with data that is reliable and complete as supported by our auditors' unmodified opinion of our FY 2016 financial statements.

We saw historic progress in our efforts to fill small business lending gaps, particularly to entrepreneurs from underserved communities. Overall, the SBA approved more than 70,000 loans through our 7(a) and 504 loan programs, at a record total of $28.9 billion, which supported nearly 694,000 jobs across the country, an increase of 30 percent in the past four years.

Our flagship 7(a) lending program operated with zero taxpayer subsidy — instead, fees were used to cover our costs. We did this while continuing, for the third year in a row, to zero out fees for 7(a) loans of $150,000 or less, allowing us to boost loan approvals to women, African-Americans, Hispanics, Asian-Americans, veterans, and business owners in urban and rural areas.

In high-growth financing, our Small Business Investment Company (SBIC) Debenture program, considered the largest fund of funds, also continued on a trajectory of record growth. Our SBIC licensees provided more than $5.5 billion in financings to more than 1,100 small businesses helping to sustain nearly 112,000 jobs. And with final approval of the family of fund limit increase, from $225 million to $350 million, our funds have room to grow. For new and prospective SBIC program participants, we reduced licensing times significantly.

We released the results of a ground-breaking study commissioned with the Library of Congress that measures our SBIC program's impact in diverse communities. The research found that SBIC funds are more likely to have women in leadership positions as compared to the private sector and that diverse investor groups are more likely to invest in companies with diverse representation.

With our work increasing access to capital, the SBA also achieved important milestones promoting greater federal contracting opportunities for small businesses. For the third consecutive year, in FY 2015, the federal government surpassed its statutory prime contracting goal and achieved its highest level yet of small business contracting dollars at 25.75 percent of the federal spend, or $90.7 billion, an increase of $800 million in four years. And for the first time ever, we met the 5 percent statutory goal for contracts awarded to women-owned small businesses.

In addition, we doubled our goal for small disadvantaged businesses, reaching 10 percent and streamlined our 8(a) program — reducing the processing time to approximately 90 days. We also expanded our Mentor-Protégé Program to help all small businesses better compete for government contracts.

From my very first days in office, I have prioritized the need to modernize SBA operations. In FY 2016, we made great inroads — updating our lending partner platforms by bringing advances such as automation, digital signatures, and online matchmaking to the entrepreneurs we serve. These enhancements have encouraged lenders to reach more entrepreneurs from underrepresented communities. At the same time, technology allows us to exercise the vigilant oversight required to manage risk most effectively.

We helped small businesses access the technology they need to compete in our global economy by launching the Small Business Technology Coalition in partnership with some of the world's most iconic technology companies. Through this effort, we provided an unprecedented collection of educational and training resources to help entrepreneurs connect to customers, scale, and conduct business safely anywhere in the world.

More than 1.1 million entrepreneurs took advantage of SBA's mentoring, business advice, and training assistance. Online and in-person, in dozens of languages, our nation's small businesses received advice and guidance on export business plans, government contracting, manufacturing assistance, and much more.

Our business counseling made an especially big impact in the veteran community. Our Boots to Business Program, V-WISE Program, and Veterans Business Outreach Centers continue to help more veterans each year. We continued our increases in 7(a) loans to veterans and surpassed our contracting goal for service-disabled veterans.

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. The SBA approved more than 25,000 disaster loans totaling more than $1.4 billion and worked 289 active declarations across the country, including the late-summer storms in Louisiana, our largest disaster response since Superstorm Sandy hit in 2012, nearly doubling our disaster loans over the past five years.

We made significant progress automating and streamlining our application, approval, and distribution processes — shaving weeks off the time it takes for homeowners, renters, and small business owners to get the help they need to rebuild. These improvements help ensure that those first, crucial funds get into the hands of homeowners and business owners more quickly.

The comprehensive services we provide to America's small businesses have continued to be an important driver of our nation's economic growth. In FY 2017, the SBA will build upon these accomplishments so more small businesses can expand, create jobs, and help America's economy thrive.

Sincerely,

Maria Contreras-Sweet
Administrator

Management's Discussion & Analysis

DID YOU KNOW

CAPITAL The growth in SBA's 7(a) and 504 loan programs indicates the continued outreach and streamlining of program delivery. The 7(a) program showed impressive gains in comparison to FY 2015, with over 64,000 loans totaling $24.1 billion — an increase of 2 percent in number of loans and 2 percent in total dollars. The 504 program saw an increase in FY 2016, with $4.7 billion in approvals. This level of program activity demonstrates that access to capital through conventional sources remains a challenge for America's small businesses.

SUCCESS STORY

Dynamic Duo is SBA Small Business Persons of the Year

Equator Coffees and Teas Inc.
San Rafael, California

Helen Russell and **Brooke McDonnell** founded Equator Coffees & Teas Inc. 20 years ago just as the specialty coffee industry began heating up. They initially launched two coffee bars named Europa in San Francisco, but after Brooke became frustrated with the lack of information regarding farms, farmers, climate, and the coffee's origin, the duo bought an Italian roaster using funds from the sale of Brooke's mother's wedding ring. They roasted coffee in her garage, and Equator Coffees & Teas was born in 1995.

As their needs changed and their business grew, Helen and Brooke purchased their own roasting plant using an SBA 504 loan. Equator now has 90 employees and 350 wholesale customers including the renowned French Laundry restaurant in California, cafes at LinkedIn, micro-kitchens at Google, and three retail stores in Northern California with two more on the way.

SBA'S HISTORY, GOALS, 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 network of private sector and non-profit partners in each U.S. state and territory. Major SBA offices fall under one of three Agency-wide strategic goals, as outlined in SBA's FY 2014-2018 Strategic Plan:

SBA Mission Statement

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 businesses 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 Enhance the ability of exporters 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 for 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 businesses

- 3.1 Strengthen, streamline, and simplify program operations
- 3.2 Invest in SBA's employees
- 3.3 Mitigate risk to taxpayers and improve oversight across programs

STRATEGIC GOAL ONE – Growing businesses and creating jobs

Strategic Goal One focuses on business formation, job growth, and economic expansion through capital, contracting, entrepreneurship, exporting, innovation, and disaster assistance.

The *Office of Capital 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, SCORE, and 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, and the Office of Mentor-Protégé. 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 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, their 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, and coordinating strategic partnerships.

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 businesses 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, Native Hawaiian tribal governments, and insular governments.

The *Office of Veterans Business Development* eensures 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 agencies and non-profit organizations.

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 owners.

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 One and Two, 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 process.

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

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 help 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 2016, 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 three Agency Priority Goals and federal Cross-Agency Priority Goals. An 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 the spring of 2017.

Financial Results

For FY 2016, SBA's total budgetary resources used for staffing, operations, and subsidy costs were $1.7 billion, and SBA's total nonbudgetary resources for loan financing used to purchase guarantied loans in default and to make direct loans were $4.2 billion. SBA's guarantied portion of the outstanding loan principal rose 6.1 percent in FY 2016, to $93.8 billion. New guaranties disbursed by SBA participating banks during FY 2016 were $21.3 billion, a 7.7 percent increase this year that resulted in the net 6.1 percent increase in outstanding guaranties. Purchases of defaulted guarantied loans dropped again, falling from $1.1 billion last year to $0.8 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 $6.5 billion to $6.2 billion in FY 2016. 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 a decrease in collections on existing disaster loans.

Performance Results

Capital: In FY 2016, the dollar amount of SBA's 7(a) loan program increased by 2 percent, leading to a record year of approvals. Additionally, the 504 loan program exceeded its FY 2016 target with 4.7 billion in loan approvals. In all, through the 7(a) loan, 504 loan, and microloan programs, the SBA approved more than 74,000 loans and provided nearly $29 billion in lending to small businesses.

More than $5.5 billion in debenture capital was invested in small businesses through the Small Business Investment Companies program. SBIC is a zero subsidy guaranty debenture program underpinned by a portfolio of public-private partnerships investing in small and typically high-growth businesses. Capital deployments have increased 70 percent since FY 2013.

Contracts: The SBA continues to work with agencies across the federal government to expand small business contracting opportunities. From the beginning of FY 2011 through FY 2015, small businesses accessed nearly $447 billion in federal contracts (FY 2016 contracting numbers continue to be collected and certified).

Counseling: The SBA provides mentoring, business advice, and training assistance to more than 1.1 million entrepreneurs and small businesses each year. In FY 2016, these efforts helped entrepreneurs start businesses and create or retain jobs.

Disaster Assistance: Disaster loan applications and approvals rose to the highest level of the past ten years with the exception of FY 2013, which included the third largest disaster, Hurricane Sandy. In FY 2016, the Agency worked on 289 active disaster declarations and approved more than 25,000 disaster loans totaling more than $1.4 billion.

Agency Priority Goals and Outcomes

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 three APGs. The goals and outcomes from this fiscal year are as follows:

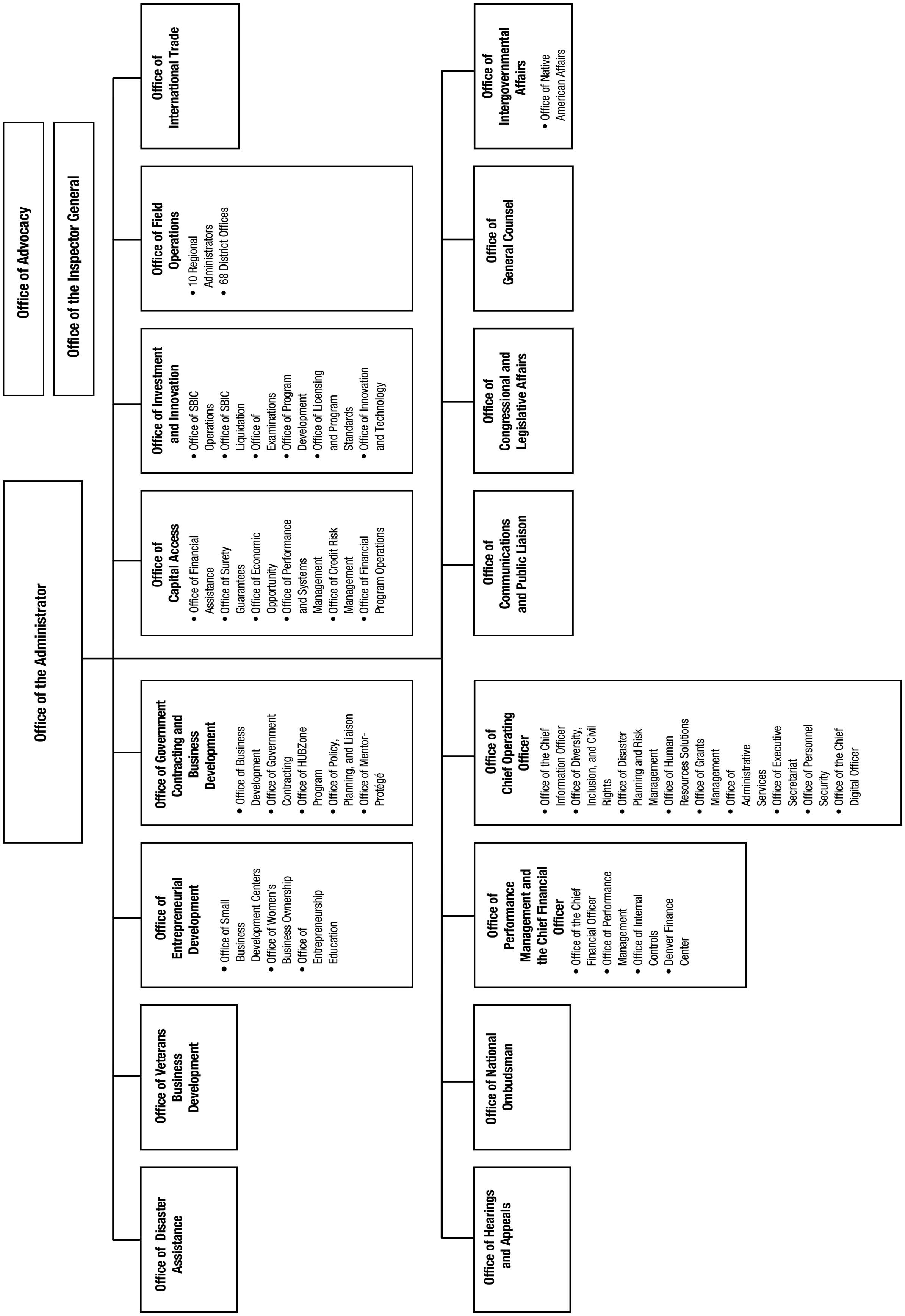
- **Increase active lender participation.**
  - **Goal:** *By September 30, 2017, expand access to capital for small businesses by increasing the number of active lenders in SBA's 7(a) loan program from 2,244 (FY 2014) to 2,500.*
  - **Outcome:** The SBA increased small business access to capital by adding new and returning lenders to the 7(a) loan program. While the Agency missed its FY 2016 target by 18 percent, lenders provided more than $24 billion in loans to small businesses.
- **Maximize small business participation in government contracting.**
  - **Goal:** *Through September 30, 2017, maximize small business participation in federal government contracting to meet the statutory goal of 23 percent, ensure subgoals are met, and reduce participation by ineligible firms.*
  - **Outcome:** The SBA will continue to collect and certify FY 2016 contracting numbers through the third quarter of FY 2017. The Agency exceeded its FY 2015 target with the federal government, making 25.75 percent of contracting dollars available to small businesses.
- **Support more disadvantaged small businesses.**
  - **Goal:** *By September 30, 2017, support more disadvantaged small businesses by increasing the number of approved 8(a) certification applications by 5 percent each fiscal year.*
  - **Outcome:** Through streamlining the application process, the SBA exceeded its target by 152 percent and has successfully recruited new 8(a) small businesses to the program. More economically and social disadvantaged small businesses qualify for federal contract set asides.

Cross-Agency Priority Goals

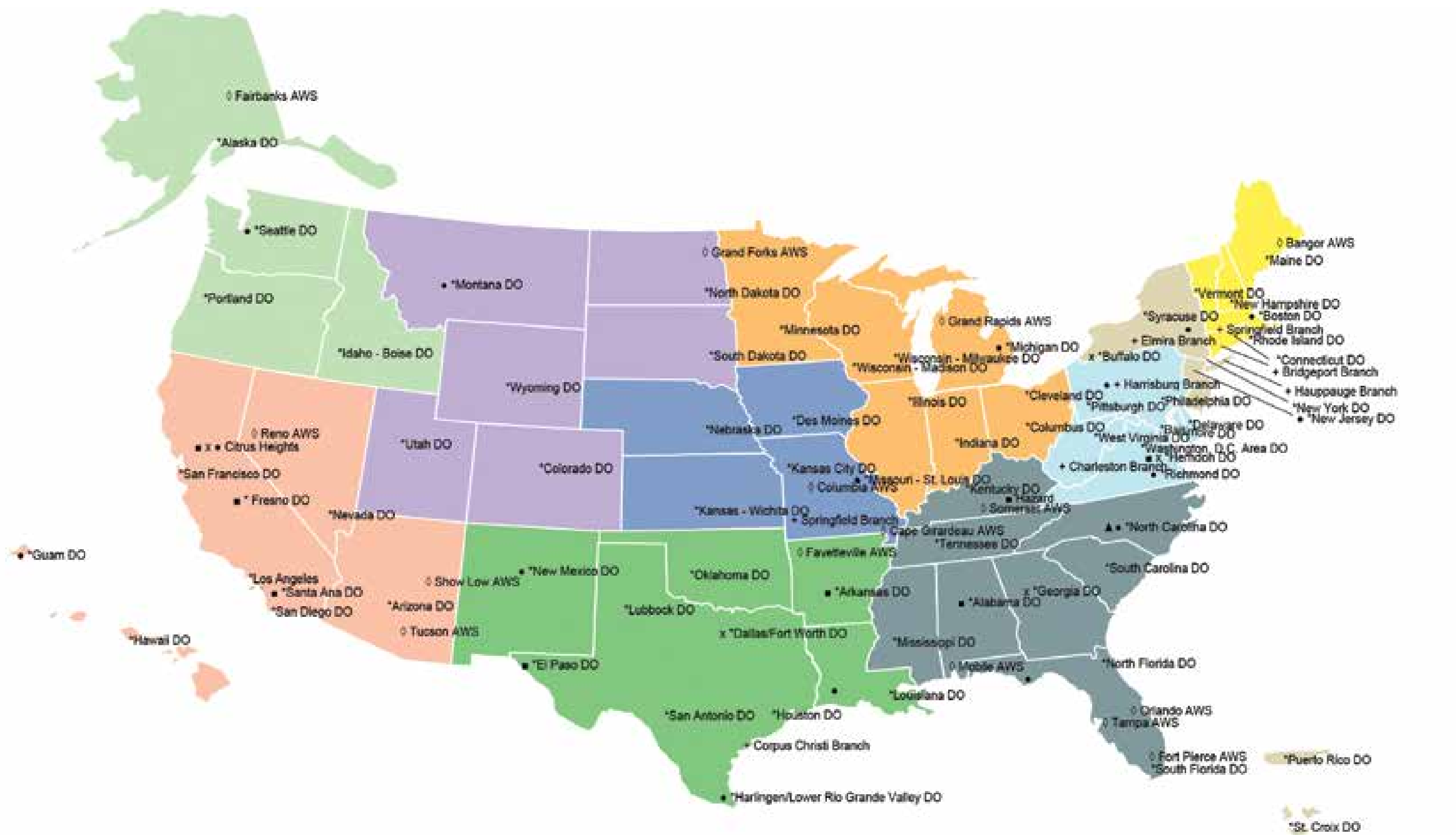
The SBA also participates in many of the government-wide federal Cross-Agency Priority goals. The CAP goals are Presidential priorities and are complemented by other cross-agency coordination and goal-setting efforts. A brief description of the CAP goals to which the SBA contributes follows.

- **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, ensuring that only authorized users have access to resources and information; and the implementation of technologies and processes that 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 by establishing cost and quality benchmarks of mission-support operations and giving agency decision-makers better data to compare options, allocate resources, and improve processes.
- **Open Data:** Fuel entrepreneurship and innovation and improve government efficiency and effectiveness by unlocking the value of government data and adopting management approaches that promote 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 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
1	Region	New England	Boston
2	Region	Atlantic	New York
3	Region	Mid-Atlantic	Philadeplhia
4	Region	Southeast	Atlanta
5	Region	Great Lakes	Chicago
6	Region	South Central	Dallas
7	Region	Great Plains	Kansas City
8	Region	Rocky Mountains	Denver
9	Region	Pacific	Los Angeles
10	Region	Pacific Northwest	Seattle

PRIMER OF SBA'S PRINCIPAL PROGRAMS

CAPITAL (www.sba.gov/financialassistance)

The SBA has a total business loan portfolio of $106.9 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, 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 Bond Guarantees — A surety bond guarantee is a type of contract that guarantees the performance of a contractor. If one party does not fulfill its end of the bargain, then the SBG 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, which is inclusive of 5 percent set-asides for women-owned and small, disadvantaged/8(a) businesses and 3 percent set-asides for 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 provides 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 provides 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 by women.

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 deliver an array of 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.

1 The total portfolio of $124.1 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.

Women's Business Centers — WBCs provide advising and training through more than 100 non-profit educational centers across the nation. 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 20 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 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/sbic)

The SBA supports high-growth investments through a portfolio of $11 billion in outstanding leverage.

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

Small Business Innovation Research — The SBIR program is a highly competitive funding agreement program that stimulates high-tech innovation by reserving a specific percentage of federal research and development funds for small business. SBIR protects the small business and enables it to compete on the same level as larger businesses.

DISASTER ASSISTANCE (www.sba.gov/disaster)

The SBA has a portfolio of $6 billion in direct disaster loans to businesses of all sizes, private non-profit organizations, homeowners, and renters.

Disaster Assistance — 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.

SBA BY THE NUMBERS

(Dollars in Millions)

		FY 2013	FY 2014	FY 2015	FY 2016
Total Program Portfolio [1]	**Outstanding Principal Balance**	**$ 109,758**	**$ 114,434**	**$ 118,767**	**$ 124,118**
Capital [2]					
7(a) Loans	Dollars of Gross Loans Approved	$ 17,868	$ 19,191	$ 23,584	$ 24,128
504 Loans	Dollars of Gross Loans Approved	$ 5,227	$ 4,199	$ 4,298	$ 4,740
Microloans	Dollars of Gross Loans Approved to Microborrowers	$ 53	$ 54	$ 51	$ 58
Surety Bonds	Dollars of Bid and Final Bonds Guaranteed	$ 6,150	$ 6,413	$ 6,348	$ 5,658
Contracting [3]					
Prime Contracting	Dollars of Contracts Awarded to Small Businesses	$ 83,143	$ 91,682	$ 90,702	N/A
HUBZone Small Businesses	Dollars of Contracts Awarded to HUBZone Small Businesses	$ 6,245	$ 7,000	$ 6,422	N/A
Small Disadvantaged Businesses	Dollars of Contracts Awarded to Disadvantaged Small Businesses	$ 30,616	$ 34,700	$ 35,430	N/A
Women-Owned Small Businesses	Dollars of Contracts Awarded to Women-Owned Small Businesses	$ 15,365	$ 17,200	$ 17,807	N/A
Service-Disabled, Veteran-Owned Small Businesses	Dollars of Contracts to Awarded to Service-Disabled, Veteran-Owned Small Businesses	$ 12,023	$ 13,500	$ 13,832	N/A
Advising, Mentoring, and Training [4]					
Small Business Development Centers (SBDCs)	Number of Clients Advised and Trained	532,377	485,487	454,898	447,397
Women's Business Centers (WBCs)	Number of Clients Advised and Trained	133,765	140,037	140,716	145,728
SCORE	Number of Clients Mentored and Trained	345,902	442,374	349,539	437,090
Online Training	Number of Clients Trained Online	150,355	182,002	139,719	187,162
Veteran's Business Outreach Centers (VBOCs) [5]	Number of Clients Advised and Trained	34,664	52,621	40,024	47,842
Exporting					
Export Loans	Dollars of Gross Loans Approved	$ 1,191	$ 1,341	$ 1,454	$ 1,546
High-growth Small Businesses					
Small Business Investment Company (SBIC)	Dollars of SBA Debenture Leverage Committed to SBICs	$ 2,156	$ 2,549	$ 2,553	$ 2,514
	Dollars of SBIC Debenture Capital to Small Businesses	$ 3,256	$ 5,465	$ 6,286	$ 5,529
Disaster					
Disaster Assistance [2] [6]	Dollars of Gross Loans Approved	$ 2,797	$ 332	$ 372	$ 1,407

(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.

(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 2016 contracting numbers will continue to be collected and certified through the third quarter of FY 2017. Therefore, FY 2016 numbers are reported per OMB Circular A-11.

(4) Resource partners may input data up to 45 days after the close of the fiscal year.

(5) Historical data has been updated using a revised methodology.

(6) The significant increase in FY 2013 disaster loan approvals is attributable to Hurricane Sandy, and in FY 2016, the increase in loan approvals is attributable to the flooding in Louisiana, South Carolina, Texas, and West Virginia.

ANALYSIS OF PERFORMANCE RESULTS

Analysis of Performance and Agency Priority Goals

The following section presents key SBA FY 2016 performance data, including the three FY 2016–2017 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 2016 results are measured against FY 2016 targets. More in-depth information about SBA's Agency Priority Goals and the federal Cross-Agency Priority Goals is located at https://www.performance.gov.

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 will be explained, in the *FY 2016 Annual Performance Report* to be published in the spring of 2017 with the *FY 2018 Congressional Budget Justification*.

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

Priority Goal: By September 30, 2017, expand access to capital for small businesses by increasing the number of active lenders in SBA's 7(a) loan program from 2,244 (FY 2014) to 2,500.

Performance Analysis: New and returning lenders are a major component of SBA's lending portfolio and are essential to growth in the number of loans approved and small businesses assisted. Attaining a high volume of active lenders from one fiscal year to the next creates a consistent pipeline of SBA loans for small businesses. The SBA accomplished 85 percent of its FY 2016 target (2,400 active lenders) (see **Chart I**). These lenders made loans totaling $24.1 billion. The number of active lenders recruited slowed in the fourth quarter. A key challenge is the consolidation of lenders through mergers and acquisitions, which has been a continuing trend for several years. Additional outreach will be conducted to increase the number of active lenders. The lending community, however, has been responsive to SBA's strategy of fee relief for lower-dollar loans and loan program improvements, and the SBA has been actively recruiting credit unions to join the 7(a) loan program.

Performance Goal: Support 711,400 jobs through capital assistance programs in FY 2016.

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

CHART I CUMULATIVE NUMBER OF 7(a) ACTIVE LENDERS

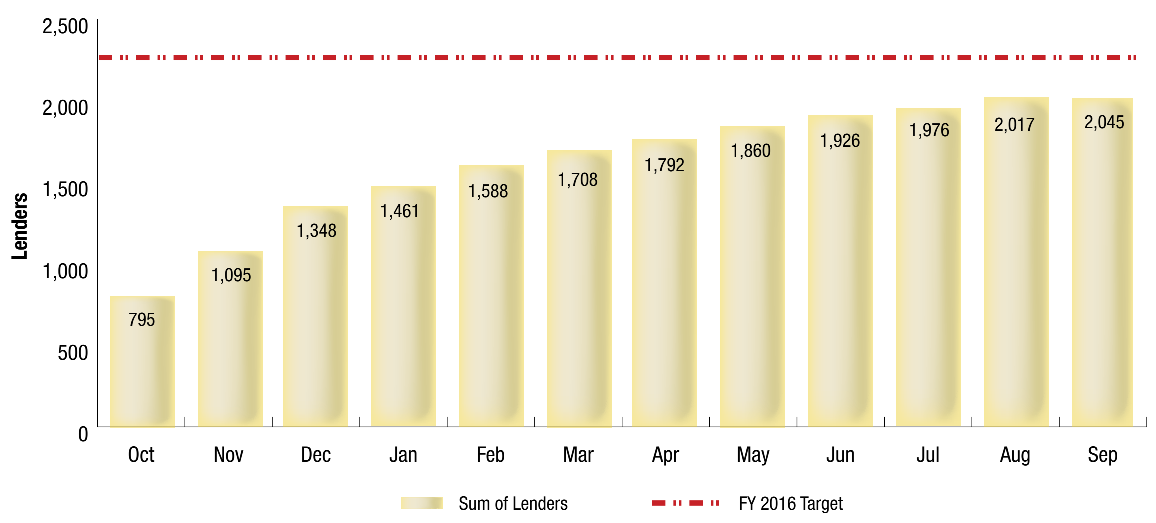


CHART II 7(a), 504, MICROLOAN, AND SURETY BOND GUARANTEE JOBS SUPPORTED

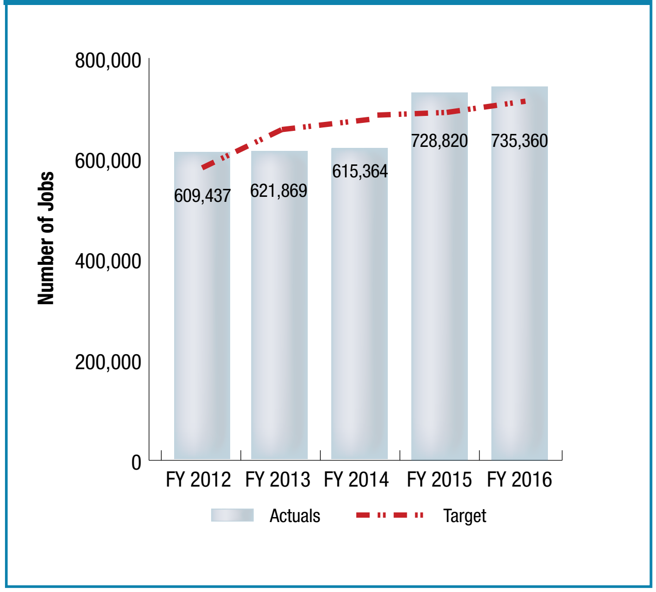
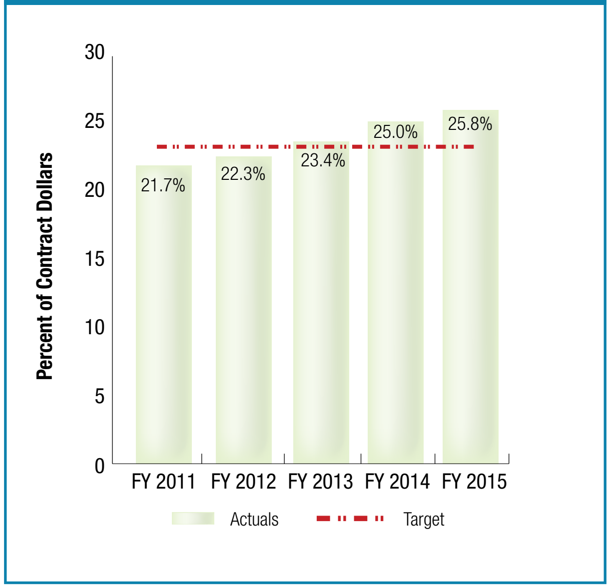


CHART III PERCENT OF FEDERAL PRIME CONTRACT DOLLARS AWARDED TO SMALL BUSINESSES



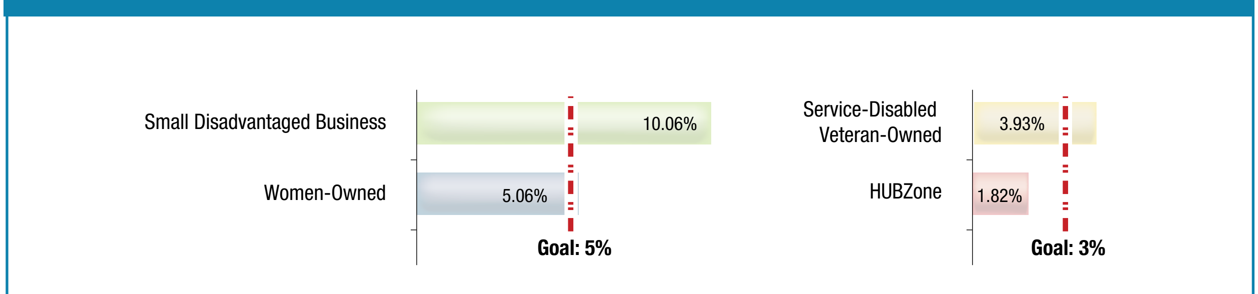
Guarantee programs. In FY 2016, the SBA supported 735,360 jobs, thereby exceeding its target (see **Chart II**).

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: Through September 30, 2017, maximize small business participation in federal government contracting to meet the statutory goal of 23 percent, ensure subgoals are met, and reduce participation by ineligible firms.

Performance Analysis: By law, 23 percent of federal government prime contracting dollars are set-aside for small businesses, which includes 5 percent of prime and subcontracts to small disadvantaged businesses and women-owned small businesses and 3 percent of prime and subcontracts to HUBZone small businesses and service-disabled veteran-owned small businesses (see **Chart III**). In FY 2015 (the latest year of data available), the federal government surpassed its prime contracting goal; small businesses were awarded $90.7 billion in contracting dollars. Performance in all the small business prime contracting and socio-economic categories showed significant improvement. The SBA surpassed its goals for service-disabled veterans (FY 2015 result was 3.93 percent) and small disadvantaged businesses (FY 2015 result was 10.06 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 4.68 percent in FY 2014 to 5.06 percent in FY 2015. Although HUBZone continues to recruit new firms, the portfolio has not recovered from the loss of firms due to re-designation of areas from the 2010 census (see **Chart IV**). Also, the SBA worked with the

CHART IV FY 2015 DISADVANTAGED SMALL BUSINESS GOALS

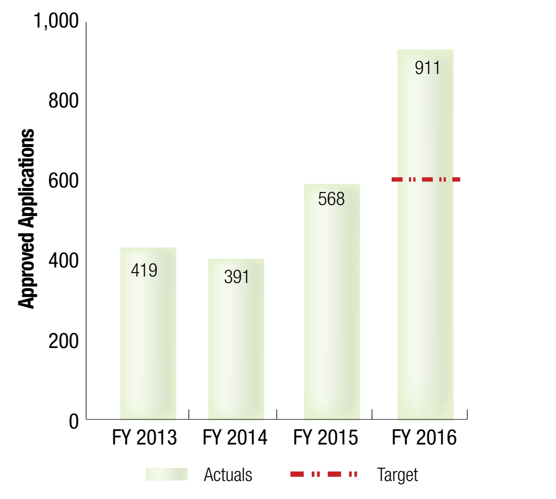


Office of Federal Procurement Policy to integrate small business data quality reviews (anomaly reports) into each agency's contracting processes and procedures. The SBA developed potential anomaly reports for the top 10 agencies that either have small business award dollars that have been issued to what appear to be large businesses, missing NAICS codes, or missing officer's size selection data.

Priority Goal: By September 30, 2017, support more disadvantaged small businesses by increasing the number of approved 8(a) certification applications by 5 percent each fiscal year.

Performance Analysis: The 8(a) program helps socially and economically disadvantaged entrepreneurs gain access to federal government contracting opportunities. In prior years, small businesses had a difficult time negotiating the lengthy 8(a) certification process. Through streamlining the application process, the SBA exceeded the target of 600 applications by 152 percent and has successfully recruited new firms to the program (see **Chart V**). The SBA established this Agency Priority Goal in FY 2016 and has provided historical data for context; therefore, no prior targets had been established.

CHART V NUMBER OF 8(a) APPROVED APPLICATIONS

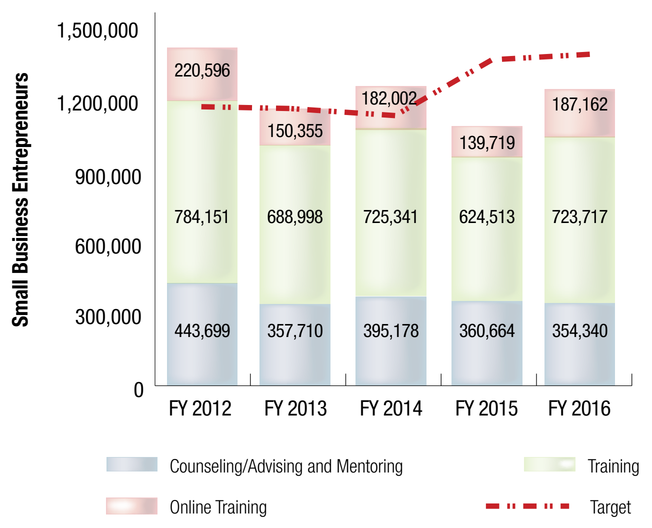


STRATEGIC OBJECTIVE 1.3: Strengthen entrepreneurial ecosystems[2] through a variety of strategic partnerships to provide tailored training, mentoring, and counseling services that support entrepreneurs during every phase of their business growth.

Performance Goal: Reach 1.38 million clients with online and in-person advising, mentoring, and training in FY 2016.

Performance Analysis: The SBA accomplished 83 percent of its performance target for advising, mentoring, and training assistance (see **Chart VI**). Resource partners may input data up to 45 days after the close of the fiscal year, and this information will be made available in the APR publication in spring 2017. While the SCORE program experienced a 38 percent increase in the number of clients served from FY 2015 to FY 2016, the Small Business Development Center and Women's Business Center programs experienced a

CHART VI SMALL BUSINESS ENTREPRENEURS ADVISED, MENTORED, AND TRAINED



2 The entrepreneurial ecosystem refers to external elements which contribute to the likelihood that a small business will be successful. This ecosystem includes access to markets, capital, technical support, personnel, suppliers, and infrastructure. The SBA addresses these needs through a variety of strategic partnerships with its resource partners.

20 and 14 percent decrease, respectively, in the number of clients advised and trained. The reduction in the number of entrepreneurs receiving service is a result of greater specialization and time dedicated to a smaller number of participants who visit a center multiple times. To improve performance, the SBA Online Learning Center developed and refined courses specializing in Cybersecurity, Marketing, Accounting, and Human Resources to meet the needs of our nation's entrepreneurs. Also, the SBDC program expanded outreach for exporters and veterans, the WBC program implemented a streamlined grant process to allow greater time for delivering services, and the SCORE program began offering assistance online.

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.

Performance Goal: Expand small business access to export financing by increasing the number of small business exporters receiving financing to 1,520 in FY 2016.

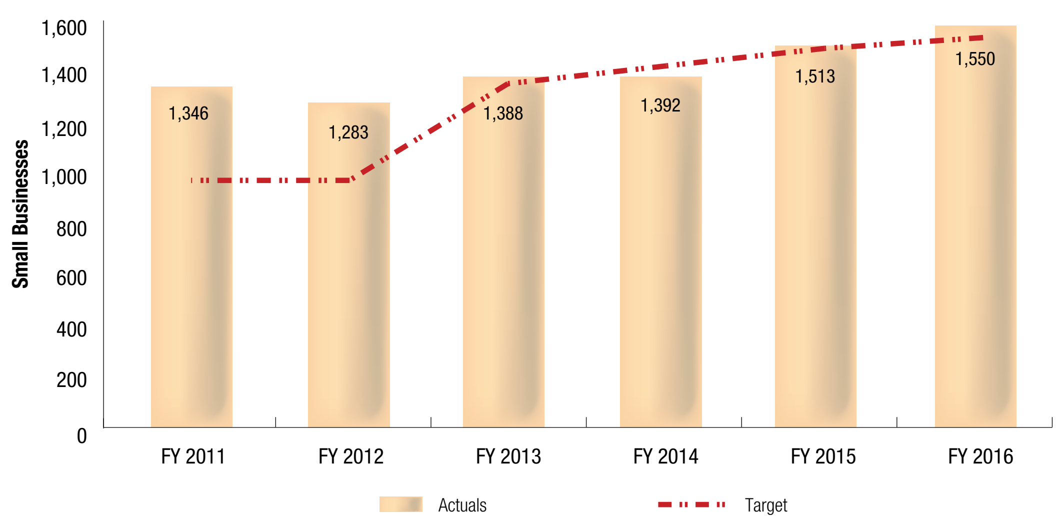
Performance Analysis: Increasing access to export financing, combined with trade counseling and training, contributes to the enhanced ability of current and future U.S. small business exporters to succeed in the global marketplace. The SBA assisted 1,550 small businesses in export financing, which exceeded the target of 1,520 small businesses by 2 percent (see **Chart VII**). This year, the SBA supported fewer export loans, which may be attributable to the growing value of the U.S. dollar. A strong U.S. dollar means that it is more expensive for other countries to buy U.S. goods and services. To mitigate this issue in the future, the SBA is working with other federal export partners to support better trade agreements to promote U.S. small businesses and entrepreneurs.

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 2016.

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 2016, the SBA exceeded its target for committing $2.5 billion in debenture leverage to SBICs. These debentures allowed SBICs to invest more than $5.5 billion dollars in more than 1,100 small businesses (see **Chart VIII**). At the

CHART VII CUMULATIVE NUMBER OF SMALL BUSINESS EXPORTERS ASSISTED



same time that commitments for debenture leverage were increasing, the SBA licensed 21 new SBICs with an average time to license of 5.96 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.

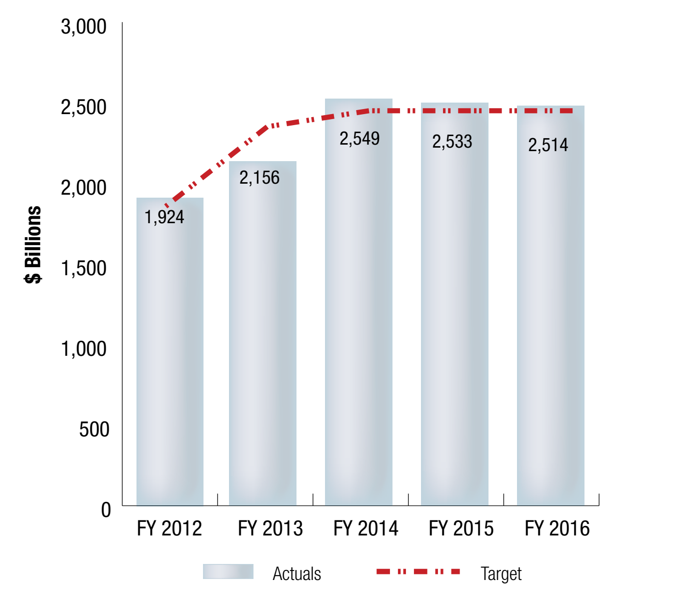
Performance Goal: Ensure the customer satisfaction rate for disaster loan approvals is 71 percent in FY 2016.

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 decision, and closing of the loan. The SBA had a customer satisfaction rate of 84 percent, which is 18 percent above the 71 percent target (see **Chart IX**). The high satisfaction rate is partly attributable to completing development and implementing the first two phases of the Disaster Loan Assistance Portal that allows applicants to access online general questions, check the status of their applications, and receive notifications.

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

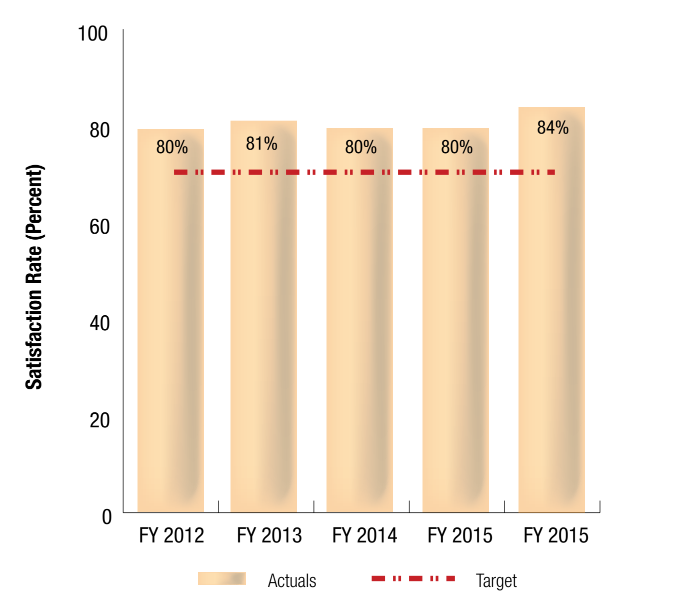
Performance Goal: Assist 32,250 underserved small businesses through capital assistance programs in FY 2016.

CHART VIII CUMULATIVE SBIC DEBENTURE LEVERAGE COMMITTED



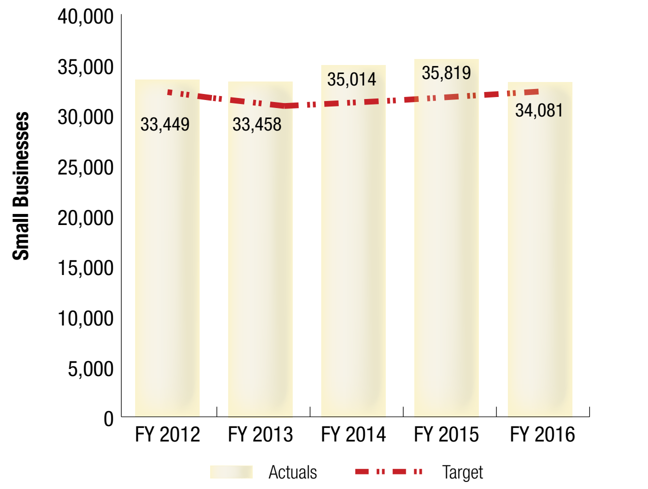
Performance Analysis: Underserved communities often have difficulty accessing capital and federal contracts. For capital assistance programs, including 7(a), 504, and Microloans, the SBA assisted 34,081 underserved small businesses — exceeding the FY 2016 target

CHART IX CUSTOMER SATISFACTION RATE FOR DISASTER LOAN APPROVALS



by 6 percent (see **Chart X**). The elimination of the fees on small dollar loans ($150,000 or less) was extended to FY 2016, contributing 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.

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

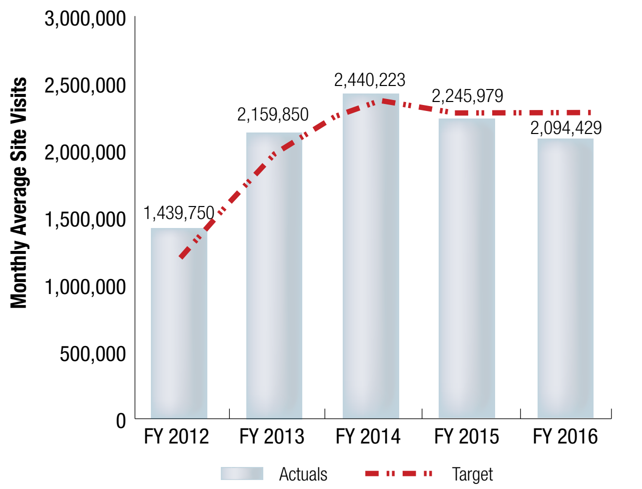


STRATEGIC OBJECTIVE 2.2: Provide timely, instructive, and useful information to the small business community through SBA's extensive digital and in person outreach efforts.

Performance Goal: Reach 2.3 million average monthly SBA.gov site visits in FY 2016.

Performance Analysis: In FY 2016, SBA.gov averaged 2.1 million monthly site visits. This number is lower than the 2.2 million visitors in FY 2015 and below the 2.3 million target for visits (see **Chart XI**). 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 2016. The Agency continued to promote its Spanish language site by developing new content to reach a more diverse small business community.

CHART XI NUMBER OF AVERAGE MONTHLY SBA.GOV SITE VISITS

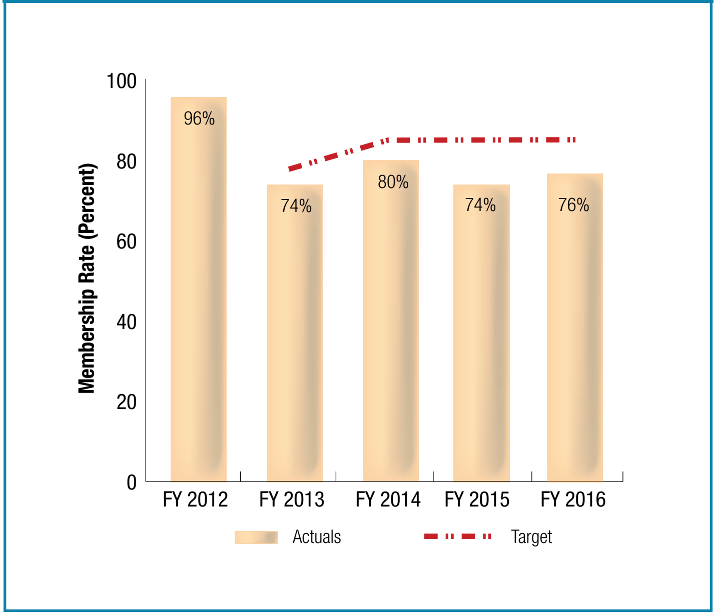


STRATEGIC OBJECTIVE 2.3: Foster a small business-friendly environment by encouraging federal agency awareness about the impact of unfair regulatory enforcement and compliance efforts and reducing burdens on small business.

Performance Goal: Maintain Regional Regulatory Fairness Board membership at 85 percent or better in FY 2016.

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

CHART XII BOARD MEMBERSHIP RATE



on enforcement activities, audits, on-site inspections, compliance assistance, or other types of communication. SBA's Regional Regulatory Fairness Board reviews federal regulations impacting small businesses and provides advice to the SBA National Ombudsman. The SBA has had difficulty recruiting candidates, which has led to a 76 percent membership on the Regulatory Fairness Boards, 11 percent below its target of 85 percent (see **Chart XII**). In order to recruit new members and to reduce the time required through the vetting process, the SBA made revisions to the process in FY 2016 and expects to recruit more members in FY 2017.

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 72.75 percent of SBA contracts to small businesses in FY 2016.

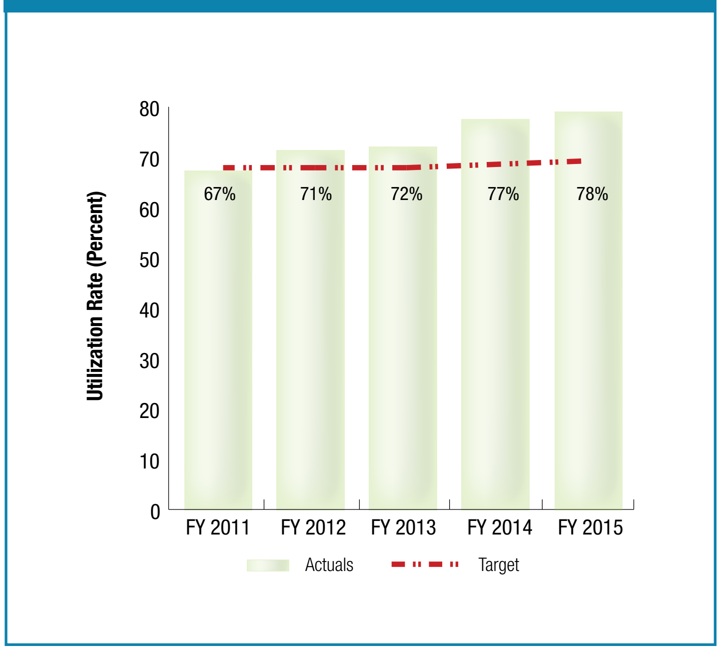
Performance Analysis: The SBA met its small business utilization goal by awarding 78.2 percent of contracts (in FY 2015) totaling $113.9 million to small businesses (see **Chart XIII**) and exceeded its sub-goals for women-owned, small disadvantaged, HUBZones, and service-disabled veteran-owned small businesses. Although final performance numbers are not yet certified or official for FY 2016, the SBA reached its small business utilization goal of 72.75 percent, as well as each of the small business utilization rate sub-goals for contract awards. The SBA exceeded the small business utilization rate by maintaining a default Agency position of awarding contracts to small businesses 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 2016.

Performance Analysis: In FY 2016, the SBA continued to improve operational efficiencies which positively impacted the Agency's average number of days to hire. The SBA exceeded its target of 100 days by 2 percentage

CHART XIII SBA SMALL BUSINESS UTILIZATION RATE



points (see **Chart XIV**). 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 supports recruitment e-tools (USA Staffing and USAJobs) that further streamline recruitment decisions and onboarding of new SBA employees.

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

Performance Goal: Perform 335 analytical credit reviews; review 100 percent of 8(a), 10 percent of HUBZone firms; and conduct 65 financial reviews of entrepreneurial development resource partners in FY 2016.

Performance Analysis: The SBA continued efforts to further mitigate risk this year. Regarding lender oversight, the Agency performed 368 analytical risk-based credit reviews, which provided oversight of loan performance, credit scores, and compliance with SBA loan program requirements (see **Chart XV**). The Agency conducted 69 financial examinations of entrepreneurial development resource partners 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 exceeded 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.

CHART XIV AVERAGE NUMBER OF DAYS TO HIRE

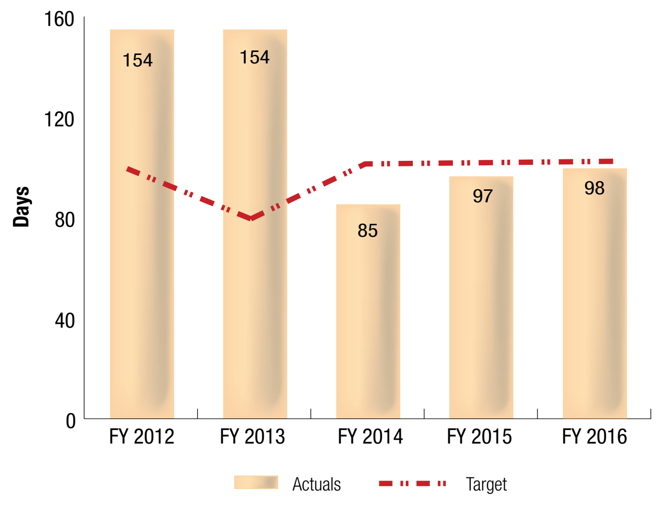
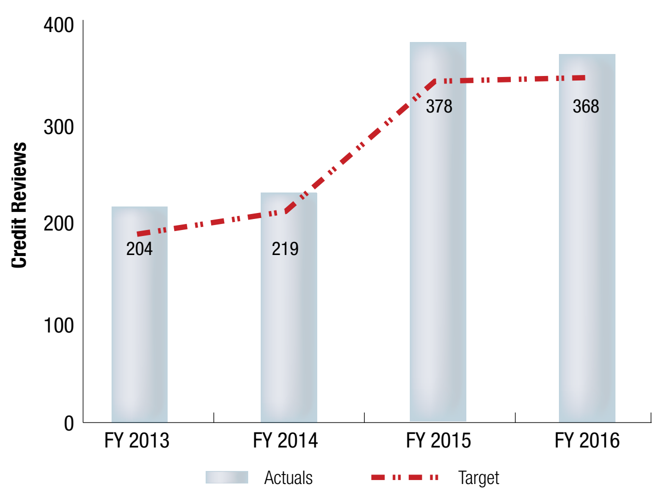


CHART XV NUMBER OF ANALYTICAL RISK-BASED CREDIT REVIEWS OF LENDERS



Verification and Validation of Performance Data

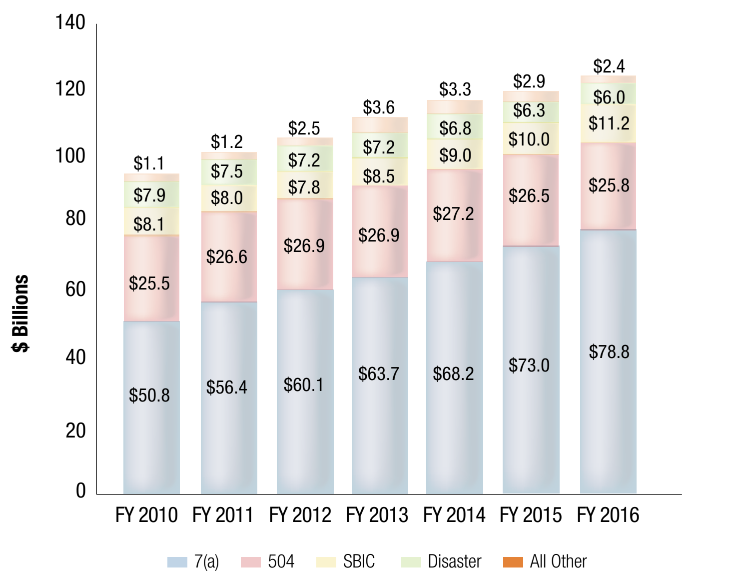
Managing for results and integrating performance, financial, and budgetary information require valid, reliable, and high-quality performance measures and data. Improving data quality continues to be a priority for the SBA. SBA performance analysts work with program office leads across the Agency to acquire 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 other government entities 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 a program office's 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 program offices to identify best practices and mitigate challenges. Annually, each Associate Administrator must certify their program office's performance data before it is externally reported and published at https://www.sba.gov/performance/VV-fy2017.
- *Assessing the quality of existing data.* SBA's performance analysts work with a program office's staff to reconcile data by creating independent performance reports and analyses and comparing the independently generated data with the data reported by the program offices. These activities verify the data and the underlying processes used for reporting.
- *Responding to data limitations.* SBA performance analysts work with program offices to identify data limitations and specify the necessary steps to improve data. In addition, some program offices rely on data provided by third-party resource partners, who are responsible for collecting, storing, and reporting data to the SBA. The program offices have internal processes for working closely with their resource partners to ensure that data is correctly reported.

Operational Portfolio Analysis

The Operational Portfolio Analysis provides information on SBA's credit programs and does not reference the financial statements. The SBA is the taxpayers' custodian of a small business loan guaranties and direct loans portfolio of $124.1 billion. During FY 2016, the portfolio grew by $5.3 billion, or 4.5 percent. Since existing loans are continually being paid, this growth implies that SBA's lending during FY 2016 was significantly greater than the $5.3 billion reflected in the portfolio growth. By program, the Agency's 7(a) loan portfolio expanded by $5.8 billion, the 504 loan portfolio contracted by $0.7 billion, and the SBIC portfolio grew by $1.15 billion. The Agency's Disaster loan and All Other portfolios declined $0.3 billion and $0.5 billion, respectively. From FY 2010 through FY 2016, all of the portfolio's cumulative $30.6 billion growth came from 7(a), 504, and SBIC programs (see **Chart XVI**).

CHART XVI MAKEUP OF SBA'S OUTSTANDING LOAN PORTFOLIO



NEW GUARANTIED LOANS

At least two main factors contributed to the loan guaranty portfolio's recent growth:

Continuous Growth in the Economy — Real Gross Domestic Production (RGDP) in the United States grew at an average annual rate of 2.3 percent during 2014-2016. An increase in RGDP supports increased revenues and profits at firms, small and large, which in turn increase their demand for credit.

Increase in Business Financial Stability — As the economy continues to grow, several factors continue to influence demand and increases in revenues. First, inflation continues to decrease, which reduces the cost of consumer goods and services. Second, the dollar continues to grow in strength which supports a reduction in prices of U.S. goods. Finally, the unemployment rate decline to pre-recession levels boosts consumer spending.

Chart XVII demonstrates the growth in loan portfolio since FY 2011. Note that the spike in Quarter 1 of FY 2011 is the result of the Small Business Jobs Act of 2010 that permanently increased loan limits and increased the size standards that determine what qualifies as a small business.

NEW DIRECT LOANS

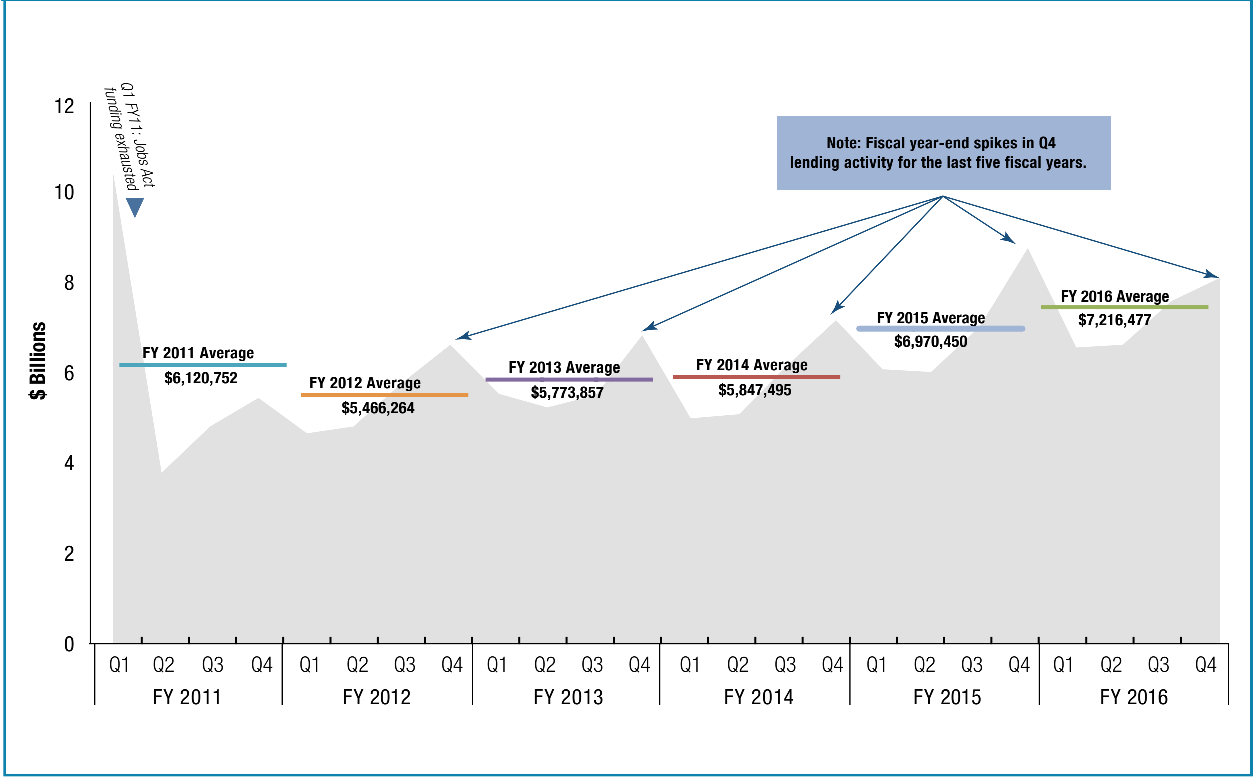
In FY 2016, SBA's annual lending for the Disaster Assistance program exceeded $1.4 billion due to an increase in active disaster declarations stemming from the major flooding in Louisiana, South Carolina, Texas, and West Virginia. However, the total Disaster Assistance loan portfolio shrank by $0.3 billion due to collections. A large portion of the outstanding balance of the Disaster Assistance loan portfolio is comprised of lending from FY 2006 (Hurricanes Katrina, Rita, and Wilma) and FY 2013 (Hurricane Sandy). 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 (i.e., 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 XVIII**) 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

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



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 of 10 percent in October of 2009, signals a generally improving environment for small businesses. 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 3.8 percent recorded during January 2009 to 0.7 percent recorded during July 2016. Delinquency rates for the 504 loan program likewise declined from the 5 percent peak recorded during February 2010 to 0.8 percent recorded during July 2016.

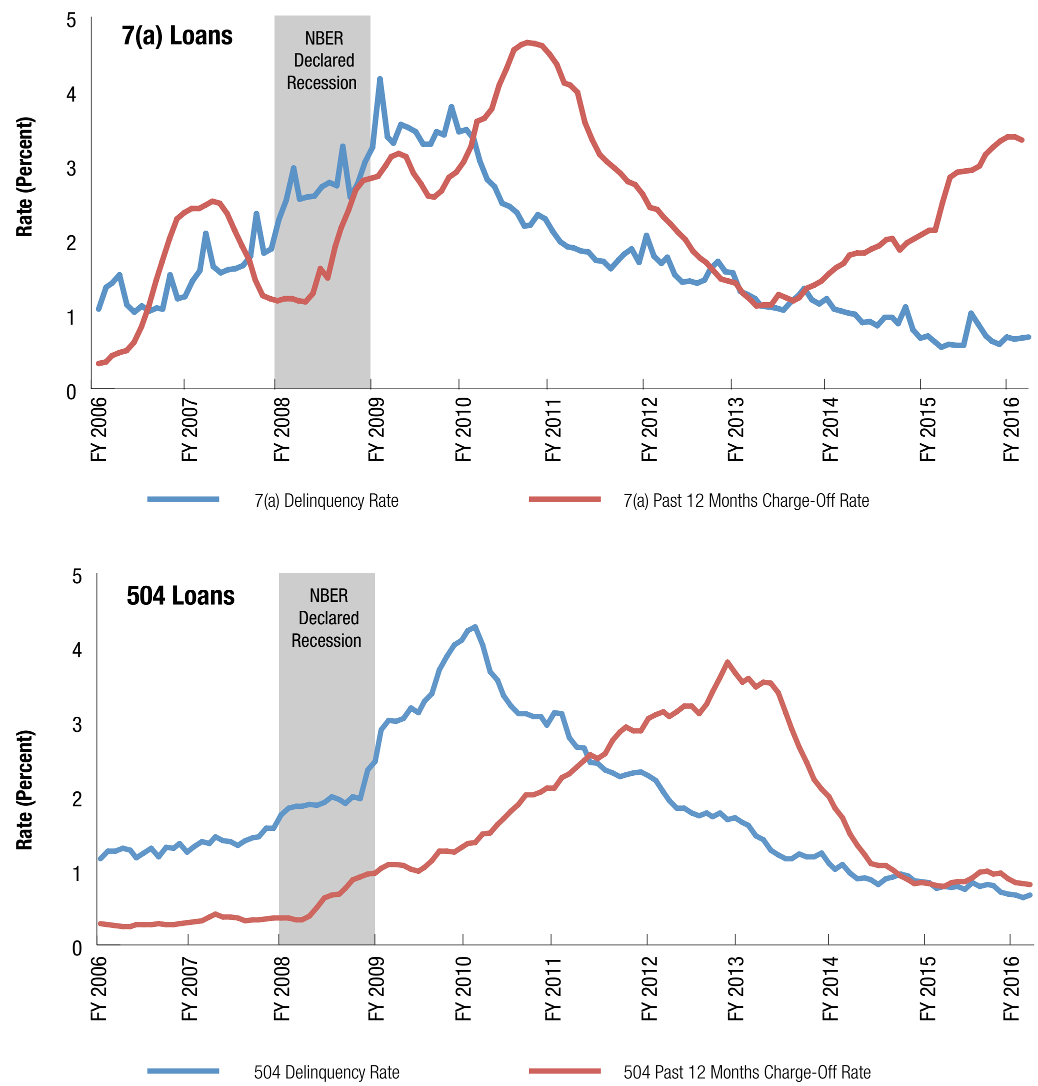
PORTFOLIO PERFORMANCE — CHARGE-OFFS

During FY 2015 and FY 2016 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 of its 504 program experienced a continued downward trend.

The 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 1.2 percent in the third quarter of 2013, but then experienced a noticeable increase thereafter, posting a 3.1 percent rate in July of 2016 (see Chart XVIII). The 7(a) loans that are not sold on the secondary market become a charge-off only after all efforts to recover a delinquent balance have been exhausted, such as liquidating the underlying collateral. The latent rise of the 7(a) charge-off rate starting in 2013 is attributable to recession-era loans that are now being charged-off after efforts to recover delinquent balances have been exhausted.

The twelve-month charge-off rate for the 504 loan program experienced a continuous increase from 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 2016. 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

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



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 2016 commercial real estate prices are increasing to pre-recessionary levels.

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 0.1 percent during FY 2016. The charge-off rate for the SBIC participating securities program experienced a steady increase between FY 2008 to FY 2012, peaking at 12 percent in FY 2012, but then registered a pronounced drop thereafter, posting a 0.2 percent during FY 2016.

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.

Forward Looking Analysis

The SBA is committed to maintaining and strengthening the nation's economy through the growth of small businesses. While much work has been done to support America's small businesses since the creation of the SBA in 1953, the Agency is committed to ensuring it can adapt to a changing environment. The following areas present the greatest insights into how the Agency shapes its programs and responds to entrepreneurs and small business owners.

AN EVER-CHANGING ECONOMY

A small business often feels the first impacts of a slowing economy. High unemployment, low wages, 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 key 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. The Agency will continue to depend on lenders to issue capital. However, the decline in the number of banks and credit unions is a concern. As fewer lenders remain in operation, small businesses must become more nimble in finding capital, and the SBA must provide this support in an ever-changing economy.

ADVANCEMENTS IN TECHNOLOGY

It would have been unimaginable 30 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 businesses. Therefore, the SBA must be aware of these technological advancements to better communicate and share successes for entrepreneurs across the country. The SBA needs to develop more online tools and adapt Agency processes to the twenty-first century. The Agency continues to make progress on this front through new tools like SBAOne and LINC (Leveraging Information and Networks to access Capital). Greater advancement in technology will continue to develop and shape how small businesses operate and how the Agency responds.

AN EVOLVING WORKFORCE

The SBA workforce continues to age and enter a period where the majority of its employees have reached retirement eligibility. As baby boomers retire, the Agency continues to search for ways to recruit and retain the best talent. Competition with industry and other agencies is strong, and retention of new employees can be challenging. The Agency is identifying critical mission areas and developing workforce plans to ensure that it understands where gaps exist. At the same time, the Agency seeks to ensure that its workforce is representative of the public it serves and that it can effectively communicate with entrepreneurs and small business owners in meeting their needs.

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 with a changing climate. To this end, small businesses must adapt by planning in advance where to produce and sell goods and services. Disaster preparedness is a key component of SBA's disaster assistance program and has helped many small businesses prepare for the unexpected. Among these growing threats, the SBA must be more nimble while simultaneously responding to multiple, large-scale disasters.

To address these areas and continue enhancing customer service to small businesses, the Agency has instituted processes to help mitigate and improve performance.

ANALYSIS AND HIGHLIGHTS OF FINANCIAL STATEMENTS AND RESULTS

Highlights of Financial Results (As of September 30)

(Dollars in Thousands)

At End of Fiscal Year		2016		2015	% Change
CONDENSED BALANCE SHEET DATA					
Fund Balance with Treasury	$	6,255,936	$	5,365,418	16.60%
Credit Program Receivables and Related Foreclosed Property, Net		6,182,889		6,502,745	-4.92%
All Other Assets		218,347		152,704	42.99%
Total Assets	**$**	**12,657,172**	**$**	**12,020,867**	**5.29%**
Debt		8,019,526		7,175,344	11.77%
Downward Reestimate Payable to Treasury		1,239,814		1,600,653	-22.54%
Liability for Loan Guaranties		2,371,505		1,661,516	42.73%
All Other Liabilities		252,143		245,324	2.78%
Total Liabilities		**11,882,988**		**10,682,837**	**11.23%**
Unexpended Appropriations		1,425,883		1,600,847	-10.93%
Cumulative Results of Operations		(651,699)		(262,817)	-147.97%
Total Net Position		**774,184**		**1,338,030**	**-42.14%**
Total Liabilities and Net Position	**$**	**12,657,172**	**$**	**12,020,867**	**5.29%**

For the Fiscal Year		2016		2015	% Change
STATEMENT OF NET COST BY STRATEGIC GOAL					
Goal 1: Growing Businesses and Creating Jobs					
Loan Subsidy Cost Including Reestimates	$	(547,531)	$	(1,414,341)	61.29%
All Other Costs Net of Revenue		687,711		584,841	17.59%
Goal 2: Serving as the Voice for Small Business		123,151		109,638	12.33%
Goal 3: Building an SBA that Meets the Needs of Today's and Tomorrow's Small Business		41,326		40,427	2.22%
Costs Not Assigned		34,820		34,845	-0.07%
Net Cost of Operations	**$**	**339,477**	**$**	**(644,590)**	**152.67%**
CONDENSED STATEMENT OF CHANGES IN NET POSITION					
Beginning Cumulative Results of Operations	$	(262,817)	$	(204,356)	-28.61%
Total Financing Sources		(49,405)		(703,051)	92.97%
Less: Net Cost of Operations		339,477		(644,590)	152.67%
Ending Cumulative Results of Operations	**$**	**(651,699)**	**$**	**(262,817)**	**-147.97%**
Beginning Unexpended Appropriations		1,600,847		1,692,804	-5.43%
Total Budgetary Financing Sources		(174,964)		(91,957)	-90.27%
Ending Unexpended Appropriations	**$**	**1,425,883**	**$**	**1,600,847**	**-10.93%**
Ending Net Position	**$**	**774,184**	**$**	**1,338,030**	**-42.14%**
CONDENSED STATEMENT OF BUDGETARY RESOURCES					
Unobligated Balance Brought Forward	$	4,978,665	$	5,712,247	-12.84%
Other Budgetary Resources, Net		6,238		(24,961)	124.99%
Appropriations (discretionary and mandatory)		1,144,588		1,147,282	-0.23%
Borrowing Authority (discretionary and mandatory)		1,610,202		550,948	192.26%
Spending Authority from Offsetting Collections		3,138,319		2,911,272	7.80%
Total Budgetary Resources	**$**	**10,878,012**	**$**	**10,296,788**	**5.64%**
Obligations Incurred, Budgetary	$	1,700,731	$	1,535,235	10.78%
Obligations Incurred, Nonbudgetary		4,210,725		3,782,888	11.31%
Unobligated Balances, Available and Unavailable		4,966,556		4,978,665	-0.24%
Total Status of Budgetary Resources	**$**	**10,878,012**	**$**	**10,296,788**	**5.64%**

Analysis of Financial Results

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with GAAP for federal entities and the formats prescribed by OMB, the statements 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 for a component of the U.S. Government, a sovereign entity.

This Analysis of Financial Results references numbers in the Highlights of Financial Results that were derived from the Financial Statements and Notes in this report. As a result, the definitions of the loan and guaranty balances used in this Analysis of Financial Results may differ somewhat from the balances in the Operational Portfolio Analysis section. For example, for the 7(a) program the total amount of guarantied loans is used in the Portfolio Analysis, but only SBA's guarantied portion is used in the Analysis of Financial Results because it ties to balances in the financial statements.

BACKGROUND

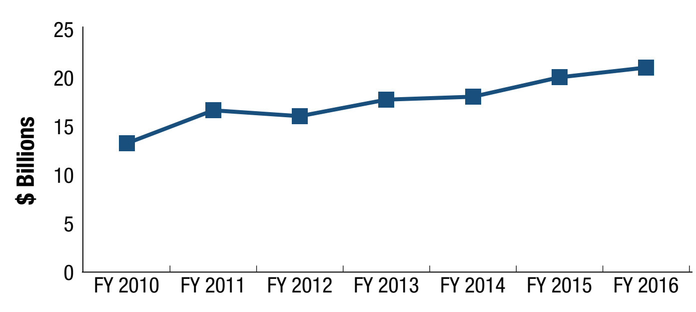
The SBA is a major federal credit agency of the U.S. Government. The SBA had roughly 3,102 employees including Disaster FTE employees at FYE 2016. As a result only $0.9 billion of SBA's $10.9 billion budgetary resources in FY 2016 were for salaries and expenses, with the rest supporting SBA's credit 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. The direct loan allowance and loan guaranty liability for each loan program cohort is adjusted annually under FCRA through the subsidy model reestimate process. The SBA's FCRA accounting is discussed further below in this section and in Notes 1 and 6A in the financial statements.

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 SBA receives budget authority annually to fund its credit programs. When loans are disbursed, the SBA records subsidy expense for non-zero subsidy loan programs. 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.

The portion of the outstanding principal guaranteed by the SBA as of September 30, 2016, was $93.8 billion, an increase of 6.1 percent from the $88.3 billion guaranteed at September 30, 2015 (see Note 6C in the financial statements). As shown in **Chart XIX** new guaranties disbursed by SBA participating banks during FY 2016 were $21.3 billion, a 7.7 percent increase compared to the FY 2015 figure of $19.8 billion. The $1.5 billion increase resulted from a $0.1 billion increase in 504 Development

CHART XIX GUARANTIED LOANS DISBURSED



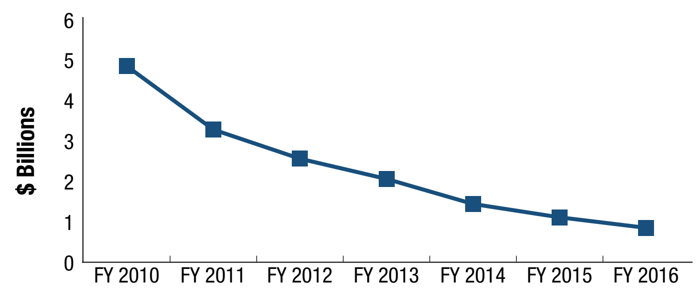
Company loans, a $1.5 billion increase in 7(a) loans, and a $0.1 billion decrease in SBIC Debentures in FY 2016. This net increase in FY 2016 guaranty disbursements and a reduction in purchases of guarantied loans contributed to the 6.1 percent increase in outstanding guaranteed principal mentioned above.

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 programs 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. The subsidy allowance for each loan program cohort is reestimated annually, and increases are funded by Treasury while decreases are refunded to Treasury by the Agency. 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 $6.2 billion in FY 2016 which was a decrease of $0.3 billion from FY 2015. The change in the credit program receivables resulted from a decrease in defaulted guarantied business loans of $0.2 billion and a decrease in direct disaster loans of $0.1 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 2016. 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 XX**, guarantied loan purchases decreased $0.3 billion in FY 2016 to $0.8 billion. The decrease reflects the continuing recovery after the economic recession. The decrease in purchases this year partly contributed to the decrease in the outstanding guarantied business loans receivable after including recoveries, expenses, and charge-offs in the loans purchased portfolio.

CHART XX PURCHASES OF GUARANTIED LOANS



FINANCIAL POSITION

Assets

The SBA had total assets of $12.7 billion at the end of FY 2016, up 5.3 percent from FY 2015. Total assets increased primarily due to an $890.5 million increase in the Fund Balance with Treasury, which was partly offset by a $319.9 million decrease in Credit Program Receivables and related Foreclosed Property. The increase in the FBWT was due primarily to increased borrowing needed to fund the disbursement of disaster loans. The decrease in Credit Program Receivables and Related Foreclosed Property was due to the net decrease in the amount of defaulted guarantied loans that resulted from collections and charge-offs exceeding new guaranty purchases, as well as the net decrease in the amount of direct disaster loans as collections and charge-offs exceeded new loans.

Liabilities

The SBA had total liabilities of $11.9 billion at the end of FY 2016, up 11.2 percent from FY 2015. 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 for each loan program cohort is reestimated annually, and increases are funded by Treasury while decreases are refunded to Treasury by the Agency. The Liability for Loan Guaranties increased $0.7 billion due to a smaller net 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 $0.4 billion due largely to the change in the year-end accrual of reestimates resulting from higher than projected purchases in 2016 for some cohorts in the 7(a) and 504 programs and an upward reestimate due to improved controls over reconciliation processes required by the SBA of its Fiscal Transfer Agent in the Secondary Market Guaranty Program. Better than projected loan performance and higher than expected recoveries across most cohorts was the primary reason for the downward reestimate in FY 2016.

Debt with Treasury increased $0.8 billion due to the increase in Disaster loan disbursements in FY 2016, as well as an increase 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 $389 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. Total Financing Sources are negative because the downward reestimates payable to the Treasury exceeded the amounts the SBA received from other sources. Unexpended Appropriations decreased $175 million this year primarily because the amount of appropriations used was greater than the appropriations received in FY 2015 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 primarily reflects the costs of SBA credit programs subsidy expenses during the year for new loans and subsidy reestimates at year-end.

Net downward reestimates were smaller in FY 2016 than last year, but they more than offset the increases in upward reestimates, which affected Strategic Goal 1 costs. Those subsidy reestimates were the largest components of the change (net increase) in the Agency's net cost. **Chart XXI** reflects the change in the net subsidy reestimates for the Guarantied Business and Direct Disaster loan programs in FY 2016.

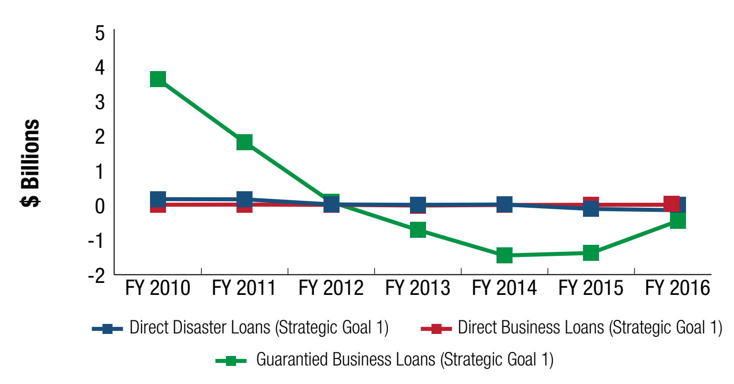
The net downward reestimate in the 7(a) programs of $0.1 billion was due mostly to lower than average purchases during FY 2016 that decreased the overall purchase curve, which decreased purchase projections in future years and contributed to the downward reestimate for FY 2016.

The 504, 504 Recovery Act, and 504 Jobs Act programs had a significant net downward reestimate of $0.7 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 net downward reestimate of $0.2 billion in FY 2016 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 2016.

The Secondary Market Guaranty program had a significant net upward reestimate of $0.5 billion. The upward reestimate for FY 2016 was larger than expected due to improved controls over reconciliation processes required by SBA of its Fiscal Transfer Agent. When implemented in FY 2016, the reconciliation process reduced the cash balance available to cover future MRF liabilities.

CHART XXI CREDIT PROGRAM SUBSIDY REESTIMATES

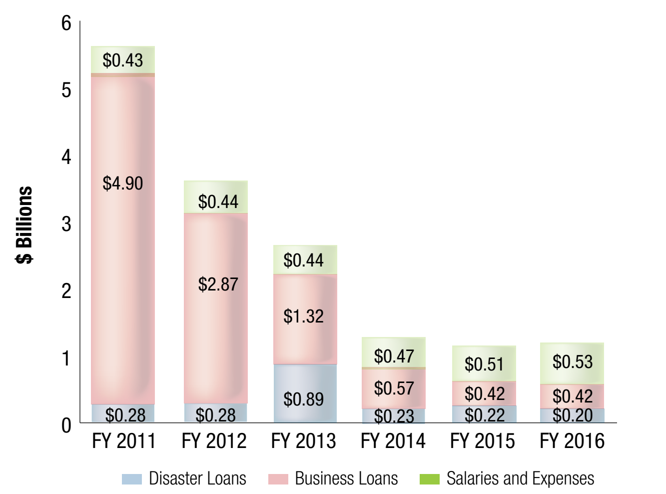


BUDGETARY RESOURCES

Total Budgetary Resources of $10.9 billion increased $0.6 billion in FY 2016. This increase is primarily the net result of a large increase in borrowing authority this year and the other factors in the Highlights table and discussed here. Other Budgetary Resources, Net increased by $31 million in FY 2016. This change is attributable to a small increase in prior year recoveries, and a decrease in the amount of cancelled authority.

Appropriations (discretionary and mandatory) decreased $3 million in FY 2016. As shown in **Chart XXII** the decrease was the combination of the increase in the amount of appropriations needed to fund SBA's upward credit subsidy reestimates, as well as a reduction in the need for subsidy to fund the Agency's major loan programs in FY 2016.

CHART XXII APPROPRIATIONS RECEIVED



Borrowing Authority increased $1 billion in FY 2016 due to an increase in borrowing needed to cover disaster loan making and cash shortfalls in the guarantied loan programs. Borrowing authority initially granted to the SBA was $2.2 billion, but the SBA withdrew $0.6 billion at year-end FY 2016 as it was not needed to fund future credit program operations.

Spending Authority from Offsetting Collections increased $0.2 billion in FY 2016. This increase is attributable to larger net collections in the disaster assistance program. A significantly higher amount of loan repayments were collected, and the repayment of borrowings was decreased in FY 2016, thus resulting in a lower ending balance.

STATUS OF BUDGETARY RESOURCES

The Total Status of Budgetary Resources of $10.9 billion increased $0.6 billion in FY 2016. Budgetary obligations increased by $0.2 billion in large part due to the disaster loan making in FY 2016. Nonbudgetary obligations increased $0.4 billion due to the increase in obligations related to financing disaster loans, offset with decreases in downward reestimates and purchases of guarantied loans.

Unobligated balances at September 30, 2016, and September 30, 2015, were $5.0 billion and $5.0 billion, which include $3.0 billion and $3.5 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 ($3.9 billion in FY 2016 and $3.7 billion in FY 2015) from subsidy estimates and reestimates that are used primarily to pay default claims in future years.

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 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. During FY 2016, the SBA expanded the scope of the internal control assessments in accordance with the Office of Management and Budget's revised Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, and the Government Accountability Office's *Standards for Internal Control in the Federal Government*, known as the Green Book. The FMFIA requires that the assessment results be reported to the President and 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 GAO and SBA's Office of the Inspector General. SBA's Office of Internal Controls provides training on assessing internal controls and tools, including checklists designed specifically for program support and district offices, to aid management in evaluating and documenting the adequacy of internal controls within their area of responsibility. This year, the OIC enhanced its training program and the checklists to incorporate the five components and 17 principles of internal control as prescribed in GAO's Green Book.

In support of internal control assessments, the OIC oversees the requirements of the OMB Circular No. A-123, Appendix A, *Internal Control Over Financial Reporting*. The Senior Assessment Team, 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 business processes in FY 2016, the OIC identified a number of deficiencies in the internal control over financial reporting reviews, including several in the SBA's key business processes. The SAT evaluated the review findings and determined that none reached the level of material weakness.

The SBA Enterprise Risk Management Board continued to oversee and guide SBA's enterprise risk management efforts. The Board consolidated, assessed, and prioritized enterprise level risks and conducted deep dive assessments on high impact risks. The Board continues to advise the Administrator on risk matters.

While the SBA continued to have a significant deficiency in information technology security controls, including access controls and change controls. The Agency is sensitive to the need to protect SBA data and has worked diligently to improve both process and performance in this critical area and as a result, it was noted that enormous improvements were made in their Vulnerability Management and Remediation process in FY 2016. The Agency plans to take additional corrective action to further improve in these areas, with a focus on improving access controls and change controls.

In FY 2016, SBA management identified a control weakness related to data used as inputs to the credit subsidy model for the Secondary Market Guaranty program. While SBA's auditors classified it as a significant deficiency because it occurred during the fiscal year, the SBA required its Fiscal Transfer Agent to implement an improved reconciliation procedure that is a permanent control, which fixed the issue.

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 the *FY 2016 Agency Financial Report*, the SBA seeks to comply with all federal financial management system requirements, and no deficiencies have been identified under the Federal Financial Management Improvement Act of 1996.[3]

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 state-of-the-art data centers that provide expanded capability for continuity of operations, including automatic fail-over for disaster recovery. The SBA has migrated all financial systems to an environment with multiple levels of physical and logistical security with metrics to monitor response times and system availability.

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. SBA's tightly integrated financial systems allow the Agency to respond quickly to both internal and external financial information inquiries and requirements. The SBA has completed most steps in its DATA Act implementation plan and has successfully submitted all files to the production Broker and passed its validation steps.

Core financial systems at the SBA are comprised of three systems operated and managed by the Office of the Chief Financial Officer and the Office of Capital Access. The systems include:

- *Oracle Federal Financials* — The SBA has begun planning to upgrade to the most current release for budget execution and management for administrative activity.
- *Loan Systems* — SBA-built systems support the lifecycle of loan guaranty processing, loan program funds control, management and accounting for loan servicing, and loan related expenses.
- *Financial Management System* — The FMS is an SBA-built system used to consolidate administrative and loan activity, manage cash and control funds, and provide financial reporting.

3 The purpose of the Federal Financial Management Improvement Act of 1996 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, the President, 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 2016

The Small Business Administration continued to strengthen internal controls over its programs and operations during FY 2016. 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 managing risks and maintaining effective internal controls and financial management systems to meet the objectives of Section 2 and 4 of the Federal Managers Financial Integrity Act. The SBA conducted its assessment of internal controls in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Agency managers have issued assertions to me as to the status of their FY 2016 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 assessments, I can provide reasonable assurance that internal controls over operations, reporting, and compliance with applicable laws and regulations, as of September 30, 2016, 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 control over financial reporting was operating effectively and no material weaknesses were identified in the design or operation of internal control over financial reporting for FY 2016.

SBA's independent auditor issued an unmodified opinion on the Agency's FY 2016 financial statements for the twelfth year in a row. After many years of non-compliance, we were able to achieve substantial compliance with the Debt Collection Improvement Act of 1996 this year as a result of the Agency's continuing efforts to identify and resolve problems in referring all co-borrowers and guarantors on charged off loans to the Department of Treasury.

In FY 2016, the improper payment rate for the 7(a) Guaranty Purchases program increased from 0.9 percent to 2.32 percent this year and as a result it did not meet the annual reduction target of 1 percent that was published in the FY 2015 AFR. An enhanced test plan was the main reason for the increase while administrative and process errors were the primary causes for the improper payments. The Office of Capital Access has formalized a corrective action plan for the loan guaranty purchase centers to reduce the occurrence of future improper payments. In addition, the improper payment rate for disbursements for goods and services related to contracts decreased from 13.52 percent reported in FY 2015 to 10.35 percent this year, but because it exceeded the 10 percent threshold, it was still not in compliance under the IPERIA guidance. A majority of the errors found were related to contract documentation discrepancies for valid goods and services with the estimated total recapture less than $11 thousand. All goods and services were received, and no fraud was detected during the review. The Deputy Chief Financial Officer and the Director of the Denver Finance Center are aggressively implementing a corrective action plan to enhance their internal controls over improper payments.

The Federal Financial Management Improvement Act 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 2016.

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

- The SBA Chief Information Officer reviewed and approved the major IT investments portion of the SBA budget request;
- The SBA Chief Information Officer 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 14, 2016

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, or IPIA, as amended, and as implemented by the Office of Management and Budget 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 (approvals), the Disaster Direct loan program, disbursements related to goods and services, and those programs or activities receiving Hurricane Sandy Disaster Relief funds, which include grant programs and disaster related administrative expenses of payroll, purchase cards, and travel.

At the beginning of FY 2016, the 7(a) Guaranty Approvals Program was deemed to be a high-priority program for improper payment reporting purposes by OMB based on the estimated improper payment amount reported in the *FY 2015 Annual Financial Report*. SBA management diligently worked to meet the additional requirements for high-risk programs and took several actions to reduce and prevent future improper payments through streamlining and simplifying the lending process as well as improving the quality of the documentation. As a result, this program's estimated improper payment amount for FY 2016 has been significantly reduced and no longer exceeds the threshold for a high priority program.

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 and validity of a payment. Detailed information concerning the SBA's improper payment reviews and its efforts to reduce improper payments is presented in the Other Information section of this report.

Financial Reporting

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

November 14, 2016

I am pleased to submit SBA's *FY 2016 Agency Financial Report*. 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, 2016.

The audit report continued to identify issues with SBA's information technology security. While improvements to the financial management systems continue to be made, the framework governing SBA's information technology infrastructure continues to need additional controls over logical access, configuration management, and contingency planning. The SBA made significant investment to improve the agency's infrastructure, but many of these changes were not in effect during the entire period under audit. The auditor did note that improvements were made, and the SBA intends to continue efforts to resolve the remaining issues.

During the year, SBA management identified differences in data inputs to the Secondary Market Guaranty model that were significant in amount and could not be attributed to timing of securities purchased in the Master Reserve Fund. In pursuing reconciliation between the Fiscal Transfer Agent and the Trustee accounts, the difference between available cash and investments was identified and corrected. As a result, SBA's current year reestimate for the program is higher than expected and reflects an adjustment that likely developed over prior years. The model inputs and the financial statements for FY 2016 reflect correct amounts, and at fiscal year-end, controls are in place to prevent future problems with this data. To prevent any future discrepancies between available cash and investments in the future, the SBA now requires daily reconciliations between the trustee and fiscal agent accounts at a detailed level, and in accordance with auditor recommendations, we will be establishing a precision level and documentation methodology to ensure the controls continue to be effective.

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

- Completed development of the files and tools to comply with the DATA Act; SBA is one of the first agencies to be fully ready six months before the required due date
- Developed policy statements on unliquidated obligations, procurement cards, and acquisition to clarify responsibilities and comply with new laws and regulations
- Established a stronger quality assurance function and developed better analytical tools to help identify instances of non-compliance for procurement and travel cards
- Deployed new budget planning and execution systems to provide better insight and controls over use of available funds
- Established a program evaluation function to better assess Agency programs
- Demonstrated substantial progress by addressing deficiencies identified in our 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 that 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 tenth year in a row, the SBA won the prestigious Certificate of Excellence in Accountability Reporting (CEAR) award, which recognizes high-quality reporting in all aspects of accountability and transparency. Presented by the Association of Government Accountants, this award is made to agencies following a rigorous, independent review against established standards for presentation. Additionally, the SBA received a special CEAR Best-In-Class award for its forward looking analysis.

I want to extend sincere thanks and 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.

SBA's efforts to assist entrepreneurs and small business owners are especially critical to a healthy economy. As highlighted through the Administrator's priorities, the SBA continues to make use of smarter systems, take bolder steps into new markets, and ensure that SBA programs are accessible to all entrepreneurs. The 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 14, 2016

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 informally twice during 2016 by telecom with respect to these responsibilities on FY 2016 financial management and reporting. During the 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 2016 AFR.

The SBA will be recruiting additional AFMAC members in 2017 to replace retired members and to augment the committee.

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: 17-03

DATE: November 14, 2016

TO: Maria Contreras-Sweet
Administrator, Small Business Administration

Tami Perriello
Associate Administrator for Performance Management and
Chief Financial Officer, Small Business Administration

FROM: Hannibal M. Ware
Deputy Inspector General

SUBJECT: *Independent Auditors' Report on SBA's FY 2016 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) 2016, ending September 30, 2016. This audit is an annual requirement of the Chief Financial Officers' Act of 1990, and was conducted in accordance with *Generally Accepted Government Auditing Standards*; the Office of Management and Budget Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements,* as amended; 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 2016. 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 controls over the completeness and accuracy of data for SBA's Secondary Market Guarantee credit reform model; and
- There is also a significant deficiency related to SBA's information technology security controls, which has been identified in the past.

Details regarding KPMG's conclusions are included in 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 *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) 205-6586 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 2016 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, 2016 and 2015, 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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; 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, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with 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, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections 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 information on pages 37 to 40 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits 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, 2016, 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in Exhibit I that we consider to be significant deficiencies:

(1) Improvement Needed in Controls over the Completeness and Accuracy of Secondary Market Guarantee Model Data, and

(2) Improvement Needed in Information Technology Security Controls

KPMG

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 of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

We also performed tests of its 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 Responses to Findings

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

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, D.C.
November 14, 2016

Exhibit I

U.S. Small Business Administration

Significant Deficiencies

(1) Improvement Needed in Controls over the Completeness and Accuracy of Secondary Market Guarantee Model Data

During FY 2016, the U.S. Small Business Administration (SBA) management identified a significant error for an account balance in one of the data files, provided by a fiscal transfer agent (FTA), which is used as an input for the Secondary Market Guarantee year-end financial statement subsidy reestimate calculation. The error related to securities erroneously included in the FTA data file (meant to comprise of cash available) that were already included in a second reestimate data input file prepared by SBA based on trustee information. Ultimately, this error occurred because SBA did not perform complete reconciliations between the two datasets. Neither SBA management nor the FTA has been able to identify which securities or transactions the duplication relates to, but determined the error was not the result of normal cut-off or timing differences. Furthermore, we believe that a similar reconciliation difference existed in prior periods. This matter was corrected prior to the end of FY 2016, and as such, the Liability for Loan Guaranty balance as of September 30, 2016, is fairly presented. However, the FY 2016 Statement of Net Cost, while presented fairly, includes costs associated with the error that should have been recorded in the prior year.

The following criteria were considered with respect to the matter described in the preceding paragraph:

- U.S. Government Accountability Office's, *Standards for Internal Control in the Federal Government,* Section OV4.01, Service Organizations
- Federal Financial Accounting and Auditing Technical Release 6, *Preparing Estimates for Direct Loans and Loan Guarantee Subsidies*, paragraph 35
- Office of Management and Budget (OMB) Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*, Section III.B.1.b.iii, Outsourcing Programmatic Functions to Contractors

<u>Recommendations:</u>

To enhance the existing reconciliation controls and documentation related to the Secondary Market Guarantee reestimate process, we recommend the Director of the Office of Financial Analysis and Modeling:

1. Establish and document the precision level used for evaluating reconciling differences to timely prevent and/or detect material misstatements.
2. Document the assessment of any differences identified during the performance of this reconciliation control at each phase of the reestimate process and the potential impact on the financial statements, using the established level of precision.

Exhibit I

U.S. Small Business Administration

Significant Deficiencies

(2) Improvement Needed in Information Technology Security Controls

During the FY 2016 financial statement audit, we found that SBA continued to implement corrective actions on some of the prior year information technology (IT) findings; however, a number of conditions persisted in FY 2016 that limited 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 2016, 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 2016. 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.

The following criteria were considered with respect to the matter described in the preceding paragraph:

- National Institute of Standards and Technology (NIST) Special Publication 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations,* (Revision 4)
- Federal Information Processing Standards (FIPS) Publication 200, *Minimum Security Requirements for Federal Information and Information Systems*
- SBA Standard Operating Procedure (SOP) 90 47 3, *Information System Security Program*

We have summarized the IT control deficiencies that we noted during the FY 2016 audit below, and have organized them by the following general IT control objectives: logical access controls, 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 2016:

- Account authorization processes were not implemented 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.
- 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.

Our audit identified the following new control deficiency in FY 2016:

- Segregation of duties was not enforced for one system.

Exhibit I

U.S. Small Business Administration

Significant Deficiencies

Recommendations – Logical Access Controls:

To address the repeat and new control deficiencies listed in the section above, we recommend that the Chief Information Officer (CIO) coordinate with SBA program offices to:

3. 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.
4. Improve SBA's access recertification processes by taking the following actions:
    - 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 are performed when identified;
    - Implement effective procedures to ensure that accounts are independently reviewed for appropriateness in accordance with SBA policy.
5. 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.
6. 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 logical 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.
7. 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; and
    - Retain sufficient evidence of the audit log review.
8. Enforce segregation of duties policies and procedures or implement mitigating controls in order to minimize the risk of unauthorized activity and other relevant security events.

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.

Exhibit I

U.S. Small Business Administration

Significant Deficiencies

Our audit noted that although improvements have been made, the following prior year control deficiency persisted in FY 2016:

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

<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 policies. 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 2016:

- Incremental or full backups for one of the systems were not retained in accordance with SBA policies.

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

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

10. CIO coordinate with SBA program offices to 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 2016 Financial Statements

DATE: November 14, 2016

TO: Hannibal M. Ware, Deputy Inspector General

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

Tami Perriello

SUBJECT: Draft Audit Report on FY 2016 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 continuous improvements in accounting, budgeting and reporting processes. 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 invested heavily over the past year to improve controls over the information technology environment and will continue to work on improvements in IT security, specifically in logical access controls, configuration management, and contingency planning.

The SBA reported to the auditor that significant differences between balances of available cash and investments existed in data inputs to the Secondary Market Guarantee program model. During FY 2016, SBA worked with its fiscal transfer agent to reconcile those differences and corrected amounts were used for reestimates presented in the financial statements. KPMG notified us that although we had identified and corrected the problem for FY 2016, the amounts in question, and timing, constituted a significant deficiency in internal control which is reported for this fiscal year. The SBA has improved controls over the data inputs to the model and required its fiscal transfer agent to reconcile daily to the trustee account. We believe our controls are effective and will prevent future differences in model data inputs for this program. In accordance with the auditor's recommendations, we will be establishing a precision level and documentation methodology to ensure that the controls continue to be effective.

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, 2016 and 2015

(Dollars in Thousands)

	2016	2015
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	$ 6,255,936	$ 5,365,418
Accounts Receivable (Note 5)	–	30
Advances (Note 1)	54,300	46,166
Total Intragovernmental Assets	6,310,236	5,411,614
Assets - Public and Other		
Cash (Note 3)	1,767	1,164
Accounts Receivable, Net (Note 5)	161,312	98,206
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	6,182,889	6,502,745
General Property and Equipment, Net (Note 7)	825	2,562
Advances (Note 1)	143	4,576
Total Assets - Public and Other	6,346,936	6,609,253
Total Assets	**$ 12,657,172**	**$ 12,020,867**
LIABILITIES		
Intragovernmental Liabilities		
Interest Payable	$ 446	$ 620
Debt (Note 9)	8,019,526	7,175,344
Net Assets of Liquidating Funds Due to Treasury (Note 10)	14,824	13,818
Downward Reestimate Payable to Treasury (Note 1, Note 13)	1,239,814	1,600,653
Other (Note 11)	12,599	10,147
Total Intragovernmental Liabilities	9,287,209	8,800,582
Other Liabilities - Public		
Accounts Payable (Note 1)	27,028	33,540
Accrued Grant Liability (Note 1)	80,000	76,000
Liability for Loan Guaranties (Note 6)	2,371,505	1,661,516
Federal Employees’ Compensation Act Actuarial Liability (Note 1, Note 8)	32,676	31,691
Surety Bond Guarantee Program Future Claims (Note 8)	43,430	43,679
Other (Note 11)	41,140	35,829
Total Other Liabilities - Public	2,595,779	1,882,255
Total Liabilities	**11,882,988**	**10,682,837**
NET POSITION		
Unexpended Appropriations (Note 1)	1,425,883	1,600,847
Cumulative Results of Operations (Note 1)	(651,699)	(262,817)
Total Net Position	**774,184**	**1,338,030**
Total Liabilities and Net Position	**$ 12,657,172**	**$ 12,020,867**

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, 2016 and 2015

(Dollars in Thousands)

	2016	2015
STRATEGIC GOAL 1: Growing Businesses and Creating Jobs		
Gross Cost	$ 597,683	$ (365,676)
Less: Earned Revenue	457,503	463,824
Net Cost of Strategic Goal 1	**140,180**	**(829,500)**
STRATEGIC GOAL 2: Serving as the Voice for Small Business		
Gross Cost	123,151	109,638
Net Cost of Strategic Goal 2	**123,151**	**109,638**
STRATEGIC GOAL 3: Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses		
Gross Cost	41,326	40,427
Net Cost of Strategic Goal 3	**41,326**	**40,427**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost	34,820	34,845
Net Cost Not Assigned to Strategic Goals	**34,820**	**34,845**
Net Cost of Operations	**$ 339,477**	**$ (644,590)**

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, 2016 and 2015

(Dollars in Thousands)

	2016	2015
Beginning Cumulative Results of Operations	$ **(262,817)**	$ **(204,356)**
Budgetary Financing Sources		
Appropriations Used	1,227,401	1,122,290
Donations of Cash and Cash Equivalents	10	66
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others	18,158	16,050
Other - Current Year Liquidating Equity Activity	(4,639)	(12,736)
Other - Non-entity Activity	(1,290,335)	(1,828,721)
Total Financing Sources	**(49,405)**	**(703,051)**
Less: Net Cost of Operations	**339,477**	**(644,590)**
Ending Cumulative Results of Operations	**$ (651,699)**	**$ (262,817)**
Beginning Unexpended Appropriations	**$ 1,600,847**	**$ 1,692,804**
Budgetary Financing Sources		
Appropriations Received	1,147,487	1,150,247
Adjustment - Cancelled Authority	(91,615)	(116,492)
Return of Unrequired Liquidating Fund Appropriation	(2,899)	(2,965)
Other Adjustments	(536)	(457)
Appropriations Used	(1,227,401)	(1,122,290)
Total Budgetary Financing Sources	**(174,964)**	**(91,957)**
Ending Unexpended Appropriations	**$ 1,425,883**	**$ 1,600,847**
Ending Net Position	**$ 774,184**	**$ 1,338,030**

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, 2016 and 2015

(Dollars in Thousands)

	September 30, 2016		
	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES			
Unobligated Balance Brought Forward, October 1	$ 1,286,459	$ 3,692,206	$ 4,978,665
Recoveries of Prior Year Obligations	55,640	47,959	103,599
Other Changes in Unobligated Balance	(86,861)	(10,500)	(97,361)
Unobligated Balance from Prior Year Budget Authority, net	1,255,238	3,729,665	4,984,903
Appropriations (discretionary and mandatory)	1,144,588	-	1,144,588
Borrowing Authority (discretionary and mandatory)	–	1,610,202	1,610,202
Spending Authority from Offsetting Collections	378,906	2,759,413	3,138,319
Total Budgetary Resources	**$ 2,778,732**	**$ 8,099,280**	**$ 10,878,012**
STATUS OF BUDGETARY RESOURCES			
New obligations and upward adjustments (total)	$ 1,700,731	$ 4,210,725	$ 5,911,456
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	299,478	1,690,457	1,989,935
Unapportioned, unexpired accounts	722,884	2,198,098	2,920,982
Unexpired unobligated balance, end of year	1,022,362	3,888,555	4,910,917
Expired unobligated balance, end of year	55,639	-	55,639
Unobligated Balance, end of year (total)	1,078,001	3,888,555	4,966,556
Total Status of Budgetary Resources	**$ 2,778,732**	**$ 8,099,280**	**$ 10,878,012**
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid Obligations, Brought Forward, October 1	$ 457,460	$ 200,981	$ 658,441
New obligations and upward adjustments	1,700,731	4,210,725	5,911,456
Gross Outlays	(1,595,165)	(3,437,536)	(5,032,701)
Recoveries of Prior Year Unpaid Obligations	(55,640)	(47,959)	(103,599)
Unpaid Obligations, end of year	507,386	926,211	1,433,597
Uncollected Payments:			
Uncollected Payments, Federal Sources, brought forward, October 1	–	(95,175)	(95,175)
Change in Uncollected Payments, Federal Sources	–	(49,861)	(49,861)
Uncollected Payments, Federal Sources, end of year	–	(145,036)	(145,036)
Memorandum (non-add) entries:			
Obligated Balance, start of year	**$ 457,460**	**$ 105,806**	**$ 563,266**
Obligated Balance, end of year	**$ 507,386**	**$ 781,175**	**$ 1,288,561**
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget Authority, gross (discretionary and mandatory)	$ 1,523,494	$ 4,369,615	$ 5,893,109
Actual Offsetting Collections (discretionary and mandatory)	(387,827)	(3,641,970)	(4,029,797)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	(49,861)	(49,861)
Recoveries of prior year paid obligations (discretionary and mandatory)	4,753	–	4,753
Budget Authority, net (discretionary and mandatory)	**$ 1,140,420**	**$ 677,784**	**$ 1,818,204**
Gross Outlays (discretionary and mandatory)	$ 1,595,165	$ 3,437,536	$ 5,032,701
Actual Offsetting Collections (discretionary and mandatory)	(387,827)	(3,641,970)	(4,029,797)
Net Outlays (discretionary and mandatory)	1,207,338	(204,434)	1,002,904
Distributed Offsetting Receipts	742	(1,651,174)	(1,650,432)
Agency Outlays, net (discretionary and mandatory)	**$ 1,208,080**	**$ (1,855,608)**	**$ (647,528)**

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, 2016 and 2015

(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			
New obligations and upward adjustments (total)	$ 1,535,235	$ 3,782,888	$ 5,318,123
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	390,580	1,081,724	1,472,304
Unapportioned, unexpired accounts	774,096	2,610,482	3,384,578
Unexpired unobligated balance, end of year	1,164,676	3,692,206	4,856,882
Expired unobligated balance, end of year	121,783	-	121,783
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
New obligations and upward adjustments (total)	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
Recoveries of prior year paid obligations (discretionary and mandatory)	-	-	-
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.

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 direct loans obligated or loan guaranties committed 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. 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. 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 act.

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 that are funded in the following year.

Unexpended Appropriations

Unexpended Appropriations is the portion of SBA's appropriations received that 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 that 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.

Fiduciary Activities

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. SBA's fiduciary activities are discussed in Note 4.

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,	**2016**	**2015**
Appropriated Funds	$ 1,495,657	$ 1,657,534
Financing Funds	4,669,731	3,621,114
Liquidating Funds	786	918
Revolving Fund	88,735	85,257
Trust Fund	208	209
Total Entity Fund Balance with Treasury	**6,255,117**	**5,365,032**
Budget Clearing Account Balance	819	386
Total Fund Balance with Treasury	**$ 6,255,936**	**$ 5,365,418**
Status of Fund Balance with Treasury		
Apportioned, unexpired accounts	$ 1,989,935	$ 1,472,304
Unapportioned, unexpired accounts	2,920,982	3,384,578
Obligated Balance Not Yet Disbursed	1,288,561	563,266
Expired Unobligated Balance	55,639	121,783
Borrowing Authority Not Converted to Funds	-	(176,899)
Nonbudgetary	819	386
Total Fund Balance with Treasury	**$ 6,255,936**	**$ 5,365,418**

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

The 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 $1.8 million and $1.2 million at September 30, 2016, and 2015.

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 $28.2 billion and $25.2 billion of outstanding SBA guaranteed 7(a) loan principal in the secondary market at September 30, 2016, and 2015.

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 $26.7 billion and $27.7 billion of SBA guarantied 504 debentures outstanding in the secondary market at September 30, 2016, and 2015.

The composition of the MRF and MRA and a reconciliation of 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,	2016			2015		
	MRF	MRA	Total	MRF	MRA	Total
Cash	$ 12,466	$ –	$ 12,466	$ 2,338	$ –	$ 2,338
Short Term Securities						
Money Market Funds	-	730,806	730,806	5,866	722,814	728,680
Treasury Bills	973,602	–	973,602	719,705	–	719,705
Repurchase Agreements	486,995	–	486,995	201,800	–	201,800
Total Cash and Short Term Securities	**1,473,063**	**730,806**	**2,203,869**	**929,709**	**722,814**	**1,652,523**
Long Term Securities						
Treasury Notes Including Interest	2,134,988	–	2,134,988	2,235,855	–	2,235,855
Total Long Term Securities	**2,134,988**	**–**	**2,134,988**	**2,235,855**	**–**	**2,235,855**
Net Assets	**$ 3,608,051**	**$ 730,806**	**$ 4,338,857**	**$ 3,165,564**	**$ 722,814**	**$ 3,888,378**

MASTER RESERVE FUND AND MASTER RESERVE ACCOUNT

(Dollars in Thousands)

RECONCILIATION OF FIDUCIARY ASSETS

For the Years Ended September 30,	2016			2015		
	MRF	**MRA**	**Total**	**MRF**	**MRA**	**Total**
Beginning Net Assets	**$ 3,165,564**	**$ 722,814**	**$ 3,888,378**	**$ 2,863,721**	**$ 636,789**	**$ 3,500,510**
Receipts						
Earned Income	29,214	1,115	30,329	30,661	98	30,759
Contributions	5,317,512	16,743,968	22,061,480	5,024,260	16,627,797	21,652,057
Net Realized Gain (Loss)	822	-	822	(3,435)	–	(3,435)
Total Receipts	**5,347,548**	**16,745,083**	**22,092,631**	**5,051,486**	**16,627,895**	**21,679,381**
Less Disbursements						
Payments to Investors	4,905,061	16,737,091	21,642,152	4,749,643	16,541,870	21,291,513
Total Disbursements	**4,905,061**	**16,737,091**	**21,642,152**	**4,749,643**	**16,541,870**	**21,291,513**
Ending Net Assets	**$ 3,608,051**	**$ 730,806**	**$ 4,338,857**	**$ 3,165,564**	**$ 722,814**	**$ 3,888,378**

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 Guarantee 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,	2016	2015
Intragovernmental		
Administrative Receivables	$ –	$ 30
Total Intragovernmental	**$ –**	**$ 30**
Public		
Guaranty Fees Receivable	$ 78,982	$ 92,221
Refunds	776	545
Other	81,576	5,493
Total Public	**161,334**	**98,259**
Allowance For Loss	(22)	(53)
Net Public	**$ 161,312**	**$ 98,206**

Accounts Receivable - Other increased due to a policy change whereby SBA now books a receivable when the lender fails to provide required documentation for the purchase of defaulted loans by the required time frame.

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 non-profit 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, 2016, SBA's foreclosed property was $24.2 million related to 86 loans. The properties had been held for an average of 1,187 days. At September 30, 2015, foreclosed property was $30.4 million related to 87 loans. The properties had been held for an average of 1,106 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, 2016	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 2,011	$ 173,528	$ 175,539
Interest Receivable	2,745	405	3,150
Foreclosed Property	3,113	–	3,113
Allowance	(4,687)	(13,128)	(17,815)
Total Direct Business Loans	**3,182**	**160,805**	**163,987**
Direct Disaster Loans			
Disaster Loans Receivable	1,931	5,992,848	5,994,779
Interest Receivable	196	34,337	34,533
Foreclosed Property	–	1,874	1,874
Allowance	(203)	(939,342)	(939,545)
Total Direct Disaster Loans	**1,924**	**5,089,717**	**5,091,641**
Defaulted Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied Business Loans	1,512	3,941,186	3,942,698
Other Loans Receivable (see note below)	–	222,318	222,318
Interest Receivable	9,042	37,845	46,887
Foreclosed Property	1,868	17,303	19,171
Allowance	(4,723)	(3,299,090)	(3,303,813)
Total Defaulted Guarantied Business Loans & Other Loans Receivable	**7,699**	**919,562**	**927,261**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 6,182,889**

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**

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,		2016		2015
Business Direct Loan Program	$	33,594	$	25,917
Disaster Loan Program		401,121		294,066
Total Direct Loans Disbursed	**$**	**434,715**	**$**	**319,983**

Outstanding Loan Obligations as of September 30,		2016		2015
Business Direct Loan Program	$	42,839	$	43,991
Disaster Loan Program		851,495		116,667
Total Direct Loan Obligations	**$**	**894,334**	**$**	**160,658**

GUARANTIED LOANS

New Loans Disbursed During the Year Ended September 30,		2016		2015
Total Principal Disbursed at Face Value	$	26,971,386	$	24,933,967
Total Principal Disbursed Guarantied by the SBA		21,294,900		19,775,428

Outstanding Loan Obligations as of September 30,		2016		2015
Business Guarantied Loan Programs	$	16,766,201	$	16,070,177

Loans Outstanding as of September 30,		2016		2015
Total Principal Outstanding at Face Value	$	113,113,553	$	105,662,573
Total Principal Outstanding Guarantied by the SBA		93,764,878		88,337,969

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,		2016		2015
Post-1991 Business Direct and Purchased Guarantied Loans				
Beginning Balance of Allowance Account	**$**	**4,756,184**	**$**	**6,174,526**
Current Year's Subsidy (see 6G for breakdown by component)		4,000		4,068
Loans Written Off		(1,927,638)		(2,110,027)
Subsidy Amortization		(2,208)		(2,207)
Allowance Related to Guarantied Loans Purchased This Year		182,476		404,131
Miscellaneous Recoveries and Costs		299,146		286,654
Balance of Subsidy Allowance Account before Reestimates		3,311,960		4,757,145
Technical Assumptions/Default Reestimates		258		(961)
Ending Balance of Allowance Account	**$**	**3,312,218**	**$**	**4,756,184**
Post-1991 Disaster Direct Loans				
Beginning Balance of Allowance Account	**$**	**1,087,238**	**$**	**1,230,152**
Current Year's Subsidy (see 6G for breakdown by component)		48,397		33,908
Loans Written Off		(111,340)		(118,547)
Subsidy Amortization		(4,987)		(6,621)
Miscellaneous Recoveries and Costs		77,684		66,110
Balance of Subsidy Allowance Account before Reestimates		1,096,992		1,205,002
Technical Assumptions/Default Reestimates		(157,650)		(117,764)
Ending Balance of Allowance Account	**$**	**939,342**	**$**	**1,087,238**

E. Liability for Loan Guarantees

(Dollars in Thousands)

For the Years Ended September 30,		2016		2015
Pre-1992 Business Loan Guarantees				
Beginning Balance of Liability for Loan Guarantees	**$**	**14**	**$**	**70**
Adjustment to Expected Losses, Guaranties Outstanding		(7)		(56)
Ending Balance of Liability for Loan Guarantees		**7**		**14**
Post-1991 Business Loan Guaranties				
Beginning Balance of Liability for Loan Guarantees		**1,661,502**		**2,044,439**
Current Year's Subsidy (see 6G for breakdown by component)		26,292		55,102
Fees		1,247,356		1,219,836
Interest Accumulation Factor		76,294		91,231
Claim Payments to Lenders		(847,342)		(1,126,127)
Adjustment Due to Reestimate & Guarantied Loan Purchases		664,866		721,995
Miscellaneous Recoveries and Costs		11,358		43,720
Balance of Liability for Loan Guarantees before Reestimates		2,840,326		3,050,196
Technical Assumptions/Default Reestimates		(468,828)		(1,388,694)
Ending Balance of Liability for Loan Guarantees		**2,371,498**		**1,661,502**
Total Ending Balance of Liability for Loan Guarantees	**$**	**2,371,505**	**$**	**1,661,516**

F. 2016 Subsidy Rates by Program and Component

LOAN PROGRAM	Total Subsidy	Financing	Default	Other	Fee
Guaranty					
7(a)	**0.00%**	0.00%	4.21%	0.00%	-4.21%
504 CDC	**0.00%**	0.00%	7.32%	0.73%	-8.05%
504 Refi	**0.00%**	0.00%	7.62%	0.72%	-8.34%
SBIC Debentures	**0.00%**	0.00%	6.68%	0.08%	-6.76%
Direct					
Disaster	**12.10%**	2.56%	13.64%	-4.10%	0.00%
Microloan	**8.87%**	7.41%	1.60%	-0.14%	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,	2016	2015
Business Loan Guaranties		
Interest	$ -	$ 2
Defaults	228,080	509,812
Fees	(221,728)	(483,888)
Other	19,940	29,176
Subsidy Expense Before Reestimates and Loan Modifications	26,292	55,102
Reestimates	(468,828)	(1,388,694)
Total Guarantied Business Loan Subsidy Expense	**$ (442,536)**	**$ (1,333,592)**
Business Direct Loans		
Interest	$ 2,585	$ 2,126
Defaults	693	544
Other	722	1,398
Subsidy Expense Before Reestimates	4,000	4,068
Reestimates	258	(961)
Total Business Direct Loan Subsidy Expense	**$ 4,258**	**$ 3,107**
Disaster Direct Loans		
Interest	$ 10,943	$ 9,435
Defaults	54,571	39,804
Other	(17,117)	(15,331)
Subsidy Expense Before Reestimates	48,397	33,908
Reestimates	(157,650)	(117,764)
Total Disaster Direct Loan Subsidy Expense	**$ (109,253)**	**$ (83,856)**

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,	2016	2015
Disaster Direct Loan Programs	$ 212,265	$ 172,624
Business Loan Programs	151,692	146,778
Total Administrative Expense	**$ 363,957**	**$ 319,402**

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 2016 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,	2016	2015
7(a)	$ (163,406)	$ (268,899)
7(a) - Recovery Act	19,218	46,109
7(a) - Jobs Act	10,184	(8,605)
Dealer Floor Plan	(167)	(450)
504 CDC	(617,004)	(795,992)
504 CDC - Recovery Act	(46,505)	(105,987)
504 CDC - Jobs Act	(10,369)	(25,946)
504 CDC - Debt Refinancing	(24,683)	(72,831)
504 First Mortgage Loan Pooling - Recovery Act	3,686	(7,254)
SBIC Debentures	(156,544)	(154,625)
SBIC Participating Securities	(40,499)	(76,888)
Secondary Market Guaranty Program	546,107	84,477
ARC - Recovery Act	(1,387)	(8,877)
All Other Guaranty Loan Programs	12,541	7,074
Total Guarantied Loan Program Subsidy Reestimates	**$ (468,828)**	**$ (1,388,694)**

The 7(a) Loan Guaranty program, SBA's flagship and largest program had a net downward reestimate in FY 2016 of $163.4 million. The reestimate is primarily due to lower than expected purchases in cohorts 2011 through 2016, partially offset by lower than expected recoveries in cohorts 2013 through 2015. Cohorts 2007 through 2010 experienced higher than projected purchases in FY2016, which were offset by higher than expected recoveries for those cohorts. The FY 2016 cohort experienced a slight upward reestimate due to increased loss projections as compared to the original loss projections.

The 7(a) Recovery Act program had a net upward reestimate in FY 2016 of $19.2 million. The reestimate is primarily due to higher than expected purchases in FY 2016, partially offset by higher than expected recoveries. FY 2016 loan performance contributed to updated model assumptions, which resulted in decreased recovery projections.

The 7(a) Jobs Act cohort had a net upward reestimate in FY 2016 of $10.2 million. The reestimate is due to higher than expected purchases and lower than expected recoveries in FY 2016. FY 2016 loan performance contributed to updated model assumptions, which resulted in decreased recovery projections.

The Dealer Floor Plan program had a net downward reestimate of $0.2 million due to better than projected performance during FY 2016.

The 504 Certified Development Company program had a net downward reestimate of $617.0 million. The reestimate is primarily due to better than projected FY 2016 loan performance across all but one cohort. Although some cohorts had higher than expected purchases, these higher than expected losses were offset by higher than expected recoveries. FY 2016 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 2016 cohort as compared to the original loss projections.

The 504 Recovery Act program had a net downward reestimate of $46.5 million. The reestimate is mostly due to better than projected FY 2016 loan performance. Actual purchases in the 504 Recovery Act program were less than half of the purchases projected for FY 2016.

The 504 Jobs Act program had a net downward reestimate of $10.4 million. The reestimate is mostly due to better than projected FY 2016 loan performance. Actual purchases in the 504 Jobs Act program were less than half the purchases projected for FY 2016.

The 504 Debt Refinancing program had a net downward reestimate of $24.7 million. The reestimate is mostly due to better than projected FY 2016 loan performance. Actual purchases in the 504 Debt Refinancing program were less than projected for both cohorts, while actual recoveries were more than projected for both cohorts. The FY 2016 loan performance contributed to revised assumptions which resulted in decreased purchase and increased recovery rate projections. Newly reauthorized in FY 2016, this amount includes a downward reestimate of $0.2 million for the 2016 cohort reflecting decreased loss projections compared to the original loss projections.

The Section 504 First Mortgage Loan Pooling program had a net upward reestimate of $3.7 million. The majority of the reestimate is due to lower than projected recoveries in FY 2016. Faster than projected repayment of principal also contributed to a reduction in projected on-going fee revenue.

The SBIC Debentures program had a net downward reestimate of $156.5 million. The primary driver of the reestimate was better than projected loan performance in FY 2016. No new purchases were recorded in FY 2016 for any cohort, while actual recoveries were greater than projected, specifically in the 2003 and 2009 cohorts. Additionally, updated performance expectation of the 2016 cohort contributed to the downward reestimate.

The SBIC Participating Securities program had a net downward reestimate of $40.5 million. The downward reestimate was due to better-than-expected loan performance in FY 2016, particularly for the 2004 cohort. The main driver of the downward reestimate was lower purchases and higher recoveries than projected in FY 2016. The better-than-projected recoveries and purchases were partially offset by lower reimbursements of prioritized payments in FY 2016.

The Secondary Market Guaranty program had a net upward reestimate of $546.1 million. The upward reestimate was larger than expected in part due to reconciliation procedures instituted in FY 2016 related to the available cash positions between the trustee and fiscal agent accounts. The reconciliation procedures between fiscal agent and trustee, while materially reconciled in total, reduced the cash available balance category to cover future MRF liabilities and in turn resulted in an upward reestimate.

The America's Recovery Capital program had a net downward reestimate of $1.4 million. The majority of this reestimate is due to lower than projected purchases and higher than expected recoveries in FY 2016 for both cohorts.

The New Market Venture Capital program had a net upward reestimate of $12.5 million. The upward reestimate was driven by higher purchases than expected in FY 2016 with no additional forecasted recoveries.

BUSINESS DIRECT LOAN PROGRAMS

Net subsidy reestimates for business direct loan programs follows:

(Dollars in Thousands)

For the Years Ended September 30,	2016	2015
7(m) Microloan	$ 224	$ (542)
7(m) Microloan - Recovery Act	82	1,491
Intermediary Lending Pilot Program	(41)	(1,885)
All Other Direct Loan Programs	(7)	(25)
Total Direct Loan Program Subsidy Reestimates	**$ 258**	**$ (961)**

The 7(m) Direct Microloan program had a net upward reestimate of $0.2 million. The upward reestimate is partially due to higher projected purchases and lower recoveries in the current year. These projections are partially offset by an increase in projected prepayments.

The 7(m) Direct Microloan Recovery Act program had a net upward reestimate of $0.1 million. The upward reestimate is primarily due to a decrease in projected recoveries in future years for both cohorts. This is partially offset by a decrease in projected defaults.

The Intermediary Lending Pilot program had a net downward reestimate of $0.04 million. The slightly downward reestimate was primarily due to lower projected defaults for future years for both the 2011 and 2012 cohorts. The lower projected defaults were partially offset by lower projected recoveries.

DISASTER DIRECT LOAN PROGRAM

Net subsidy reestimates for the disaster direct loan programs follows:

(Dollars in Thousands)

For the Years Ended September 30,		2016		2015
Disaster	$	(157,650)	$	(117,764)
Total Disaster Direct Loan Program Subsidy Reestimates	**$**	**(157,650)**	**$**	**(117,764)**

The Disaster Assistance program had a net downward reestimate of $157.7 million. Most Disaster cohorts (except for the 2015 and the 2016 regular cohorts) experienced downward reestimates as a result of better than expected performance in FY 2016 and revised performance assumptions. The 2015 cohort experienced a downward reestimate due to updated present value factors applied to projected cash flows, as well as revised performance assumptions. The 2016 cohort is the only cohort that experienced an upward reestimate. The reestimate is 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 two 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 two 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 two 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 five 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,	2016	2015
Equipment	$ 2,675	$ 2,675
Accumulated Depreciation	(2,675)	(2,663)
Net	**-**	**12**
Leasehold Improvements	1,811	1,811
Amortization of Leasehold Improvements	(1,079)	(1,004)
Net	**732**	**807**
Software in Use	35,863	35,863
Amortization of Software in Use	(35,770)	(34,120)
Net	**93**	**1,743**
Total General Property and Equipment, Net	**$ 825**	**$ 2,562**

NOTE 8 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

These unfunded liabilities consisted of:

(Dollars in Thousands)

As of September 30,	2016	2015
Intragovernmental Liabilities - Other		
Employment Taxes Payable	$ 294	$ 320
Federal Employees' Compensation Act Payable	6,580	6,403
Total Intragovernmental Liabilities - Other	**6,874**	**6,723**
Federal Employees' Compensation Act Actuarial Liability	**32,676**	**31,691**
Surety Bond Guarantee Program Future Claims	**43,430**	**43,679**
Other Liabilities		
Prior Liens on Real Estate Payable	59	59
Accrued Unfunded Annual Leave	25,799	24,976
Total Other Liabilities	**25,858**	**25,035**
Total Liabilities Not Covered by Budgetary Resources	**$ 108,838**	**$ 107,128**

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,		2016		2015
Beginning Balance	**$**	**7,175,344**	**$**	**7,756,100**
New Borrowing		1,787,103		564,871
Repayments		(942,921)		(1,145,627)
Ending Balance	**$**	**8,019,526**	**$**	**7,175,344**

NOTE 10 NET ASSETS OF LIQUIDATING FUNDS DUE TO TREASURY

Net Assets of Liquidating Funds Due to the 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 2016 and FY 2015 balances include the transfer of the unobligated balance to the Treasury at September 30.

(Dollars in Thousands)

As of September 30,		2016		2015
Disaster Loan Fund	$	1,924	$	2,497
Business Loan and Investment Fund		12,900		11,321
Total Due Treasury	**$**	**14,824**	**$**	**13,818**

NOTE 11 OTHER LIABILITIES

Other liabilities were:

(Dollars in Thousands)

As of September 30,	2016	2015
OTHER LIABILITIES - INTRAGOVERNMENTAL		
Entity		
Current		
Employment Taxes Payable	$ 3,530	$ 2,486
Advances from Other Agencies	2,189	932
Total Current	**5,719**	**3,418**
Non-current		
Employment Taxes Payable	294	320
Federal Employees' Compensation Act Payable	6,580	6,403
Total Non-current	**6,874**	**6,723**
Total Entity	**12,593**	**10,141**
Non-entity		
Current		
Payable to Treasury	6	6
Total Other Liabilities - Intragovernmental	**$ 12,599**	**$ 10,147**
OTHER LIABILITIES - PUBLIC		
Entity		
Current		
Accrued Funded Payroll and Benefits	$ 14,291	$ 9,261
Accrued Unfunded Annual Leave	25,799	24,976
Other Liabilities	83	955
Suspense Accounts	908	578
Total Current	**41,081**	**35,770**
Non-current		
Prior Liens on Real Estate Payable	59	59
Total Non-current	**59**	**59**
Total Entity	**41,140**	**35,829**
Total Other Liabilities - Public	**$ 41,140**	**$ 35,829**

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 2016 and 2015 facilities lease costs were $45.0 million and $44.9 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 five years as leases expire and new leases are added. Payments after five 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
2017	$	46,275
2018		47,663
2019		49,093
2020		50,565
2021		52,082
After 2021		20,704
Total	**$**	**266,382**

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 reestimates. 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 because 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,		2016		2015
Entity				
Financing Fund Payable	$	(1,239,814)	$	(1,600,653)
Non-entity				
Miscellaneous Receipts Fund Receivable		1,239,814		1,600,653
Downward Reestimate Payable to Treasury		(1,239,814)		(1,600,653)
Balance Sheet Reported Payable	**$**	**(1,239,814)**	**$**	**(1,600,653)**

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 not assigned. Congressional mandated grants do not necessarily involve small business and are also not assigned.

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.

.

INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

(Dollars in Thousands)

For the Years Ended September 30,		2016		2015
STRATEGIC GOAL 1:				
Growing Businesses and Creating Jobs				
Intragovernmental Gross Cost	$	497,377	$	461,443
Gross Cost with the Public		100,306		(827,119)
Total Strategic Goal 1 Gross Cost		**597,683**		**(365,676)**
Intragovernmental Earned Revenue		136,824		109,099
Earned Revenue from the Public		320,679		354,725
Total Strategic Goal 1 Earned Revenue		**457,503**		**463,824**
STRATEGIC GOAL 2:				
Serving as the Voice for Small Business				
Intragovernmental Gross Cost	$	30,378	$	27,432
Gross Cost with the Public		92,773		82,206
Total Strategic Goal 2 Gross Cost		**123,151**		**109,638**
STRATEGIC GOAL 3:				
Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses				
Intragovernmental Gross Cost	$	10,194	$	10,115
Gross Cost with the Public		31,132		30,312
Total Strategic Goal 3 Gross Cost		**41,326**		**40,427**
COST NOT ASSIGNED TO STRATEGIC GOALS				
Intragovernmental Gross Cost	$	8,589	$	8,718
Gross Cost with the Public		26,231		26,127
Total Gross Cost Not Assigned to Strategic Goals		**34,820**		**34,845**
Net Cost of Operations	**$**	**339,477**	**$**	**(644,590)**

NOTE 15 COMBINED STATEMENT OF BUDGETARY RESOURCES

The Combined Statement of Budgetary Resources presents information about total budgetary resources available to the SBA and the status of those resources as of September 30, 2016, and 2015. SBA's total budgetary resources were $2.8 billion and $2.8 billion for the years ended September 30, 2016, and 2015. Additionally, $8.1 billion and $7.5 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, 2016, and 2015.

OMB Circular A-136 required a change in format for the Combined Statement of Budgetary Resources. The FY 2015 balances have been reclassified for comparability as required by Circular A-136.

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 2016 and FY 2015, the SBA received $1.6 billion and $0.6 billion of borrowing authority from OMB. At the end of FY 2016, the SBA had no borrowing authority carried over to fund direct loans and default claims to be disbursed in the future. At the end of FY 2015, 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 2016 and FY 2015, the SBA incurred $5.911 billion and $5.318 billion of direct and reimbursable obligations of which $0.016 billion and $0.020 billion were apportioned in category A; $5.895 billion and $5.298 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, 2016, and September 30, 2015, are $5.0 billion and $5.0 billion, which include $3.0 billion and $3.5 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 ($3.9 billion in FY 2016 and $3.7 billion in FY 2015) 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 ($1.1 billion in FY 2016 and $1.3 billion in FY 2015) 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, 2016, and 2015 were $1.3 billion and $0.5 billion.

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

There was no material difference between the FY 2015 Statement of Budgetary Resources and the President's FY 2017 budget submission. The President's FY 2018 Budget with actual numbers for FY 2016 has not yet been published. The SBA expects no material differences between the President's Budget "actual" column and the FY 2016 reported results when the budget becomes available in February 2017.

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,	2016	2015
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$ 5,911,456	$ 5,318,123
Less: Spending Authority from Offsetting Collections and Recoveries	4,183,257	4,157,947
Obligations Net of Offsetting Collections and Recoveries	1,728,199	1,160,176
Less: Offsetting Receipts	1,650,432	1,871,715
Net Obligations	**77,767**	**(711,539)**
Other Resources		
Imputed Financing	18,158	16,050
Other Financing Sources	(1,294,974)	(1,841,457)
Net Other Resources Used to Finance Activities	**(1,276,816)**	**(1,825,407)**
Total Resources Used to Finance Activities	**(1,199,049)**	**(2,536,946)**
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	(725,222)	(6,803)
Resources that Fund Expenses Recognized in Prior Periods	(263,873)	(201,087)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations		
Credit Program Collections	3,641,970	3,725,160
Offsetting Receipts	1,650,432	1,871,715
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(3,430,648)	(3,771,717)
Other - Current Year Liquidating Equity Activity	4,639	12,736
Other Resources that Do Not Affect Net Cost of Operations	(95)	72
Total Resources that Do Not Finance Net Cost of Operations	**877,203**	**1,630,076**
Total Resources Used to Finance the Net Cost of Operations	**(321,846)**	**(906,870)**
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	823	(1,385)
Change in Contingent Liability	-	(464)
Upward Reestimates of Credit Subsidy Expense	655,303	263,633
Change in Revenue Receivable from Public	(3,012)	(5,627)
Provision for Losses on Estimated Guaranties	(249)	7,880
Change in Unfunded Employee Benefits	1,136	(3,775)
Total Components Requiring or Generating Resources in Future Periods	**654,001**	**260,262**
Components Not Requiring or Generating Resources		
Depreciation or Amortization	1,737	2,104
Change in Bad Debt Expense - Pre-1992 Loans	5,525	24
Other (Income) Expenses Not Requiring Budgetary Resources	60	(110)
Total Components Not Requiring or Generating Resources	**7,322**	**2,018**
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**661,323**	**262,280**
Net Cost of Operations	**$ 339,477**	**$ (644,590)**

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,	**2016**	**2015**
Current Year Liabilities Not Covered By Budgetary Resources	$ 108,838	$ 107,128
Less: Prior Year	107,128	104,408
Change in Liabilities Not Covered By Budgetary Resources	1,710	2,720
Upward Reestimates of Credit Subsidy Expense	655,303	263,633
Change in Revenue Receivable from Public	(3,012)	(5,627)
All Other	-	(464)
Components (of Net Cost) Generating Resources in Future Periods (Per Reconciliation Above)	**$ 654,001**	**$ 260,262**

REQUIRED SUPPLEMENTARY INFORMATION

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2016 (Unaudited)

(Dollars in Thousands)	BLIF		DLF		SBGRF
	Budgetary	Nonbudgetary Financing	Budgetary	Nonbudgetary Financing	Budgetary
BUDGETARY RESOURCES					
Unobligated Balance Brought Forward, October 1	$ 175,747	$ 3,421,284	$ 705,557	$ 270,922	$ 85,253
Recoveries of Prior Year Obligations	12,015	2,558	5,492	45,401	-
Other Changes in Unobligated Balance	(71,579)	(10,500)	-	-	3,170
Unobligated Balance from Prior Year Budget Authority, net	116,183	3,413,342	711,049	316,323	88,423
Appropriations (discretionary and mandatory)	419,782	-	196,686	-	-
Borrowing Authority (discretionary and mandatory)	-	185,298	-	1,424,904	-
Spending Authority from Offsetting Collections	(1)	2,515,319	-	244,094	16,527
Total Budgetary Resources	**$ 535,964**	**$ 6,113,959**	**$ 907,735**	**$ 1,985,321**	**$ 104,950**
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments (total)	$ 419,781	$ 2,636,862	$ 339,630	$ 1,573,863	$ 16,602
Unobligated Balance, end of year:					
Apportioned, unexpired accounts	-	1,285,986	44,959	404,471	3,103
Unapportioned, unexpired accounts	114,411	2,191,111	523,146	6,987	85,245
Unexpired unobligated balance, end of year	114,411	3,477,097	568,105	411,458	88,348
Expired unobligated balance, end of year	1,772	-	-	-	-
Total Unobligated Balance, end of year	116,183	3,477,097	568,105	411,458	88,348
Total Status of Budgetary Resources	**$ 535,964**	**$ 6,113,959**	**$ 907,735**	**$ 1,985,321**	**$ 104,950**
CHANGE IN OBLIGATED BALANCES					
Unpaid Obligations:					
Unpaid Obligations, Brought Forward, October 1	$ 81,919	$ 82,753	$ 13,876	$ 118,228	$ 4
New obligations and upward adjustments	419,781	2,636,862	339,630	1,573,863	16,602
Gross Outlays	(447,042)	(2,646,884)	(245,144)	(790,652)	(16,218)
Recoveries of Prior Year Unpaid Obligations	(12,015)	(2,558)	(5,492)	(45,401)	–
Unpaid Obligations, end of year	42,643	70,173	102,870	856,038	388
Uncollected Payments:					
Uncollected Payments, Federal sources brought forward, October 1	–	(81,129)	–	(14,046)	–
Change in Uncollected Payments, Federal Sources	–	39,193	–	(89,054)	–
Uncollected Payments, Federal Sources, end of year	–	(41,936)	–	(103,100)	–
Memorandum (non-add) entries:					
Obligated Balance, start of year	**$ 81,919**	**$ 1,624**	**$ 13,876**	**$ 104,182**	**$ 4**
Obligated Balance, end of year	**$ 42,643**	**$ 28,237**	**$ 102,870**	**$ 752,938**	**$ 388**
BUDGET AUTHORITY AND OUTLAYS, NET					
Budget Authority, gross (discretionary and mandatory)	$ 419,781	$ 2,700,617	$ 196,686	$ 1,668,998	$ 16,527
Actual Offsetting Collections (discretionary and mandatory)	(3,463)	(2,632,340)	(1,159)	(1,009,630)	(19,697)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	39,193	–	(89,054)	–
Recoveries of prior year paid obligations (discretionary and mandatory)	453	–	–	–	3,170
Budget Authority, net (discretionary and mandatory)	**$ 416,771**	**$ 107,470**	**$ 195,527**	**$ 570,314**	**$ –**
Gross Outlays (discretionary and mandatory)	$ 447,042	$ 2,646,884	$ 245,144	$ 790,652	$ 16,218
Actual Offsetting Collections (discretionary and mandatory)	(3,463)	(2,632,340)	(1,159)	(1,009,630)	(19,697)
Net Outlays (discretionary and mandatory)	443,579	14,544	243,985	(218,978)	(3,479)
Distributed Offsetting Receipts	–	(1,527,841)	–	(123,333)	–
Agency Outlays, net (discretionary and mandatory)	**$ 443,579**	**$ (1,513,297)**	**$ 243,985**	**$ (342,311)**	**$ (3,479)**

REQUIRED SUPPLEMENTARY INFORMATION (continued)

COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2016 (Unaudited)

(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	$ 296,119	$ 11,615	$ 690	$ 11,273	$ 205	$ 1,286,459	$ 3,692,206	$ 4,978,665
Recoveries of Prior Year Obligations	32,372	117	104	5,540	–	55,640	47,959	103,599
Other Changes in Unobligated Balance	(18,358)	(104)	–	10	–	(86,861)	(10,500)	(97,361)
Unobligated Balance from Prior Year Budget Authority, net	310,133	11,628	794	16,823	205	1,255,238	3,729,665	4,984,903
Appropriations (discretionary and mandatory)	266,300	19,900	9,120	232,800	–	1,144,588	–	1,144,588
Borrowing Authority (discretionary and mandatory)	–	–	–	–	–	–	1,610,202	1,610,202
Spending Authority from Offsetting Collections	359,769	1,001	–	1,600	10	378,906	2,759,413	3,138,319
Total Budgetary Resources	**$ 936,202**	**$ 32,529**	**$ 9,914**	**$ 251,223**	**$ 215**	**$ 2,778,732**	**$ 8,099,280**	**$ 10,878,012**
STATUS OF BUDGETARY RESOURCES								
New obligations and upward adjustments (total)	$ 658,660	$ 20,034	$ 9,158	$ 236,827	$ 39	$ 1,700,731	$ 4,210,725	$ 5,911,456
Unobligated Balance, end of year:								
Apportioned, unexpired accounts	234,261	6,660	756	9,563	176	299,478	1,690,457	1,989,935
Unapportioned, unexpired accounts	82	–	–	–	–	722,884	2,198,098	2,920,982
Unexpired unobligated balance, end of year	234,343	6,660	756	9,563	176	1,022,362	3,888,555	4,910,917
Expired unobligated balance, end of year	43,199	5,835	–	4,833	–	55,639	–	55,639
Total Unobligated Balance, end of year	277,542	12,495	756	14,396	176	1,078,001	3,888,555	4,966,556
Total Status of Budgetary Resources	**$ 936,202**	**$ 32,529**	**$ 9,914**	**$ 251,223**	**$ 215**	**$ 2,778,732**	**$ 8,099,280**	**$ 10,878,012**
CHANGE IN OBLIGATED BALANCES								
Unpaid Obligations:								
Unpaid Obligations, Brought Forward, October 1	$ 174,040	$ 2,567	$ 1,662	$ 183,388	$ 4	$ 457,460	$ 200,981	$ 658,441
New obligations and upward adjustments	658,660	20,034	9,158	236,827	39	1,700,731	4,210,725	5,911,456
Gross Outlays	(647,055)	(19,668)	(9,099)	(210,928)	(11)	(1,595,165)	(3,437,536)	(5,032,701)
Recoveries of Prior Year Unpaid Obligations	(32,372)	(117)	(104)	(5,540)	-	(55,640)	(47,959)	(103,599)
Unpaid Obligations, end of year	153,273	2,816	1,617	203,747	32	507,386	926,211	1,433,597
Uncollected Payments:								
Uncollected Payments, Federal sources brought forward, October 1	–	–	–	–	–	–	(95,175)	(95,175)
Change in Uncollected Payments, Federal Sources	–	–	–	–	–	–	(49,861)	(49,861)
Uncollected Payments, Federal Sources, end of year	–	–	–	–	–	–	(145,036)	(145,036)
Memorandum (non-add) entries:								
Obligated Balance, start of year	**$ 174,040**	**$ 2,567**	**$ 1,662**	**$ 183,388**	**$ 4**	**$ 457,460**	**$ 105,806**	**$ 563,266**
Obligated Balance, end of year	**$ 153,273**	**$ 2,816**	**$ 1,617**	**$ 203,747**	**$ 32**	**$ 507,386**	**$ 781,175**	**$ 1,288,561**
BUDGET AUTHORITY AND OUTLAYS, NET								
Budget Authority, gross (discretionary and mandatory)	$ 626,069	$ 20,901	$ 9,120	$ 234,400	$ 10	$ 1,523,494	$ 4,369,615	$ 5,893,109
Actual Offsetting Collections (discretionary and mandatory)	(360,881)	(1,007)	–	(1,610)	(10)	(387,827)	(3,641,970)	(4,029,797)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	–	–	–	–	–	(49,861)	(49,861)
Recoveries of prior year paid obligations (discretionary and mandatory)	1,113	7	–	10	–	4,753	–	4,753
Budget Authority, net (discretionary and mandatory)	**$ 266,301**	**$ 19,901**	**$ 9,120**	**$ 232,800**	**$ –**	**$ 1,140,420**	**$ 677,784**	**$ 1,818,204**
Gross Outlays (discretionary and mandatory)	$ 647,055	$ 19,668	$ 9,099	$ 210,928	$ 11	$ 1,595,165	$ 3,437,536	$ 5,032,701
Actual Offsetting Collections (discretionary and mandatory)	(360,881)	(1,007)	–	(1,610)	(10)	(387,827)	(3,641,970)	(4,029,797)
Net Outlays (discretionary and mandatory)	286,174	18,661	9,099	209,318	1	1,207,338	(204,434)	1,002,904
Distributed Offsetting Receipts	742	–	–	–	–	742	(1,651,174)	(1,650,432)
Agency Outlays, net (discretionary and mandatory)	**$ 286,916**	**$ 18,661**	**$ 9,099**	**$ 209,318**	**$ 1**	**$ 1,208,080**	**$ (1,855,608)**	**$ (647,528)**

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 deliver an array of services to small businesses and prospective business owners using an extensive network of lead centers and outreach locations. SBDCs deliver professional business advising and training 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 non-profit 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 includes 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."

Significant Human Capital investments occur within the following programs:

(Dollars in Thousands)

For the Five Years Ended September 30,	2016	2015	2014	2013	2012
Small Business Development Centers	$ 94,196	$ 89,225	$ 154,400	$ 93,427	$ 152,835
SCORE	2,749	19,615	5,758	10,894	9,331
Women's Business Centers	17,135	18,658	24,842	21,049	25,006
Microloan Technical Assistance	28,864	19,216	21,552	16,525	22,487
SBA's Consulting and Training Programs	52,871	51,510	54,620	44,313	28,365
Veterans Outreach	22,999	27,031	13,244	–	–
All Other Training and Assistance Programs	16,402	9,010	12,832	6,924	12,689
Total	**$ 235,216**	**$ 234,265**	**$ 287,248**	**$ 193,132**	**$ 250,713**

DID YOU KNOW

JOBS CREATED Two out of three net new jobs in America are created by small businesses. Millions of middle class families are working for small businesses that depend on the SBA's ability to facilitate access to capital, counseling, and contracting opportunities.

SUCCESS STORY

Creating Jobs and Expanding Business are Key to Entrepreneurship

Bailey's Restaurants
St. Louis, Missouri

David Bailey decided to pursue a career in the restaurant business shortly after graduating from St. Louis University. Ensuring he could do it his way, he took the entrepreneurial route with help from the SBA.

Early in his career, David immersed himself in every aspect of the business from cooking to catering. He worked 80 hours a week in management and catering for two other restaurants to — as he puts it — "train [his] mind and body for the physical and mental rigors of ownership."

From 2004 when he opened his first venture with loans from family members, much has changed in David's life and career. He has opened six distinctive restaurants and a catering company that have created a total of 325 jobs in the inner city of St. Louis. In 2013, he launched his most ambitious project with a $3 million SBA-backed loan, expanding Bailey's Restaurants. This project added 50 new jobs to the St. Louis economy and propelled the company's revenues to more than $10 million by 2014.

Other Information

DID YOU KNOW

CONTRACTING For the third consecutive year, in FY 2015, the federal government exceeded the 23 percent small business contracting goal, purchasing $90.7 billion in goods and services from small businesses through prime contract procurements. This represents 25.75 percent of all eligible federal spend and supports more than 537,000 jobs in the American economy.

SUCCESS STORY

8(a) Graduate Firm of the Year

Action Facilities Management Inc.
Morgantown, West Virginia

Since founding Action Facilities Management Inc. in her basement in 2001, **Diane Lewis-Jackson** has successfully grown her company to be a premier government and commercial contractor. The company specializes in site management, security services, maintenance and janitorial, equipment operations, consulting, staffing solutions, and project management. AFM has grown from two employees to more than 250 employees in nine states.

Diane has excelled in having taken several SBA training courses and is a graduate of SBA's 8(a) Business Development Program. Since then, she has garnered an impressive list of clients including: the Departments of Defense, Energy, Homeland Security, State, Labor, the Federal Protective Service, the Centers for Disease Control and Prevention, the U.S. Library of Congress, U.S. Mine Safety Health Administration, and U.S. Defense Logistics Agency. She has also been awarded the West Virginia 2013 Small Business Person of the Year and the 2010 Minority Small Business of the Year.

U. S. Small Business Administration

Combined Schedule of Spending

For the Years Ended September 30, 2016 and September 30, 2015 (Unaudited)

(Dollars in Thousands)

	2016			2015		
	Budgetary	**Non-budgetary Financing**	**Total**	**Budgetary**	**Non-budgetary Financing**	**Total**
What Money is Available to Spend?						
Total Resources	$ 2,778,732	$ 8,099,280	$ 10,878,012	$ 2,821,694	$ 7,475,094	$ 10,296,788
Less Amount Not Approved for Spending by SBA	355,117	1,690,457	2,045,574	512,363	1,081,724	1,594,087
Less Amount Approved for Spending by OMB	722,884	2,198,098	2,920,982	774,096	2,610,482	3,384,578
Total Amounts Agreed to be Spent	**$ 1,700,731**	**$ 4,210,725**	**$ 5,911,456**	**$ 1,535,235**	**$ 3,782,888**	**$ 5,318,123**
	Budgetary	**Non-budgetary Financing**	**Total**	**Budgetary**	**Non-budgetary Financing**	**Total**
How was the Money Spent /Issued?						
Salary & Benefits	$ 423,997	$ –	$ 423,997	$ 391,177	$ –	$ 391,177
Grants	214,123	–	214,123	195,892	–	195,892
Rent	45,849	–	45,849	45,434	–	45,434
Contracts	124,980	–	124,980	104,337	–	104,337
Travel	25,806	–	25,806	13,712	–	13,712
Other Administrative Expenses	77,527	–	77,527	99,704	–	99,704
Telecommunications	12,435	–	12,435	11,047	–	11,047
Surety Bonds Defaults	16,603	–	16,603	13,799	–	13,799
Business Loans	52,824	43,084	95,908	46,586	54,799	101,385
Business Loan Guarantees	366,958	2,593,779	2,960,737	354,996	3,148,898	3,503,894
Disaster Lending	339,629	1,573,862	1,913,491	258,551	579,191	837,742
Total Amounts Agreed to be Spent	**$ 1,700,731**	**$ 4,210,725**	**$ 5,911,456**	**$ 1,535,235**	**$ 3,782,888**	**$ 5,318,123**
	Budgetary	**Non-budgetary Financing**	**Total**	**Budgetary**	**Non-budgetary Financing**	**Total**
Who did the Money go to?						
Other Federal Agencies	$ 346,678	$ 1,971,239	$ 2,317,917	$ 340,201	$ 2,172,935	$ 2,513,136
Public Individuals and Organizations	1,354,053	2,239,486	3,593,539	1,195,034	1,609,953	2,804,987
Total Amounts Agreed to be Spent	**$ 1,700,731**	**$ 4,210,725**	**$ 5,911,456**	**$ 1,535,235**	**$ 3,782,888**	**$ 5,318,123**

The Combined Schedule of Spending (SOS) was developed to bridge the gap between budgetary accounting reports, such as the Combined 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 the 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 2017

October 14, 2016 **REPORT NUMBER 17-02**

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

Memorandum
Management Challenges

DATE: October 14, 2016

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 2017

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) 2017*. 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 2017.

Table 1. Summary of the Most Serious Management and Performance Challenges Facing the SBA in FY 2017

		Color Scores					
		Status at End of FY 2016				Change from Prior Year	
	Challenge	Green	Yellow	Orange	Red	Up ↑	Down ↓
1	Small Business Contracting	1	1	2		1	
2	IT Leadership			3			
3	Human Capital		2				
4	SBA Loan Program Risk Management and Oversight		5	1			
5	8(a) Business Development Program		2		1	2	
6	Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers		3				
7	Disaster Loan program		2	1			
8	Acquisition Management		4			4	
	TOTAL	1	19	7	1	7	0

Significant changes to this year's Management Challenges report involve information technology (IT) leadership (Challenge 2), human capital strategies (Challenge 3), loan program risk management and oversight (Challenge 4), and ensuring quality deliverables and reducing improper payments at SBA loan operation centers (Challenge 6).

Last year, we reported that SBA needed to address long-standing IT security weaknesses (Challenge 2). This year, we realigned the discussion to include our concerns regarding SBA leadership in overseeing and addressing IT investments and security risks. Since 2005, SBA has had 8 Chief Information Officer's (CIO). Prior to the recent appointment of the new CIO, the position had been vacant since July 2015; thereby, adversely affecting the ability of SBA to make lasting improvements in its IT investments and security in multiple areas.

As noted in a Government Accountability Office's (GAO) report, *Leadership Attention Needed to Overcome Management Challenges* (September 22, 2015), the reason SBA has not mitigated many longstanding management challenges is, in part, due to the lack of sustained priority attention over time and frequent turnover of leadership. Although SBA has made some progress in recent years to address challenges in the area of human capital management (Challenge 3), longstanding recommendations to develop a workforce plan and update guidance have not been implemented. Further, SBA's human capital challenges continued when it lost its provisional certification for its SES performance appraisal system because it did not timely submit its recertification request to the Office of Personnel Management (OPM). In 2012 and again in 2014, SBA conducted Voluntary Early Retirement Authority/Voluntary Separation Incentive Payment (VERA/VSIP) programs to address the pending retirement wave and create vacancies that could then be filled with employees with needed skills. However, SBA conducted its VERA/VSIP programs before having an agency-wide competency skills gap assessment and a workforce plan, which risked the opportunity to reshape the agency through the VERA/VSIP efforts. As a result of concerns about how the 2014 VERA/VSIP program was implemented, in FY 2016, OIG began a review of SBA's 2014 VERA/VSIP program. Our review will be completed in FY 2017.

This year, we also consolidated previously reported challenges on lender oversight (previously Challenge 4) and loan agent fraud (previously Challenge 6) into a challenge on loan program risk management and oversight, which is the responsibility of SBA's Office of Credit Risk Management (OCRM). With limited resources, OCRM manages credit risk for a nearly $120 billion loan portfolio originated by over 2,400 active lenders and Certified Development Companies (CDCs) that have various degrees of expertise regarding SBA loan program requirements. Further compounding this challenge, the majority of SBA loans are originated by lenders with delegated approval authority, resulting in limited SBA review until a default occurs. Many of these lenders also rely on the services of "for-fee" and other third party agents to assist in the origination, closing, servicing and liquidation of SBA loans.

Previous management challenge reports noted SBA's progress in implementing a quality control program for all of its loan centers. While SBA made progress in implementing a quality control program, further improvements are 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. As a result, we realigned Challenge 6 to ensure that SBA reduces improper payments by delivering timely SBA loan approval, servicing, and purchase decisions while ensuring they meet reasonable standards for quality and accuracy.

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.

TABLE OF 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. SBA has reported since FY 2013 that the Federal Government met or exceeded its goal of awarding 23 percent of Federal contracting dollars to small businesses. 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*. These concerns have been substantiated by OIG audits and other Government studies that 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.

Agencies Receive Goaling Credit for Firms No Longer in the 8(a) or HUBZone Programs

In OIG Report 14-18, we 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 were included towards small business contacting goals, even though these firms 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 corrected weaknesses within its small business information systems that impact the accuracy of goaling data.

Women Owned Small Business Federal Contracting Program Susceptible to Abuse

SBA's Women-Owned Small Business Federal Contract Program (WOSBP) provides greater access to Federal contracting opportunities to women-owned small businesses (WOSBs) and economically-disadvantaged WOSB that meet the WOSBP requirements. OIG and GAO have both reported weaknesses in SBA's controls that would ensure only eligible firms receive WOSBP set-aside contracts. The National Defense Authorization Acts (NDAA) for FYs 2013 and 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 implemented the sole-source authority provision first without 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. The importance of a certification program is illustrated by SBA's results of the eligibility reviews it recently completed of 25 firms we identified as potentially ineligible (Report 15-10). These firms had previously self-certified into the WOSBP using the existing regulations to enter the program. After conducting the reviews, SBA determined that 40 percent of the firms were ineligible. Absent a certification program, the Government is more likely to award WOSBP contracts to ineligible firms. SBA is still evaluating a path forward for implementing a certification program for the WOSBP.

SBA Retained High Size Standards Contrary to its Own Analysis

SBA uses the North American Industry Classification System (NAICS) as the basis for its size standards. For the most part, size standards are based on the number of employees or average annual receipts of a firm and represent the largest size that a business (including its subsidiaries and affiliates) may be to qualify as a small business for Federal contracting programs. Over OIG objection, SBA did not reduce size standards 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 concerns within certain NAICS codes. Within those NAICS codes, the benefits intended for small business contractors may instead go to larger concerns. Similarly, small businesses will compete against larger concerns within those NAICS codes so that the goaling numbers may be further distorted.

Increased Resources and an Improved Surveillance Review Process Gives SBA More Visibility into Federal Agencies Compliance with Small Business Programs

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. Over the past few years, SBA has taken several steps to strengthen its surveillance review procedures, practices and execution. For instance, it implemented a new Standard Operating Procedure (SOP) to ensure consistency in conducting its surveillance reviews and it increased the number of Procurement Center Representatives, allowing it to conduct more surveillance reviews. According to SBA officials, during the last three years it has conducted over 100 surveillance reviews using the new SOP, and it continues to improve its surveillance review process. SBA progressed to a "Green" rating for its efforts to ensure that the reviews are conducted in a thorough and consistent manner.

SBA's Continued Collaboration with Federal Agencies Improves Quality of Procurement Data

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 continue to collaborate with other agencies to improve procurement data accuracy supporting small business contracting goals. As part of its ongoing efforts to improve the quality of procurement data on small business contract awards, SBA notifies Federal agencies throughout the year of data quality issues it has identified giving those agencies another opportunity to review and correct the data, if required. SBA is also working with Federal agencies procurement personnel to provide them the tools to facilitate the review of data, implement improvements to procurement systems, and conduct training to improve data accuracy. For example, to assist agencies in improving procurement data quality, SBA worked with the Office of Federal Procurement Policy to integrate small business data quality reviews (anomaly reports) into routine agencies' processes and procedures. In addition, for the FY 2015 small business goaling data, SBA developed potential anomaly reports for the top 10 agencies that either have small business award dollars that have been issued to what appear to be large businesses, missing NAICS codes, or missing contracting officer's size selection data.

SBA Needs the Full Range of Federal Program Enforcement Tools to Address Fraud

The Program Fraud Civil Remedies Act (PFCRA) of 1986 was enacted to address smaller dollar value frauds. To this end, the Agency should modify its PFCRA regulations so that SBA can pursue any small business contracting program violations, subject to the PFCRA's jurisdictional limits, under that statute. SBA is the most logical Federal agency to litigate PFCRA cases involving false claims and statements regarding Small Business Act contracting programs submitted to multiple agencies. SBA has started preliminary discussions about implementing this change, but has not yet promulgated a rule. Independent of the PFCRA changes, SBA is in the process of raising its PFCRA penalty level, along with several other civil penalties, as mandated by the Federal Civil Penalties Inflation Adjustment Improvements Act of 2015.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2005)	2012: 1	2013: 0	2014: 1	2015: 0
Recommended Actions for FY 2017				**Status at end of FY 2016**
1. Strengthen controls to ensure the accuracy of the Federal Government's annual small business procurement goals achievements reported in the *Small Business Goaling Report*				**Yellow**
2. Implement a certification process for WOSBP.				**Orange**
3. Revise the surveillance review process to ensure that they are conducted in a thorough and consistent manner.				**Green ↑**
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.				**Orange**

-Implemented -Substantial Progress -Limited Progress -No Progress

Challenge 2. SBA's IT Leadership Capabilities Need Strengthening to Address Operational Risks and Challenges

This challenge focuses on the Office of Chief Information Officer (OCIO) improving its leadership roles in overseeing and addressing information technology (IT) investments and security risks. The OCIO is responsible for implementing leadership guidance outlined in the Clinger–Cohen Act, Federal Information Technology Acquisition Reform Act (FITARA), and IT Security criteria. In 1996, Congress enacted the Clinger–Cohen Act to reform and improve the way Federal agencies acquire and manage IT resources. The Clinger–Cohen Act identifies the Chief Information Officer (CIO) as having primary responsibility for overseeing IT investments. Recently, the National Defense Authorization Act (NDAA) for FY 2015 implemented FITARA to strengthen reforms and establish effective IT leadership within each agency. FITARA requires the CIO to play a critical leadership role in driving reforms to help control system development risks, better manage technology spending, and achieve measurable improvements in agency performance. The CIO must ensure Federal IT security is deployed in SBA's highly decentralized and dynamic IT environment.

SBA Faces Long-Term Challenges in Implementing Improvements in IT Investment Oversight as Required by FITARA

Full deployment of FITARA and IT security standards requires organizational alignment and appropriate management of resources within the Agency. As noted in a Government Accountability Office's (GAO) report, *Leadership Attention Needed to Overcome Management Challenges* (September 22, 2015), since 2005, SBA has had 8 CIOs. Prior to the recent appointment of the new CIO, the position had been vacant since July 2015; thereby, adversely affecting the ability of SBA to make lasting improvements in its IT investments and security in multiple areas. The CIO's departure frequently results in turnover in other key IT positions. For example, during the past year, SBA installed new leadership personnel in information security, network operations, and telecommunications positions. Continuity in these positions is critical to ensuring open vulnerabilities are corrected, operational issues are quickly resolved, current guidance adopted and implemented, and IT expenditures (maintenance and capital investment) are vetted and monitored.

GAO and OIG evaluations of IT investment and security practices indicate controls mandated in FITARA and the related common baseline guidance have not been fully deployed. For example, our recent evaluation of the Office 365 migration (Report 16-16) indicated the lack of IT investment controls, such as system development methodology, modular project phases, baseline controls, and TechStat sessions.

In addition, under the current SBA organization structure, there appears to be dual or overlapping accountability in the CIO's role for IT investment oversight. Currently, a Chief Digital Officer (CDO), who heads a digital services team, reports directly to the Chief Operating Officer (COO), while the CIO reports administratively to the COO's Deputy Chief Operating Officer. The CDO stated role is to transform the Agency's existing technology using the right mix of modern technology development and management approaches. This role may be duplicative and potentially in conflict with the role of the CIO who is responsible for recommending modification, termination, or pause of IT projects or initiatives. The OCIO is also accountable for ensuring applicable security guidance is implemented throughout a project's lifecycle.

Long Standing Weaknesses in IT Security Controls Require Sustained Management Attention and Infrastructure Investments

Recent Government security breaches have heightened the importance of continuously monitoring network and software applications against outside threats. Our evaluations of SBA's systems and networks indicate improvement in configuration management. This improvement reflects an IT control enhancement program initiated by the Agency. Notwithstanding these efforts, OIG evaluations further indicate significant outstanding vulnerabilities remain. The results of our annual evaluations of SBA's systems and networks indicate there are currently 39 open recommendations, some dating back to fiscal year 2011. Many are indicative of enterprise wide vulnerabilities or risks requiring infrastructure investment or more effective monitoring of contractor hosted systems. These general control areas include:

- Information security and continuous monitoring that requires validation of compliance with security requirements through auditing, periodic reviews, and implementing continuous monitoring strategies.
- Risk management that monitors the selection, implementation, and assessment of security controls, and the related formal authorization to operate both internal and hosted systems.
- Configuration management and identity and access management controls that document and manage baselines, establish a comprehensive personally identifiable information data loss prevention program, and require full implementation of system access procedures.

To show significant improvement in these areas, SBA's OCIO, in conjunction with SBA's various program offices, will need to make sustained investments in enterprise infrastructure, networks, software and human resources. Outlined below are 3 new improvement areas integral to implementing FITARA guidance. In addition, progress in 3 previously identified critical IT security areas (FY 2015 *Management Challenge 2 Weaknesses in Information Systems' Security Controls Pose Significant Risks to the Agency*) are consolidated and summarized.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 1999, revised FY 2016)	2012: 0	2013: 1	2014: 0	2015: 0
Recommended Actions for FY 2017				**Status at end of FY 2016**
1. Establish an OCIO Human Resource Planning process that allows full deployment of FITARA.				**New**
2. The OCIO performs independent oversight of IT investments consistent with guidance.				**New**
3. The OCIO facilitates enterprise architecture and demonstrates accountability for IT investments.				**New**
4. The OCIO establishes and implements Information Security and Continuous Monitoring practices, policies and standards to ensure ongoing effectiveness of information systems.				**Orange**
5. The OCIO maintains effective risk management practices to minimize vulnerabilities.				**Orange**
6. The OCIO establishes Configuration Management and Identity and Access Management controls and procedures.				**Orange**

-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

Since it reorganized in 2004, SBA's workforce has faced an ongoing skill gap between the competency mix of employees who had been hired for one mission and the competency mix needed to accomplish a new mission. Although SBA has made progress in recent years to address challenges in the area of human capital management, recommendations to develop a workforce plan and update guidance — both of which OIG believes are necessary to becoming a high-performing organization — have not yet been implemented. Further, SBA's human capital challenges continued when it lost its provisional certification in 2015 because it did not timely submit its recertification request to the Office of Personnel Management (OPM). In FY 2015, GAO reported that the reason SBA has not mitigated this and other management challenges is, in part, due to the lack of sustained priority attention over time and frequent turnover of leadership.

SBA Made Significant Progress Toward Completing its Workforce Plan but Whether it Will Address Adequately Long-standing Skills Gaps is Unknown

After almost a decade of simultaneous budget constraints and program growth, SBA took action to restructure key agency operations. However, it had not adequately analyzed priorities and as a result, there was no assurance that sufficient resources in terms of both numbers of staff and the knowledge and skills possessed by staff were available and appropriately deployed to perform critical functions. Some skills gaps were identified by SBA for its mission critical occupations in 2011 and 2013, but an agency-wide competency and skills gap assessment had not been completed since 2006. In 2012 and again in 2014, SBA conducted Voluntary Early Retirement Authority/Voluntary Separation Incentive Payment (VERA/VSIP) programs to address the pending retirement wave and create vacancies that could then be filled with employees with needed skills. OPM authorized up to 300 employees for each program, but only about 180 in 2012 and 150 in 2014 took advantage of the programs. Since this resulted in fewer vacancies than anticipated, SBA did not gain the flexibility it expected to address the gaps in skills that it had identified.

After working with contractors throughout FYs 2015 and 2016 OHRS now anticipates finalizing its workforce plan by early FY 2017. According to an OHRS official, the workforce plan will include an analysis of the workforce with a particular focus on its mission critical occupations, strategies for building on Agency strengths and addressing challenges, and metrics to track progress. Further, the workforce plan will support the goals and objectives laid out in SBA's Strategic Plan. OIG will not have the opportunity to review the workforce plan before its statutory reporting deadline for this management challenges report. According to GAO, when SBA conducted its VERA/VSIP programs before having a current agency-wide competency skills gap assessment and a workforce plan, SBA risked the opportunity to reshape the agency through these efforts. As a result of concerns about how the 2014 VERA/VSIP program was implemented, in FY 2016, OIG began a review of SBA's 2014 VERA/VSIP program. Our review will be completed in FY 2017.

SBA Made Progress to Update Human Capital SOPs and Guidance

In FY 2016, OHRS made significant progress in updating and establishing standard operating procedures (SOP) for human capital management as recommended by OIG in this long-standing management challenge. OHRS published its Performance Management and Appraisal System and its Delegated Examining SOPs. Further, it advanced four other critical SOPs into the final stages of the clearance process. It is possible, however, that these pending SOPs will not be finalized during the pending election and possible leadership transition.

SBA Regains its OPM Provisional Certification of its SES Appraisal System

The Office of Personnel Management (OPM) grants provisional or full certification to agencies with appraisal systems that meet certain criteria. Specifically, OPM grants a 1-year provisional certification when an agency has designed, but not yet fully implemented or applied, an appraisal system for its senior executive, and a 2-year, or full certification, when the appraisal system is designed and applied. The maximum pay a senior level executive employee may earn depends on whether an agency has a performance appraisal system certified by OPM.

In addition to long-standing human capital challenges, in August 2015, SBA lost its provisional certification for its SES performance appraisal system because it did not timely submit its recertification request to OPM. Although SBA regained its provisional certification in July 2016, this occurrence emphasized the continued need for effective human capital strategies to successfully carry out its mission. The loss of the Senior Executive Service (SES) performance appraisal system certification impacted individuals paid on the SES pay schedule as described in our August 2016 *Review of SBA's Practices for Senior Executive Service Initial Pay Setting* (Report 16-20). In our review, we determined that SBA set initial pay higher than allowed for 4 out of 10 SES employees reviewed. This occurred because SBA personnel were not familiar with certain Federal laws and regulations that govern SES pay settings. STOPSTOP

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2001, revised FY 2007)	2012: 0	2013: 1	2014: 0	2015: 1
Recommended Actions for FY 2017				**Status at end of FY 2016**
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**

-Implemented -Substantial Progress -Limited Progress -No Progress

Challenge 4. SBA Needs to Improve its Risk Management and Oversight Practices to Ensure its Loan Programs Operate Effectively and Continue to Benefit Small Businesses

With limited resources, SBA's Office of Credit Risk Management (OCRM) manages credit risk for a nearly $120 billion loan portfolio originated by over 2,400 active lenders and Certified Development Companies (CDCs) that have various degrees of expertise regarding SBA loan program requirements. Further compounding this challenge, the majority of SBA loans are originated by lenders with delegated approval authority, resulting in limited SBA review until a default occurs. Many of these lenders also rely on the services of "for-fee" and other third party agents to assist in the origination, closing, servicing and liquidation of SBA loans.

SBA Improved Oversight of Lending Participants

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 a September 2012 audit report (Report 12-20R), OIG found that SBA did not always recognize the significance of lender weaknesses or determine the risks lender weaknesses posed to the Agency during its onsite reviews. The report also found that SBA did not link the risks associated with the 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.

Since the time of the audit, 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. During FYs 2014 and 2015, OCRM revised its review methodologies for 7(a) and 504 program lenders, engaged contractor support to expand on its corrective action follow-up process, and planned to conduct 170 corrective action reviews between 7(a) and 504 lenders. During FY 2015, OCRM stated that it successfully reviewed 147 corrective action follow-up assessments and issued its FY 2016 Risk Management Plan.

SBA Improved Portfolio Risk Management Program

A July 2013 OIG report (Report 13-17) found that SBA traditionally focused on loan approval volume and loss rates to evaluate overall program performance with risk being assessed at the lender level. As a result, SBA had not developed an effective portfolio risk management program that monitored portfolio segments to identify risk based on default statistics. We determined that SBA continued to guarantee loans to high-risk franchises and industries without monitoring risks, and where necessary, implementing controls to mitigate those risks. OIG reports have also found that SBA did not establish measures to evaluate the performance of pilot loan programs or evaluate performance when performance measures were established. For example, SBA's Community Express loan program was maintained as a pilot program for over 10 years without SBA performing an evaluation of the program. By 2010, the program had been dominated by two lenders employing questionable credit practices and charging higher interest rates that ultimately led to SBA ending the program.

Since that time, SBA has made significant progress in implementing a portfolio risk management program for its loan programs. Further, in 2016 SBA established performance measures and risk mitigation goals applicable to each loan program and the entire lending portfolio. SBA maintains that the current program tracks performance to support risk-based decisions at the portfolio, sub-program and lender level, and that identified risk issues are presented to SBA executive leadership at Lender Oversight Committee (LOC) meetings. In FY 2016, OCRM conducted portfolio analyses of problem lenders with heavy concentrations in SBA 7(a) lending and sales on the secondary market. In response, OCRM proposed actions to mitigate SBA exposure on the secondary market. SBA will need to continue to demonstrate during FY 2017 that information from this program is used to support risk based decisions and implement additional controls to mitigate risks.

Increased Risk Introduced by Loan Agents

Prior OIG audits and investigations have identified that SBA does not have a way to effectively identify and track loan agent involvement in its 7(a) and 504 loan portfolios, does not adequately list suspended loan agents to prevent their involvement in the program, and has outdated enforcement regulations. Additionally, 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, 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 program dollars at risk.

In response to this challenge, SBA has made limited progress. To track loan agent activity on 7(a) program loans, SBA 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 7(a) loan Form 159 information with its loan data. However, a September 2015 OIG report on SBA's loan agent oversight (Report 15-16) identified significant issues in the data quality on the Form 159. SBA will likely need to make further modifications to this process. The FTA is testing an automated Form 159 within the SBA One system, an automated lending platform that assists lenders with everything from determining loan eligibility through closing their loan. Additionally, in response to OIG concerns that SBA loan agent enforcement regulations are outdated, SBA published proposed revised regulations and is preparing to provide final submission to the Office of Management and Budget (OMB). Recently, SBA issued a notice to lenders reiterating its requirements for loan agent disclosures and submission of the Form 159 to its FTA.

OIG maintains that 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 to participate in the program. In response to our loan agents report, SBA stated it will explore the feasibility of implementing a registration system. To date, no solutions have been implemented.

In addition, a March 2015 audit (Report 15-06) noted that the outsourcing of traditional lender functions to Lender Service Providers (LSPs), a type of loan agent, has significantly increased in recent years. Specifically, in 2014 over 770 lenders—or approximately 28 percent of the active 7(a) lenders—had an approved agreement with at least one LSP. Additionally, SBA loan portfolios associated with the three largest LSPs exceeded that of many of the top 100 active SBA 7(a) Program lenders. Since our report, the number of SBA approved LSP agreements has reached over 1,700, due in part to SBA's effort to better control access by loan agents to its systems. This trend has enabled OCRM to develop initial performance metrics on loan agent performance, but oversight is still limited. This audit also noted that a number of referrals regarding improper loan agent activities had not been acted upon by OCRM. In response, OCRM developed and now maintains a tracking system on referrals. As loan agent involvement in the 7(a) Program continues to increase, it will become especially important for SBA to have oversight tools in place to identify and track loan agent involvement in this sizeable program.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2001)	2012 7(a) loans: 1 504 loans: 1	2013 7(a) loans: 2 504 loans: 2	2014 7(a) loans: 0 504 loans: 0	2015 7(a) loans: 1 504 loans: 1

Recommended Actions for FY 2017	**Status at end of FY 2016**	
	7(a)	**504**
1. Monitor and verify implementation of corrective actions to ensure effective resolution prior to close-out.	**Yellow**	**Yellow**
2. Demonstrate that information from the portfolio risk management program is used to support risk based decisions and implement additional controls to mitigate risks in SBA loan programs.	**New**	**New**
3. Develop an effective method of disclosing and tracking loan agent involvement in SBA business loan programs.	**Yellow**	**New**
4. Update regulations (13 CFR Part 103) regarding loan agents to provide effective enforcement procedures.	**Yellow**	**Yellow**
5. Implement a loan agent registration system, including the issuance of a unique identifying number for each agent.	**Orange**	**New**

-Implemented -Substantial Progress -Limited Progress -No Progress

Challenge 5. SBA Needs to Ensure that the Section 8(a) Business Development Program Identifies and Addresses the Needs of Program Participants, Only Eligible Firms are Admitted in the Program, and Standards for Determining Economic Disadvantage are Justifiable

SBA's 8(a) Program was created to provide business development assistance to eligible small disadvantaged businesses seeking to compete in the American economy. A major benefit of the 8(a) Program is that 8(a) firms can receive sole source, as well as set-aside competitive Federal contracts so that small businesses do not need to compete with large businesses that may have an industry advantage. 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 participated in the program.

SBA Continues to Address its Ability to Deliver an Effective 8(a) Program

SBA has made its assistance more readily available to program participants by using resource partners such as small business development centers, SCORE, and procurement technical assistance centers. SBA has also taken steps to ensure business opportunity specialists assess program participants' business development needs during site visits. Additionally, in September 2016, SBA finalized its 8(a) Program SOP to reflect the March 2011 regulatory changes. Although we provided comments to a draft version of the SOP, we did not have an opportunity to review the final SOP before publishing this report. We are currently reviewing the SOP to verify that the SOP reflects the regulatory changes. However, monitoring efforts to track participants' progress 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 developing and implementing another IT system.

Streamlined Application Process May Expose the 8(a) Program to a Higher Risk of Fraud

Since 2010, there had been a steady decline in the number of firms participating in the 8(a) Program from about 7,000 in 2010 to about 4,900 as of August 2016. During the past year, SBA leadership developed an aggressive growth plan to increase the number of participants in the 8(a) Program by five percent over the previous year through a pilot streamlined application process. According to SBA officials, it is trying to make the application process less burdensome for firms applying to the 8(a) Program. As part of the streamlined application process, various documents previously used to determine an applicant's eligibility to participate in the 8(a) Program would no longer be requested or would be required in a modified version. However, shortening the review process by eliminating documents may erode core safeguards that prevented questionable firms from entering the 8(a) Program. Federal prosecutors have told OIG that it would be difficult for them to describe SBA, the procuring agency, or honest 8(a) competitors as fraud victims when SBA is perceived not to have exercised proper due diligence in admitting firms' in the 8(a) Program. Although SBA's efforts to increase the participation in the 8(a) Program is commendable, SBA still needs to ensure that only eligible firms are admitted into the program, and the documentation supporting 8(a) Program application approvals is maintained in a method ensuring clear eligibility of the applicant.

SBA Dollar Threshold for Economic Disadvantage Not Justified

In March 2011, SBA revised its regulations 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 established additional standards to address the definition of "economic disadvantage." 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 comments they received to the revised regulations 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. OIG contends that public comment, while valuable, cannot replace the expert and independent analysis Congress entrusted SBA to provide when implementing this program. Absent independent analysis of what constitutes economic disadvantage, SBA is not in a strong position to assess public comments.

In 2014, SBA hired an economist to study an alternative to using personal net worth, income, and total assets as the criteria for entering and remaining in the 8(a) Program. However, SBA concluded that the study results were inconclusive and decided not to make any changes to the current criteria. Additionally, the latest draft 8(a) Program SOP excludes equity in a primary residence from the calculation of an individual's net worth. This exclusion serves as a loophole allowing affluent business owners to shelter wealth in personal real estate, while taking advantage of a program designed to help the socially and economically disadvantaged. Thus, an individual can actually have substantial personal assets (due to an expensive primary residence), but a fairly low net worth.

Number of Actions Accomplished (Green Status) During Past Four Fiscal Years (Challenge first reported in FY 2003)	2012: 0	2013: 0	2014: 0	2015: 0
Recommended Actions for FY 2017				**Status at end of FY 2016**
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.				**Yellow ↑**
2. Update and issue the 8(a) Business Development SOP to reflect the March 2011 regulatory changes.				**Yellow ↑**
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. SBA Can Improve its Loan Programs by Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers

In FY 2015, the dollar amount of SBA's 7(a) loans approvals reached record highs of $23.6 billion. Additionally, the average amount of 7(a) loans have increased by over 50 percent in the last five years. The majority of these loans are made by lenders with delegated approval authority. Oftentimes, the only opportunity for SBA to review a lenders compliance with SBA requirements is in the event of loan default. When a loan goes into default, SBA will conduct a review of the lender's actions on the loan to determine whether it is appropriate to pay the lender the guaranty, which SBA refers to as a "guaranty purchase." For loans sold on the secondary market, SBA is obligated to purchase the guarantee from the investor and performs a review of the lenders actions after payment is made. Pursuing recovery from a lender on sold loans is generally a more difficult task for SBA. In FY 2015, the amount of loans sold on the secondary market reached record highs of $8.5 billion.

Inadequate Staffing, Training, and Supervision Have Resulted in Material Underwriting Deficiencies and Improper Payments

The need to deliver timely SBA loan approval, servicing, and purchase decisions while ensuring they meet reasonable standards for quality and accuracy is often a difficult balance for program management. For example, a 2014 report (Report 14-13) noted that SBA management emphasized quantity over quality for 7(a) loan origination reviews and that loan specialists were not provided adequate guidance or training to conduct their 7(a) loan review activities. This resulted in loans that had eligibility and material underwriting deficiencies and eventual losses to SBA. Further, SBA processing centers often have to meet high demands for production with limited resources, resulting in inventory backlogs and a focus on production activities. We noted that a decrease in the number of staff assigned to loan reviews, increase in loan size and complexity, additional center responsibilities and inadequate supervision have also contributed to inappropriate loan decisions, resulting in improper payments. OIG audits have identified 7(a) loans that were ineligible, lacked repayment ability, or were not properly closed, resulting in improper payments. These improper payments occurred in part because SBA did not adequately review loans. Additionally, in 2008 SBA did not accurately report improper payment rates for its programs because it used flawed sampling methodologies and did not accurately project review findings. In FY 2016, OIG initiated a review of the accuracy of SBA's FY 2015 7(a) loan guaranty purchases improper payment rate that will be completed in FY 2017.

OIG reviews high risk loans purchased by SBA to determine whether lenders' materially complied with SBA requirements or identify suspicious activity. Results to date have found that both SBA purchase and quality control operations continue to miss material lender underwriting deficiencies resulting in improper payments. Specifically, we have recommended recoveries of nearly $5 million on six loans. While previous audits have noted that the application of increased scrutiny was necessary on high dollar loans that default early, further improvements are needed for SBA to ensure that the risk of improper payments on these loans are sufficiently mitigated. For example, the 7(a) loans we review are often complex and require additional time and research to validate the appropriateness of lender actions. We observed that in some cases, SBA loan specialists questioned lenders on material compliance issues; however, these loan specialists ultimately accepted explanations and documentation from lenders that did not cure the deficiencies. We noted loan specialists are generally required to complete loan file reviews within six hours. However, we believe that SBA should evaluate the time National Guaranty Purchase Center loan specialists have to review complex early-defaulted loans.

SBA Improved Quality Control Program, but Improvements are Needed to Ensure Timely Implementation of Corrective Actions

SBA's Office of Capital Access (OCA) has made significant progress in developing and implementing a quality control (QC) program for all of its loan centers to verify and document compliance with the loan process, from origination to close-out. Additionally, 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 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.

During FY 2016, SBA issued letters to Congressional committees and the Office of Management and Budget regarding its programs, including the 7(a) program, that were not in compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012 reporting requirements and its plans for correction. Additionally, in order to improve timeliness, OCA revised its dispute resolution process and established a committee of senior leaders that meets regularly to discuss disputed cases and reach consensus. Nevertheless, OCA still needs to demonstrate that its process over disputed cases ensures adequate and timely resolution, corrective action plans are effective in reducing improper payments, and centers provide quality products and are appropriately staffed with qualified resources that are appropriately trained and supervised.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2010)	2012: 0	2013 7(a) Approvals: 1 7(a) Purchases: 0	2014 7(a) Approvals: 1 7(a) Purchases: 1	2015 7(a) Approvals: 0 7(a) Purchases: 1

Recommended Actions for FY 2017	**Status at end of FY 2016**	
	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. Demonstrate that corrective action plans are effective in reducing improper payments in the 7(a) Loan Program.	**Yellow**	**Yellow**
3. Ensure that centers are appropriately staffed with qualified resources that are appropriately trained and supervised and that the quality of Center resource deliverables is appropriately balanced against their production requirements.	**New**	**New**

-Implemented -Substantial Progress -Limited Progress -No Progress

Challenge 7. Disaster Assistance Must Balance Competing Priorities to Deliver Timely Assistance and Reduce Improper Payments

The Disaster Loan Program plays a vital role in the aftermath of disasters by providing long-term, low-interest loans to affected homeowners, renters, businesses of all sizes, and non-profit organizations. SBA's FY 2015 year-end disaster assistance loan portfolio balance was $6.3 billion. Each year, SBA approves hundreds of millions in disaster assistance loans. Prior audits performed by OIG and GAO have found 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. Unfortunately, the need to disburse such loans quickly poses many challenges and may create opportunities for dishonest applicants to commit fraud.

In FY 2015, the Disaster Loan Program's improper payment rate decreased to 8.13 percent from the 12 percent reported in FY 2014. However, it remains above the threshold for significant improper payments defined by the Improper Payments Elimination and Recovery Act (IPERA) of 2012. Also, we remain concerned that SBA does not limit the proportion of a borrower's gross income that may be relied on to service debt, potentially leaving borrowers with insufficient income to cover living expenses and taxes. In addition, SBA did not effectively implement statutory provisions intended to assist in disbursing funds quickly and effectively.

Lastly, the Recovery Improvements for Small Entities (RISE) After Disaster Act of 2015 extended the period for Hurricane Sandy survivors to apply for disaster assistance, increasing the difficulty of loan eligibility determinations due to the lapse in time since the disaster occurred in October 2012. The Act also mandated a new private lender disaster loan program. Historically, SBA has faced challenges standing up private lender disaster programs and has been unable to implement statutory private sector disaster loan programs in the past.

Disaster Loans Vulnerable to Fraud

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.

SBA's Disaster Processing and Disbursement Center (PDC) identified and denied fraudulent and improper disaster assistance for secondary residences by reviewing key source documents, such as tax transcripts and insurance policies. Most of the Hurricane Sandy loan fraud allegations investigated by OIG included false eligibility declarations, misuse of proceeds, and submission of false invoices or other false statements. Fraud can occur when a property owner attempts to represent their secondary residence, such as a vacation home, as their primary residence. OIG has worked closely with state and Federal agencies to address residence eligibility fraud and has observed that SBA appears to have been more effective in detecting fraudulent and ineligible disaster assistance applications for secondary residences than other Federal disaster response agencies.

Improper Payment Rate Remains Above IPERA Significance Threshold

The year-end subsidy cost allowance balance for the Disaster Loan Program, while on a downward trend, was $1.09 billion, or 17.3 percent, of the $6.3 billion Disaster Direct Loans Receivable balance. This means that SBA is estimating over $1 billion in net losses on its current disaster loan portfolio. While in FY 2015, the program's improper payment rate decreased to 8.13 percent from the 12 percent reported in FY 2014, it remains above the threshold for significant improper payments defined by IPERA ($10 million and 1.5 percent of program outlays)—Improper payments were $24.6 million of the $302 million in program outlays in FY 2015. To reduce disaster loan improper payments, 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.

Maximum Allowable Fixed Debt May be Exceeded, Limiting Borrower's Ability to Repay Disaster Loans

SBA's Disaster Assistance loan officers work diligently to provide eligible disaster survivors with the maximum available financial assistance on attractive terms. On occasion, in order to facilitate widespread program delivery of disaster home loan benefits, SBA exceeds its normal home loan debt-to-income lending parameters, potentially straining and/or limiting the borrowers' ability to repay the disaster loans. SBA's Disaster Assistance home loan rules do not specify an upper limit to the proportion of a borrower's gross income that may be relied upon to service debt. Allocating too much of the borrower's income for debt servicing could result in the borrower having insufficient income to cover unavoidable living expenses, such as health insurance, utility bills, and taxes. This practice also results in defaulted loans and additional financial distress to disaster survivors.

In the past, the maximum allowable fixed debt (MAFD), the proportion of a borrower's income that can be safely allocated for home loan debt repayment was generally capped at 40 percent; higher income proportions allocated for debt repayment were considered unaffordable. The revised Disaster Assistance SOP issued in 2015 implemented a tiered approach to the maximum income allocation for home loan debt service ranging from 36 percent for incomes below $25,000 to 50 percent for incomes of above $60,000. These limits may be exceeded with supervisory approval, but the SOP does not establish an upper threshold to income allocated for home loan debt service under this provision. While SBA's Disaster Assistance SOP does provide a formula for determining the minimal amount of income reserved for living expenses and taxes when evaluating disaster business loan guarantors' repayment ability, the disaster home loan program rules do not include a similar required reserve of income to meet necessary living expenses.

An August 2016 report (Report 16-18) on early-defaulted Hurricane Sandy loans found that loans to borrowers that did not otherwise have repayment ability were approved by allocating high proportions of borrower income to service debt. Home loans with higher than normal debt service ratios given to borrowers with low incomes and poor credit histories appeared especially vulnerable to default. SBA should determine when the borrower's proposed debt service ratio creates an unacceptable financial burden to the disaster survivor and to train its loan officers to safeguard loan affordability.

Statutory Provisions Intended to Quickly Disburse Disaster Funds not Implemented

In the wake of disasters like Hurricane Sandy, congressional representatives expressed concern that SBA did not effectively develop and utilize programmatic innovations intended to assist in disbursing funds quickly and effectively. For instance, SBA did not implement statutory provisions of the Immediate Disaster Assistance Program (IDAP), Economic Injury Disaster Assistance Program (EDAP), and the Private Disaster Assistance Programs (PDAP), collectively known as the "Guaranteed Disaster Assistance Programs" mandated by Congress in 2008. These provisions were enacted with the expectation that they would allow SBA to provide expedited disaster loans in partnership with private sector lenders.

In July 2016, SBA prepared a memorandum to notify Congress of the work that management performed to address these provisions. Ultimately, SBA stated that it sought advance public comment on proposed rulemaking for these loan programs and received limited public responses, the majority of which were opposed to implementing the three loan programs. The objections were based on the cost of program participation under the current pricing structure and the lender's lack of infrastructure to deliver loans that meet SBA standards (such as evaluating eligibility and duplication of benefits); loan terms that include longer maturities than conventional lending practices; the high cost of providing these loans; inadequate collateral security; and their lack of expertise in the home loan sector. Lenders were also concerned that loan guarantees would be denied due to improper eligibility determinations. In its memorandum to Congress, SBA stated that it has improved its disaster assistance delivery channel and is now better equipped to provide more timely disaster assistance. According to SBA, loan processing times now average 8 days, with 94 percent of loan disbursements made within 5 days of closing. SBA has also raised the limits for unsecured disaster loans to $25,000, which allows a greater amount of money to be disbursed quickly following a disaster.

Recovery Improvements for Small Entities (RISE) After Disaster Act Introduces New Risks

The RISE After Disaster Act, enacted November 25, 2015, introduced new initiatives that may pose additional risks and difficulties for SBA's loan programs. First, the Act directed SBA to make disaster loans available to Hurricane Sandy survivors for a 1-year period following its enactment—over 3 years after the disaster. Because of the significant time elapsed, SBA may have difficulty verifying whether physical losses and economic injury were attributable to Hurricane Sandy, potentially resulting in ineligible recipients receiving loans. We are currently performing an audit of eligibility controls for applications approved during the RISE After Disaster Act extended eligibility period. Second, the Act introduced a new program—the Express Recovery Opportunity Loan Program, which provides loans up to $150,000 to disaster survivors from private lenders. Given that SBA has not yet implemented the Guaranteed Disaster Assistance Programs authorized in 2008, SBA is likely to experience difficulties implementing this new program as well.

Progress in Meeting this Challenge and Emerging Issues

SBA's Office of Capital Access (OCA) has not yet implemented pilots of the Guaranteed Disaster Loan Programs, but has sought public comment on the proposed program rules and informed Congress of the outcome. In FY 2016, the RISE After Disaster Act established a new private lender disaster loan program — the Express Recovery Opportunity loan program and required SBA to promulgate regulations for the loan program within 270 days. SBA has not yet promulgated regulations for this program; therefore, we have included a new recommendation for OCA to do so in this management challenge.

ODA has made progress in ensuring that its workforce is fully trained. ODA has trained its core staff on its SOP and IT system revisions, but ODA stated that it has not been cost effective to provide training to its reserve staff since they are not often mobilized. An emerging issue discussed above is the latitude given loan processing personnel to determine how much of a borrowers income to allocate for debt service. We have included a new recommendation in this challenge for ODA to develop policies that limit borrower debt burdens to appropriate levels and train loan processing personnel on the application of those policies in order to safeguard loan affordability.

Finally, ODA has reported substantial progress in reducing its improper payment rate, achieving a rate of 8.13 percent in 2015, and a reduction of almost four percentage points since 2014. In FY 2016, OIG initiated a review of the accuracy of SBA's FY 2015 disaster loan improper payment rate.

Number of Actions Accomplished (Green Status) During Past Four Fiscal Years (Challenge first reported in FY 2015)	2012: N/A	2013: N/A	2014: N/A	2015: N/A
Recommended Actions for FY 2017				**Status at end of FY 2016**
1. Implement pilot programs of the new guaranteed disaster programs mandated by Congress in 2008.				**OCA** **Orange**
2. Promulgate regulations for the Express Recovery Opportunity loan program provided by the RISE After Disaster Act.				**OCA** **New**
3. Demonstrate that the Agency has adequately trained loan processing resources that can be quickly mobilized in the event of a disaster.				**ODA** **Yellow**
4. Establish policies that limit borrower debt burdens to affordable levels and train loan processing personnel in the application of those policies.				**ODA** **New**
5. Reduce the improper payment rate to 7.29 percent or lower in FY 2016, in accordance with the reduction targets established in the FY 2015 Agency Financial Report.				**ODA** **Yellow**

-Implemented -Substantial Progress -Limited Progress -No Progress

Challenge 8. SBA Needs to Effectively Manage Its Acquisition Program

Annually, SBA spends over $100 million on contracts for goods and services required for the Agency to meet its mission. With decreasing budgets, it is essential that SBA manages its acquisition program in an efficient, effective, and accountable manner in order to ensure the Agency obtains quality goods and services on time and at a fair price. Prior OIG audits have identified instances where SBA was unable to obtain required goods and services in an efficient, effective, and accountable manner. For example, SBA inadequately planned its requirements for procuring IT products and services. SBA also did not comply with Federal regulations when determining whether using interagency acquisitions was the best procurement approach. Additionally, its acquisition SOP does not include procedures on the use of modular contracting for major system acquisitions.

Since this challenge has been reported, SBA has made concerted efforts to monitor the acquisition program and has made improvements by providing training to acquisition personnel, conducting annual advanced strategic acquisition planning, and using the Contract Review Board for making acquisition decisions. Although SBA's improper payment rate for contract disbursements increased for FY 2015 due to administrative and documentation errors, SBA developed a detailed corrective action plan and addressed the root causes of the improper payments. Additionally, SBA's initiatives to interface the contract management system with the financial systems, for the most part, improved user operability of the invoice payment process. In FY 2016, SBA developed an improvement plan to address deficiencies identified in its assessment of the acquisition function. Based on its planned actions, SBA demonstrated substantial progress in addressing the four interrelated areas that are essential for an efficient, effective, and accountable acquisition process. SBA drafted a revised acquisition SOP that is currently under review. When the SOP is issued, it will significantly improve the acquisition function's policies and procedures. Additionally, SBA implemented strategic human capital planning tools to develop training plans and identify future staffing requirements to enhance its acquisition workforce. SBA also has added end-users to the planning team when developing acquisition information system enhancements to improve system functionality and encourage user adoption and plans to include current information on the acquisition division's website for better knowledge management within the acquisition function.

Further, Agency management plans to improve the organization alignment and leadership assessment area by developing a guide to doing business with the acquisition division to clarify the roles and responsibilities of all stakeholders in the acquisition process. SBA also plans for this guide to promote enterprising relationships between the acquisition division and program offices to strengthen the acquisition function strategically within the organization.

In addition to the improvements SBA completed during FY 2016, SBA's planned actions such as: issuing a new SOP, hiring a Senior Procurement Executive, and continuing to implement the improvement plan should improve internal control deficiencies within its acquisition program.

Number of Actions Accomplished (Green Status) During Last Four Fiscal Years (Challenge first reported in FY 2013)	2012: N/A (New)	2013: 0	2014: 0	2015: 1
Recommended Actions for FY 2017				**Status at end of FY 2016**
1. 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.				**Yellow ↑**
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 acquisition policies and processes assessment area (i.e., acquisition management SOP).				**Yellow ↑**
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 workforce assessment area.				**Yellow ↑**
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 knowledge management and information systems assessment area.				**Yellow ↑**

-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	Unmodified					
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	Unmodified					
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	Federal 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

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. USSGL at Transaction Level	No lack of compliance noted	No lack of compliance noted

IMPROPER PAYMENTS

As required by the Improper Payment Information Act of 2002, as amended, and OMB Circular No. 123, Appendix C, *Management's Responsibility for Internal Control: Requirements for Effective Estimation and Re-mediation 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 assistance relief in response to Hurricane Sandy to certain agencies including the SBA. 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 funds for the Disaster direct loan and grant programs as well as administrative expenses related to the Disaster direct loan program. Improper payment assessments of the 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 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.

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 2016, 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.

7(A) LOAN GUARANTY PURCHASES

Statistical Sampling

Using Probability Proportional to Size sampling with replacement, the 7(a) purchase sample cases were chosen from all purchases approved during the 12-month period ending March 31, 2016. The purchase population was divided into four strata based on the following factors: 1) whether the loan was considered an early default, regardless of servicing office, and 2) which servicing office processed the purchase among three locations. The SBA determined the appropriate total sample size to be 188 loans from the population. The sample included aggregate purchase outlays of $110,269,572 and an absolute value of improper payments of $7,031,342 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) guaranty purchase population was calculated as 2.32 percent. An enhanced test plan was the main reason for the increase from 0.9 percent in FY 2015. SBA received approval from OMB to implement the sampling methodology and estimation plan described above for FY 2016 on September 16, 2016.

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 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 the SBA's financial interest at risk.

Corrective Action

The root causes for all 7(a) loan guaranty purchase improper payments were administrative or process errors made by the Agency. Improper payments generally arose when the purchase processor failed to identify material lender deficiencies in the handling of an SBA guaranteed loan. The primary reasons for 7(a) purchase errors in FY 2016 included:

- Incorrect payment of interest due to miscalculation of days owed;
- Incorrect transcript of account due to misapplication of payments; and
- Reimbursement of lender expenses that were not fully justified.

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 purchase 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:

- Collaborating with the Office of Credit Risk Management to ensure specific lender deficiencies are monitored and incorporated into Risk Based Reviews;
- Internal training for purchase processors on how to determine the appropriate number of days interest owed, select the proper interest rate, and identify appropriate lender expenses; and
- Recovery of lender expenses that were not fully justified.

The corrective actions are currently underway. The Office of Financial Program Operations intends to share the loan level and lender deficiencies with OCRM in October 2016, and will continue its efforts to ensure lender deficiencies are monitored and incorporated into lenders' Risk Based Reviews. Internal feedback was provided to center staff regarding the specific loan level deficiency upon detection; internal training will be provided by the end of the second quarter of FY 2017.

Corrective actions are tracked at the loan level through a centralized database. The Quality Control Specialists for the 7(a) guaranty purchase centers monitor 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 2016 IPERIA reviews have been addressed through obtaining additional documentation, collection of funds from the lender, or reimbursement to the lender. Corrective actions were generally completed at the loan level within 60 days with all actions taken by the end of the fiscal year.

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, 2016. The loan guaranties were approved through the SBA's loan processing centers, consisting of the Standard 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 SBA Express or not. The SBA determined the appropriate total sample size to be 242 loans from the population. The sample included net guaranteed approvals of $266,199,175 and improper payments of $4,075,970 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the 7(a) Loan Guaranty Approvals was calculated as 0.96 percent. The reason for the significant drop from the FY 2015 rate of 5.59 percent is three-fold: 1) there were no large loan approvals identified as improper which is not typical in our testing; 2) during the testing for FY 2015 we identified improper payments that we later discovered were not the case. Delegated lenders do not submit loan packages to SBA unless the loan is selected for improper payment testing or the loan is in default. SBA requested but did not consistently receive complete packages for delegated loans that were included in the improper payment sample. Due to this perceived lack of documentation, SBA concluded that there were improper payments. However, it was later determined that lenders often had the documents at the time of approval, they simply did not submit all of them so no improper payment existed; and 3) there is a better understanding by lenders of the approval process through education and training in FY 2016, and as a result, the required documentation is being more consistently obtained at the time of approval. SBA received approval from OMB to implement the sampling methodology and estimation plan described above for FY 2016 on September 16, 2016.

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 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 the SBA's financial interest at risk.

Corrective Action

In FY 2016, the most prevalent root cause for 7(a) loan approval improper payments stemmed from the participating lenders' inability to authenticate the borrower's eligibility 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 2016 included:

- Missing or inadequate loan documentation;
- Loan authorization errors; and
- Incorrect loan structure.

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:

- Collaborating with OCRM to ensure specific lender deficiencies are monitored and incorporated into Risk Based Reviews; and
- External training for lenders to avoid ineligible loan structures and ensure appropriate documentation is obtained and analyzed prior to loan approval, specifically relating to the SBA Loan Authorization and Form 1919.

The corrective actions are currently underway. OFPO intends to share the loan level and lender deficiencies identified during the IPERIA reviews with OCRM in October 2016, and will continue its efforts to ensure lender deficiencies are monitored and incorporated into lenders' Risk Based Reviews. External training will be provided by the end of the second quarter of FY 2017. Furthermore, with the 7(a) loan guaranty approval program's recent designation as a High Priority Program by OMB, OFPO is leveraging existing reviews performed by the Quality Control Program as a means to prevent the occurrence of future improper payments. All loans approved by the center in the amount of $3 million or greater undergo a robust review by the QC Program prior to loan approval similar to what is performed during the IPERIA review process. Deficiencies identified during this process must be corrected prior to loan approval and the disbursement of funds. Feedback regarding the deficiency is provided to the loan officer and lender, as necessary, at the time of detection; further, any trends identified regarding a specific action or root cause are discussed with management to determine if additional training is necessary or if there is an opportunity for a policy or process change.

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 2016 IPERIA reviews have been addressed 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, 2016. The loan guaranties were approved at the 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 167 loans from the population. The sample included net approval outlays of $300,363,000 and improper payments of $3,757,962 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the 504 CDC loan guaranty approvals was calculated as 2.60 percent. The SBA received approval from OMB to implement the sampling methodology and estimation plan described above for FY 2016 on September 16, 2016.

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 the SBA's financial interest at risk.

Corrective Action

In FY 2016, the most prevalent root cause for 504 approval improper payments stemmed from the CDC's failure to verify eligibility data. Improper payments generally arose when the participating CDC failed to comply with loan program requirements. The primary reasons for 504 approval errors in FY 2016 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:

- Collaborating with the OCRM to ensure specific lender deficiencies are monitored and incorporated into Risk Based Reviews;
- External training for the CDCs focusing on substantiating financial documents including analysis, affiliate and size standard analysis, and accurately determining loan eligibility; and
- Internal training for loan approvers focusing on calculating a borrower's repayment ability, and affiliate and size standard analysis.

The aforementioned corrective actions to ensure errors do not continue to occur are currently underway. OFPO intends to share the loan level and lender deficiencies identified during the IPERIA reviews with OCRM in October 2016, 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 2017.

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 2016 IPERIA reviews have been addressed through obtaining additional documentation or processing 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 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 followed widely accepted practices and was approved by the Office of Management and Budget in 2012. In FY 2016, the samples were selected quarterly rather than semi-annually as done in previous years. The review population consisted of disaster loan disbursements, including HSDR funds, made during the 12-month period ending June 30, 2016, with total disbursements of $344,910,443. A sample of 350 payments was selected for which testing yielded a weighted estimated improper payment rate of 5.32 percent. Based on the sample results, the estimated amount of improper payments was $18,349,236.

The scope of the 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 2016, the most prevalent root cause for the Disaster direct loan program improper payments stemmed from administrative and documentation errors. As indicated by the reduced improper payment rate from FY 2015, the loan processing and disbursement staff performed better at following the guidance provided in the standard operating procedures and policy memos. However, on some loans, the specific errors generally arose when:

- Case managers and attorneys did not confirm insurance coverage for the proper dates and the state specific type of coverage, which accounts for approximately 26 percent of all improper payments in this program;
- Disbursements were made to parties that were ineligible for disaster loan assistance; and
- Underpayments incorrectly lowered borrowers' loan amount eligibility.

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

- Review by Disaster Assistance headquarters of training materials on the various types of insurance coverages to ensure continued reduction of the improper payment rate; and
- Development of tables for the various types of insurance coverages by states with detailed coverages by the major insurers.

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-month period ending March 31, 2016. The total number of disbursements was 2,838, and the total dollar amount was $112,434,585. The SBA determined the appropriate sample size to be 277 unique invoices having total outlays of $56,144,052.38. Based upon the sample results, the estimated FY 2016 disbursements for goods and services improper payment rate is 10.35 percent for an estimated total of $11,641,750. Although this exceeds the 10 percent threshold for compliance, this represents a reduction in the improper payment rate and dollars over the last fiscal year, which reported a rate of 13.52 percent and $14 million.

The scope of the review covered three areas: (1) invoice accuracy, (2) compliance with contract terms, and (3) accuracy of invoice processing.

Corrective Action

In FY 2016, 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.

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

- Developed a checklist in February 2016 to strengthen both pre-award and post-award verification processes and distributed it to all contracting officers, contracting officer representatives, and payment processors; and
- Implemented an automated interface between the financial system and SAM in January 2016.

HURRICANE SANDY DISASTER RELIEF GRANTS

Statistical Sampling

The HSDR grant population for disbursements completed during the 12-month period ending March 31, 2016, consisted of 38 disbursements for the total dollar amount of $5,567,094.22. It was determined that it was not cost effective to contract with a statistician to select a sample so 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 2016 improper payment rate was 0.074 percent for a total of $4,132.

Corrective Action

The improper payment rate of 0.007 percent and $4,132 does not exceed the 1.5 percent, nor the $10 million threshold for reporting a corrective action plan.

HURRICANE SANDY DISASTER RELIEF ADMINISTRATIVE EXPENSES – PAYROLL

Statistical Sampling

The HSDR payroll administrative expense samples were chosen using PPS with replacement methodology from payments completed during the 12-month period ending February 28, 2015. The administrative expenses were inadvertently not reported in FY 2014 so expenses from March 1, 2014, to February 28, 2015, are being reported in FY 2016; subsequent HSDR administrative expenses will be reported in future years. The total dollar amount expended was $27,107,108. The SBA determined the appropriate sample size to be 104 line items having total outlays of $430,133. Based upon the sample results, the estimated FY 2016 improper payment rate was 0.24 percent for a total of $66,238.53.

Corrective Action

The improper payment rate of 0.24 percent and $66,238.53 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

The HSDR travel administrative expense samples were chosen using PPS with replacement methodology from payments completed during the 12-month period ending February 28, 2015. The administrative expenses were inadvertently not reported in FY 2014 so expenses from March 1, 2014, to February 28, 2015, are being reported in FY 2016; 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 180 expenditures with a total dollar amount of $269,495.44. Using the PPS approach, the SBA determined the appropriate sample size to be 79 disbursements having total outlays of $178,804. Based upon the sample results, the estimated FY2016 improper payment rate was 0.059 percent for a total of $159.46.

Corrective Action

The improper payment rate of 0.059 percent and $159.46 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 464 HSDR purchase card administrative expense transactions during the 12-month period ending February 28, 2015, which totaled $154,305.61. The administrative expenses were inadvertently not reported in FY 2014 so expenses from March 1, 2014, to February 28, 2015, are being reported in FY 2016; 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 2016 improper payment rate was 0.61 percent for a total of $943.51.

Corrective Action

The improper payment rate of 0.61 percent and $943.51 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.

HIGH PRIORITY PROGRAM—7(A) LOAN GUARANTY APPROVALS

In FY 2015, OMB designated the 7(a) loan guaranty approvals program a high priority program due to the program's reported improper payments of $848 million, which exceeds OMB's high priority threshold of $750 million. Since this designation, the SBA has worked with OMB to implement all applicable high priority program requirements.

The most recent significant action that the Agency is pursuing to prevent and reduce improper payments is encouraging SBA lenders to enroll and utilize the SBA's new tool, SBA One, which was released in March 2015. SBA One is designed to streamline and simplify the 7(a) lending process by creating a single portal addressing loan eligibility, underwriting, closing, loan modification, servicing, and guaranty purchase. Furthermore, the tool is designed to automate document uploads, form generation, credit scoring, and electronic signatures. It promotes a Guided Path including numerous validations and additional requests for inputs on behalf of the lenders as a means to ensure all required loan documents are completed in compliance with the SBA's loan program requirements. It also contains built-in features to alert lenders throughout the loan approval process of any applications returned due to errors, awaiting signatures, missing documents, as well as loan approvals; it also notifies lenders of required actions at various stages, important dates, and upcoming events. Thus, the implementation and use of this tool by SBA lenders will facilitate loan eligibility and lender compliance throughout the loan approval process.

TABLE 1 IMPROPER PAYMENT REDUCTION OUTLOOK ($ IN MILLIONS)

Program	FY 2015			FY 2016					FY 2017			FY 2018			FY 2019		
	Outlays[1] $	IP %	IP $	Outlays[1] $	IP %	IP $	Over-paid $	Under-paid $	Outlays[1] $	IP %[5]	IP $	Outlays[1] $	IP %[5]	IP $	Outlays[1] $	IP %[5]	IP $
7(a) Guaranty Purchases[1, 2]	880.16	0.9	7.91	576.92	2.32	13.37	9.88	3.49	459.49	1.66	7.61	379.39	1.56	5.92	288.03	1.46	4.21
7(a) Guaranty Approvals[1,2,3,4]	15,160.48	5.59	848.08	17,457.04	0.96	166.77	166.77	0.00	20,428.35	3.90	796.71	24,602.02	3.80	934.88	28,915.56	3.70	1,069.88
504 CDC Guaranty Approvals[1,2]	4,189.53	3.78	158.20	4,594.81	2.60	119.59	119.59	0.00	4,179.66	2.49	104.07	4,072.15	2.39	97.32	4,045.90	2.29	92.65
Disaster Loan Disbursements[1,5]	302.28	8.13	24.57	344.91	5.32	18.36	16.04	2.32	634.38	4.78	30.32	453.05	4.3	19.48	453.05	3.87	17.53
Disbursements for Goods and Services[2]	105.44	13.52	14.26	112.43	10.35	11.64	11.64	0.001	107.69	10.25	11.04	107.69	10.15	10.93	107.69	10.05	10.82
Hurricane Sandy Disaster Relief Grants[6]	4.3	3.02	0.13	5.57	0.074	0.004	0.004	0.00	2.50	0.06	0.002	0.00	N/A	N/A	0.00	N/A	N/A
Hurricane Sandy Disaster Relief Administrative Funds - Payroll[6,7,8]	136.74	0.30	0.41	27.11	0.24	0.066	0.058	0.008	0.25	1.00	0.0025	0.00	N/A	N/A	0.00	N/A	N/A
Hurricane Sandy Disaster Relief Administrative Funds - Travel[6,7,8]	10.12	0.12	0.012	0.27	0.06	0.0002	0.00	0.0002	0.15	1.00	0.0015	0.00	N/A	N/A	0.00	N/A	N/A
Hurricane Sandy Disaster Relief Administrative Funds - Purchase Cards[6,7]	0.51	1.00	0.005	0.15	0.61	0.0009	0.0009	0.00	0.00	N/A	N/A	0.00	N/A	N/A	0.00	N/A	N/A
Total[9,10]	20,789.56	5.07	1,053.58	23,119.21	1.43	329.80	323.98	5.82	25,812.47	3.68	949.76	29,614.30	3.61	1,068.53	33,810.23	3.53	1,195.09

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) loan guaranty purchases are the amount of disbursements for the purchase of defaulted guarantied loans. Outlays for 7(a) loan 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 Outlay projections do not match the President's Budget as timeframe is not FY. Outlays estimated by taking the average growth in outlays for the previous three years and applying it to the current level of outlays to project outlays in future years.

3 For 7(a) loan guaranty approvals, amounts reported are based on the guarantied amount only.

4 The FY 2017 improper payment target for 7(a) Guaranty Approvals is calculated using the arithmetic mean of the previous three year's improper payment rates. SBA determined that the FY 2016 improper payment rate was an anomaly because there were no large loans identified as improper in the FY 2016 testing, which is not typical.

5 Outlay projections do not match the President's Budget as timeframe is not FY. Outlays estimated based on the prior five years disbursement rate of 43 percent and applying it to estimated annual loan approvals. FY 2017 loan approvals based on actual 4th quarter 2016 disbursements of $875.3M and estimated $600M for the rest of the year.

6 Outlay projections based on remaining estimated balance of Hurricane Sandy Disaster Relief funds.

7 Data reported is for period March 1, 2014, through February 28, 2015, due to inadvertent lack of reporting in FY 2014.

8 The improper payment rate for Hurricane Disaster Relief Administration funds is projected to be 1 percent for its last year of funding, which is acceptable to the Agency.

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

10 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.

The supplemental measure for the 7(a) loan guaranty approval program is based on the number of loans submitted to utilize the SBA One tool. The measure for this program, as of March 31, 2016, was 579 loans; the FY 2016 target was identified as 2,538 loans. OFPO's proposed supplemental measures, as described above, were submitted to OMB on April 28, 2016, and approved on October 17, 2016. As of September 2016, a total of 2,977 loans were submitted using SBA One's Guided Path, surpassing the Agency's FY 2016 target.

Part IV - Improper Payment Root Cause Categories

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

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.

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

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 (HSDR) 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				166.77		119.59		6.26	2.32										
Failure to Verify:	Death Data																		
	Financial Data																		
	Excluded Party Data																		
	Prisoner Data																		
	Other Eligibility Data																		
Administrative/ Process Error Made by:	Federal Agency	9.88	3.49							11.42	0.001			0.058	0.008		0.0002		
	State or Local Agency																		
	Other party																		
Medical Necessity																			
Insufficient Documentation to Determine										0.22		0.004						0.0009	
Other Eligibility Data[1]								9.78											
Total Estimated Improper Payments		**9.88**	**3.49**	**166.77**		**119.59**		**16.04**	**2.32**	**11.64**	**0.001**	**0.004**		**0.058**	**0.008**		**0.0002**	**0.0009**	

1 This category consists of lack of documents to support ODA's policies concerning: a) insurance - $4,900,204; b) contractors compliance - $1,067,572; c) titling/mortgage issues - $2,097,631; and d) miscellaneous - $1,711,555.

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 the 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 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.

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.

TABLE 3 STATUS OF INTERNAL CONTROLS

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

The focus of SBA's Strategic Goal 3 is to build the 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 and these are also 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 the reduction of 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 has 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 and lenders may also handle unilateral servicing actions electronically. The system provides increased efficiency and decreased costs in the loan guaranty origination and servicing processes. The loan programs are also supported by SBA One, an automated lending platform to streamline the lending process 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 has an integrated, electronic loan processing system, the Disaster Credit Management System, 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 to streamline the acquisition process from start to finish. An automated interface between SAM and the financial system was implemented in January 2016 to improve payment accuracy. 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, 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 2015 that the SBA would continue to perform payment recapture audits as part of its Quality Control Program but would not formally report the process in subsequent years due to the improvements seen in the program and its improper payment rate. Despite the minor increase to the program's reported improper payment rate in FY 2016, the rate is still at an acceptable level to the Agency. The SBA intends to continue performing the recapture audits as part of its QC Program in FY 2017, but again, will not be formally reporting the audit process and results in FY 2017.

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. 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. Only one ineligible disbursement was identified, in the amount of $110,000. The improper payment audit was completed using 4,400 hours of staff time at an approximate labor cost of $185,850. Based on the cost to audit versus the estimated dollars of recovery of $110,000, 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 685.5 labor hours at a cost of $40,348.76. Payments identified during the improper payment review as eligible for recapture totaled $10,366.72; 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 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. Recoverable payments include those identified during the improper payment review in the amount of $7,030,972 and those identified through OIG audits in the amount of $4,982,358 for a total of $12,013,330. All overpayments identified as part of the improper payment audit have been recaptured; those identified through OIG audits have been recaptured in the amount of $1,066,666. The remaining recommendations and related funds are still being reviewed by the Office of Financial Program Operations to determine the appropriate corrective action. Cash disbursements related to goods and services made for an inaccurate amount or not according to contract terms total $10,366.72, none of which has been recaptured this year.

Table 4 provides a summary of the overpayments established and recovered outside recapture audit programs.

Table 5 — Disposition of Funds Recaptured Through Payment Recapture Audits and **Table 6** — Aging of Outstanding Overpayments Identified in the Payment Recapture Audits are not applicable to the SBA and are therefore not included.

Part XI – Additional Comments

None.

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]								12.01	8.10
Disbursements for Goods and Services[1]								0.01	0.00
TOTAL								12.02	8.10

1 Period of review is for the 12-month period ending March 31, 2016.

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

The SBA has implemented the Do Not Pay Initiative and subjects its disbursements to comparison against the Death Master File 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 2016 DNP process examined SBA disbursements between October 2015 and August 2016. September 2016 data was not available from DNP at the time of this report.

Table 7 summarizes the results of the Do Not Pay Initiative in preventing improper payments.

The improper payments were not directly caused by a failure to use the DNP database but rather a failure to review internal databases that had identified the borrower as deceased. While this condition still exists in FY 2016, the SBA has taken steps to mitigate the failure with new manual internal controls. During FY 2016, the SBA provided the Disaster Service Centers with access to the DNP portal in order to manually verify the status of a borrower prior to issuing a refund for an overpayment on a paid-in-full loan. The Office of Disaster Assistance is working with the Treasury Department to establish a process to access the DMF, the Excluded Parties List, and Debt Check during the eligibility review stage of loan processing so that records will be searched both at the time of application and at the time of disbursement in the batch file review.

The SBA has incorporated the use of the DNP databases DMF, Debt Check Database and SAM Exclusion Records – Restricted for eligibility checks in the processing of 7(a) business loan program applications at the Standard 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 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 require lenders and the SBA, depending on loan delegation, to review CAIVRS and Debt Check during the loan approval process.

In FY 2017, the SBA will continue to incorporate CAIVRS and Debt Check into its review processes, as well as the DNP portal, but it does not have the capacity to monitor the impact of funds not issued to a participating lender or CDC.

FREEZE THE FOOTPRINT REPORT

Section 3 of the Office of Management and Budget Memorandum M-12-12 "Promoting Efficient Spending to Support Agency Operations" and OMB Management Procedures Memorandum 2013-02 "Freeze the Footprint" direct that all Chief Financial Officers Act agencies shall not increase the total square footage of their domestic office and warehouse inventory compared to the FY 2012 baseline. 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 SBA has successfully reduced its real estate footprint. The SBA had a baseline of 1.375 million square feet of space in FY 2012. In FY 2015, the SBA had 1.363 million square feet of space. In FY 2015, the SBA reduced the footprint from the 2012 baseline but added space since FY

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 ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the Do Not Pay databases	219,346	1,616.14	0	0.00	31	0.36
Reviews with databases not listed in IPERIA as Do Not Pay	0	0.00	0	0 .00	0	0.00

2014 in Washington, D.C., and Federal Way, Washington. In Washington, D.C., the renovation of the main facility and the transfer of staff to the Patriots Plaza building increased the square footage; however, staff has been transferred back to their original facility, which resulted in a reduction of the square footage in FY 2016.

The following table summarizes SBA data:

FREEZE THE FOOTPRINT BASELINE COMPARISON			
	FY 2012 Baseline	FY 2015 Actuals (CY - 1)	Change (FY 2012 Baseline-2015 (CY-1))
Square Footage (SF in Millions)	1.375	1.363	0.012

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

The SBA only occupies buildings that are leased by the U.S. General Services Administration and subject to occupancy agreements between the GSA and the SBA. These agreements are explicitly excluded from reporting in this section per OMB Circular A-136.

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. A civil monetary penalty is defined as any penalty, fine, or other sanction that is for a specific monetary amount as provided by federal law or has a maximum amount provided for by federal law; and is assessed or enforced by an agency pursuant to federal law; and is assessed or enforced pursuant to an administrative proceeding or a civil action in the federal courts. 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. Pursuant to the Act, the SBA reviewed each of the penalty amounts under its statutes and penalty amounts for inflation when required under the law. The SBA applied a prescribed formula from the Act for calculating the penalty.

The following table reflects the authorities imposing the penalties, the civil penalties, the adjustment years, the current penalty levels, the offices of the program, and the locations for the penalty updates.

SBA FEDERAL CIVIL PENALTIES

Statutory	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/Unit	Location for Penalty Update Details
Small Business Investment Act, 15 USC 687(g)	Failing to File Report Timely for a Small Business Investment Company (SBIC)	1966	2016	$250	Office of Investment and Innovation	Federal Register 81 (19 May 2016): 31489-31492.
Small Business Investment Act, 15 USC 650(j)	Failing to File Report Timely for a Small Business Lending Company (SBLC)	2004	2016	$6,229	Office of Capital Access	Federal Register 81 (19 May 2016): 31489-31492.
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 3802(d)	Administrative Remedies for False Statements and Claims	1986	2016	$10,781	Multiple offices	Federal Register 81 (19 May 2016): 31489-31492.
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 1352	Penalty for Violation of Lobbying Restrictions	1990	2016	$17,816 to $178,156	Multiple offices	Federal Register 81 (19 May 2016): 31489-31492.

DID YOU KNOW

COUNSELING SBA provides mentorship, counseling, and strategic advice to more than one million small business owners annually through SBA's Small Business Development Centers, Women's Business Centers, Veterans Business Outreach Centers, and 68 district offices.

SUCCESS STORY

SBA National Exporter of the Year

Endoscopy Replacement Parts Inc.
Newberry, Florida

David Peter Bello Sr. founded Endoscopy Replacements Parts Inc. in 1977 after working for years for his father's manufacturing business. David Sr. realized that in the Newberry, Florida, area several companies performing endoscope repair could benefit from a reliable supply of endoscope repair and replacement products.

ERPI started with four employees, but by venturing into exporting its products, the company grew rapidly. By 2005, ERPI increased its inventory to more than 2,000 lines and tripled its staff. Today, ERPI exports to several dozen countries from Canada to China, Malaysia, and Kazakhstan.

ERPI participated in an Export Marketing Plan program at the Small Business Development Center at University of Northern Florida in Jacksonville and received a $3,000 grant to offset the cost of plan development, a thoroughly researched foreign market analysis, a customized action plan, and recommended target markets.

Appendices

DID YOU KNOW

DISASTER Since 1953, the SBA has approved more than two million disaster loans for over $55 billion to businesses of all sizes, private non-profit organizations, homeowners and renters.

SUCCESS STORY

Phoenix Award for Outstanding Small Business Disaster Recovery

Majestic Vending and Services Inc.
Staten Island, New York

Majestic Vending and Services Inc. began as a single gumball machine at a construction site in 1994. The grit and determination of owners **Maryann and Stephen Piazza** made it possible for the business to succeed. The company provides vending, office coffee services, and bottled water delivery to the New York City area.

On October 29, 2012, Hurricane Sandy's ferocious winds toppled a tree, which crashed into the chimney of Majestic's warehouse, causing parts of the ceiling to collapse. Inventory, equipment, furniture, and office supplies were destroyed. Repair costs were estimated at around $80,000, but the insurance company wanted to settle for just $1,000. After a two-year mediation the settlement was increased to $32,700 — still not enough to cover repair costs.

The Piazzas turned to the SBA and were approved for a disaster loan of $59,600. The loan gave them the capital needed to move forward with repairs, debris removal, and inventory and machine replacement. Maryann never closed the business, kept her customers, and did not lay off a single employee.

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 website. Several of the more frequently visited websites are listed here:

SBA INFORMATION	
About SBA	www.sba.gov/about-sba
SBA Performance, Budget and Planning	www.sba.gov/performance
Business USA	http://business.usa.gov/

STARTING AND MANAGING A BUSINESS	
How to Start a Business	www.sba.gov/starting-business/how-start-business
Local Assistance	www.sba.gov/local-assistance
Lender Resources	www.sba.gov/for-lenders
Managing a Business	www.sba.gov/managing-business/
Health Care	www.sba.gov/healthcare
Small Business Loans	www.sba.gov/loans-grants/see-what-sba-offers/

CONTRACTING	
Government Contracting	www.sba.gov/contracting
Register as a Contractor	www.sam.gov

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/tools/local-assistance/vboc

DISASTER ASSISTANCE	
Disaster Assistance	www.sba.gov/disaster
Disaster Area Office Locations	www.sba.gov/about-offices-list/4
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 INFORMATION	
SSBA National Answer Desk	(800) 827-5722 (Toll Free)
Disaster Assistance Customer Service Center	(800) 659-2955 (Toll Free)
Facebook	www.facebook.com/sbagov
Twitter	www.twitter.com/sbagov/
YouTube	www.youtube.com/sbagov
SBA blog	www.sba.gov/blogs/

APPENDIX 2 - GLOSSARY

Available at: www.sba.gov/performance, FY 2016 Agency Financial Report

504 — **504 Certified Development Loan Program**
The 504 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**
The 7(a) loan program is SBA's primary loan program; it provides general loan financing for a wide variety of purposes.

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

7(m) — **The 7(m) Microloan Program**
The microloan loan program provides small, short-term loans to small business concerns and certain types of non-profit child care centers.

8(a) — **8(a) Business Development Program**
The 8(a) loan 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**
The A-123 guidance 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**
The AFR is an annual report that provides to OMB, Congress, and the public, an overview of the Agency's financial and performance data.

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.

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

BATF — **Business Assistance Trust Fund**
The BATF is 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.

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

CAIVRS — **Credit Alert Verification Reporting System**
CAIVRS is a system used to determine if a loan applicant has any federal debt that is currently in default or foreclosure or has had a claim paid by the reporting agency within the last three years.

CAP Goals — **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**
The CBJ is a federal agency's annual budget request to Congress.

CDC **Certified Development Company**
CDCs are non-profit corporations, certified and regulated by the SBA, that work with participating lenders to provide financing to small businesses.

CDFI **Community Development Financial Institution**
A CDFI provides credit and financial services to underserved markets and populations.

CEAR **Certificate of Excellence in Accountability Reporting**
Agencies that participate in the CEAR program with reports that are considered excellent are awarded the Certificate of Excellence in Accountability Reporting.

CFO **Chief Financial Officer**
The CFO is the financial leader of the OCFO, whose duties include overseeing all Agency disbursements, management, and coordination of Agency planning, budgeting, analysis, and accountability processes.

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

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

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

DMF **Death Master File**
DMF is an electronic database that contains records of deceased individuals.

DNP **Do Not Pay Initiative**
DNP was established by the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 to support federal agencies with their efforts to prevent and detect improper payments.

EDP **Entrepreneurial Development Program**
The account EDP reports entrepreneurial development expenses.

FCRA **Federal Credit Reform Act**
FCRA is 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**
FECA provides compensation benefits to federal civilian employees and to their surviving dependents for work-related injuries or illnesses.

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

FFMIA **Federal Financial Management Improvement Act**
FFMIA is 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 United States Standard General Ledger.

FITARA **Federal Information Technology Acquisition Reform Act**
The purpose of this legislation is to improve the acquisition and management of federal information technology assets.

FMFIA **Federal Managers Financial Integrity Act**
FMFIA is 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	**Fiscal Transfer Agent**	The FTA is the SBA agent tasked with the responsibility to administer each SBA Pool or Individual Certificate. This maintains a registry of Registered Holders and other information as the SBA requires.

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

FTE — **Full Time Equivalent**
FTE 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 means that the worker is only half-time.

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

GAAP — **Generally Accepted Accounting Principles**
GAAP is the standard framework of guidelines for financial accounting generally known as accounting standards or standard accounting practice.

GAO — **U.S. Government Accountability Office**
GAO is an independent, nonpartisan agency that investigates how the federal government spends taxpayer dollars and reports their findings to Congress.

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

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

HSDR — **Hurricane Sandy Disaster Relief**
A program funding real estate repairs, reconstruction, inventory equipment and working capital for small businesses and non-profits for damages as a result of Hurricane Sandy.

HUBZone — **Historically Underutilized Business Zone**
HUBZone is an 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**
IIP refers to information technology projects intended to upgrade existing financial software and application modules in SBA's Loan Accounting System.

IPERA — **Improper Payments Elimination and Recovery Act**
The law requires that agencies examine the risk of, and feasibility of recapturing, improper payments in all programs and activities.

IPERIA — **Improper Payments Elimination and Recovery Improvement Act of 2012**
IPERIA is an act to intensify efforts to identify, prevent, and recover payment error, waste, fraud, and abuse within federal spending.

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

ISCM — **Information Security Continuous Monitoring**
An ISCM is a strategy designed to provide a roadmap that focuses on a near-real-time approach to SBA risk remediation, operational awareness, and long-term risk management.

IT — **Information Technology**
IT 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.

LMAS — **Loan Management and Accounting System**
LMAS is the financial management system that supports loan accounting.

LSP — **Lender Service Provider**
An agent who carries out functions in originating, disbursing, servicing, or liquidating a specific SBA business loan or loan portfolio for compensation from the lender.

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**
A private, non-profit, non-partisan organization dedicated to conducting economic research and provides findings to academics, public policy makers, and business professionals.

NDAA — **National Defense Authorization Act**
United States federal law specifying the budget and expenditures of the United States Department of Defense.

OBD — **Office of Business Development**
OBD assists small, disadvantaged businesses gain access to federal and private procurement markets.

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

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

OCIO — **Office of the Chief Information Officer**
OCIO 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.

OCPL — **Office of Communications and Public Liaison**
OCPL communicates the SBA's programs and priorities to small businesses, resource partners, and the public at large through media outlets.

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

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

OED — **Office of Entrepreneurial Development**
OED is the SBA office that oversees a network of programs and services that support the training and counseling needs of small businesses.

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

OFO — **Office of Field Operations**
OFO is the SBA's front-line operating team organized with regional, district, and branch offices located in each state and territory.

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

OGC — **Office of the General Counsel**
OGC provides comprehensive legal services to the Administrator and all Agency offices.

OHRS — **Office of Human Resources Solutions**
OHRS 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**
OIC, an office within the Office of the Chief Financial Officer, has the lead in ensuring managers comply with internal control standards.

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

OMB — **U .S. Office of Management and Budget**
OMB is the 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**
OPM is the federal government's human resources agency.

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

PFCRA — **Program Fraud Civil Remedies Act of 1986**
A statute that provides an administrative remedy to executive branch agencies related to false, fictitious, or fraudulent claims and statements.

PPS — **Probability Proportional to Size**
A method of sampling that takes the varying size of each item within the population into account when selecting the audit sample.

QA and QC — **Quality Assurance and Quality Control**
QA and QC are functions to assure that project deliverables meet SBA's requirements and quality standards.

QAR — **Quality Assurance Review**
QAR is a review to identify any deficiencies to include improper payments.

RGDP — **Real Gross Domestic Product**
RGDP is an inflation-adjusted measure that reflects the value of all goods and services produced in a given year, expressed in base-year prices.

RISE — **Recovery Improvements for Small Entities After Disaster Act of 2015**
This bill amends the Small Business Act to authorize a small business, homeowner, non-profit entity, or renter that was located within a declared major disaster area during Superstorm Sandy in 2012 to apply for a Small Business Administration (SBA) loan.

SAM — **System for Award Management**
SAM is 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**
The SBA is the 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**
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**
The SBG 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**
An SBIC provides long-term loans, debt-equity investments, and management assistance to small businesses, particularly during their growth stages.

SBIR — **Small Business Innovation Research**
The SBIR is 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.

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

SBR — **Statement of Budgetary Resources**
The SBR is a financial statement that summarizes the flow of funds in and out of the SBA including funds received, funds obligated, and funds dispersed.

SE — **Salaries and Expenses**
The account Salaries and Expenses reports salaries and administrative costs.

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

SOS — **Schedule of Spending**
The SOS presents an overview of how and where agencies are spending (i.e., obligating) money for the reporting period.

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

VBOC — **Veterans Business Outreach Center**
VBOCs provide entrepreneurial development services such as business training, counseling and mentoring, and referrals for eligible veterans owning or considering starting a small business.

V-WISE — **Veteran Women Igniting the Spirit of Entrepreneurship**
VWISE is an entrepreneurial training program for female veterans of all service eras and branches with a passion for and interest in either starting a new small business or growing an existing one.

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

WOSB — **Women-Owned Small Businesses**
The WOSB program allows federal agencies to set aside certain contracts for competition only among small businesses owned and controlled by women.

WOSBP — **Women-Owned Small Business Federal Contracting Program**
The WOSB Federal Contracting Program was implemented in February 2011 with the goal of expanding the number of industries where WOSB were able to compete for business with the federal government.

APPENDIX 3 – OIG AUDIT FOLLOW-UP ACTIVITY

Throughout the year, the Office of Inspector General conducts audits of SBA's processes, procedures, and programs, and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on SBA's financial and administrative operation, but are beneficial to 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 2016 there were 86 Final Actions, resulting from 9 monetary and 77 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 2016 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 within One Year.

TABLE I FINAL ACTION ON AUDIT RECOMMENDATIONS WITH DISALLOWED OR QUESTIONED COSTS
OCTOBER 1, 2015 – SEPTEMBER 30, 2016

	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.	10	$4,787
B. Recommendations on which management decisions were made during the period.	6	$3,208
C. Total recommendations pending final action during period.	16	$7,995
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	1	$207
(b) Property		
(c) Other	5.5	$2,134
2. Write-Offs	1.5	$893
3. Total	8	$3,234
E. Recommendations needing final action at the end of the period.	8	$4,761

TABLE II FINAL ACTION ON AUDIT RECOMMENDATIONS WITH FUNDS PUT TO BETTER USE OCTOBER 1, 2015 – SEPTEMBER 30, 2016	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	$33
B. Recommendations on which management decisions were made during the period.	0	$0
C. Total recommendations pending final action during period.	1	$33
D. Recommendations on which final action was taken during the period.		
1. Value of recommendations implemented (completed):	1	$33
2. Value of recommendations that management concluded should not or could not be implemented or completed		
3. Total	1	$33
E. Recommendations needing final action at the end of the period.	0	$0

TABLE III FINAL ACTION ON AUDIT RECOMMENDATIONS NOT COMPLETED WITHIN ONE YEAR AS OF SEPTEMBER 30, 2016

Report #11-06, Audit of FY 2010 Federal Information Security Management Act Review

Program: OCIO

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. The Office of the Chief Information Officer has implemented this recommendation and will submit the closure package to the OIG by 11/30/2016.

Report #11-14, Audit of Funding of Information Technology Contracts Awarded to Isika Technologies Inc.

Program: OCFO

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 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 12/31/16.

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. The status of each recommendation is 1) the OCIO has coordinated with other program offices to enhance security vulnerability management process and will submit documentation to close the recommendation by 11/30/16; 2) the OCIO has requested systems owners complete bi-annual account reviews but full implementation is delayed as not all program offices have complied and the OCIO does not have authority to enforce compliance. The OCIO believes compliance can be achieved by 12/31/16; and 3) An Enterprise Configuration Management Framework Standard Operating Procedure was proposed; however, due to lack of resources and funding constraints, no activities are planned. The OCIO indicates closure may occur by 6/1/17 depending on resources.

Report #12-04, Audit of Annual Small Business Procurement Calculations

Program: GCBD

Date Issued: 12/6/11

Management Decision Date: 9/23/15

Explanation: The four remaining recommendations are to the Office of Government Contracting and Business Development and require 1) revision of the Goaling Guidelines for the Small Business Preference Programs to include contracts awarded and/or performed overseas; 2) revision of the Goaling Guidelines based on the Office of the General Counsel's final opinion on the exemptions from goaling; 3) notification of the GSA, Federal Procurement Data Center, of any necessary programming updates to the FPDS-NG resulting from the changes to goaling guidance; and 4) revision of Goaling Guidelines in the federal register notifying participating agencies of any changes. The GCBD revised the Goaling Guidelines and have placed them into clearance; estimated completion date is 12/31/16. The GSA will be notified of any changes.

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 document procedures for account authorization, creation, and periodic access reviews that include privileged accounts. The OCIO is receiving manual remote access logs weekly and is looking to automate the process. Estimated completion date is 9/30/17.

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 the SBA do not agree with those submitted to the IRS; and 4) comparison of IRS transcripts with the tax return and advise the OIG of discrepancies. The OBD has removed the requirement to collect IRS Form 4506T in the final Mentor-Protégé program regulation and will submit documentation to close the recommendations. Estimated completion date is 12/31/16.

Report #13-03, Audit of Mentor-Protégé Joint Ventures

Program: GCBD

Date Issued: 10/23/12

Management Decision Date: 1/24/13

Explanation: The three 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; and 3) verify information submitted by 8(a) firms as part of the annual review. Resolution activities include 1) development of metrics and tracking system to measure benefits of Mentor-Protégé and Joint Venture relationships; 2) development of risk assessment procedures; and 3) demonstration of capacity assessment. Estimated completion date is 9/30/17.

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. The OCIO is coordinating with the Office of Human Resources Solutions and program offices to redesign and improve the separation process to ensure timely removal of system access. Estimated completion date is 3/31/17.

Report #13-06i, Audit of SBA's Section 8(a) Annual Review
Program: OBD
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 the SBA to place an 8(a) firm in a "decision pending" category during the additional period. Further discussion with the OIG in 2016 resulted in a determination that the provision does not need to be changed. The OBD will submit documentation to close the recommendations. Estimated completion date is 12/31/16.

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 six 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; and 6) provide a list of approvers to payment personnel. Resolution activities include 1) training has been provided to current contracting officers on price analysis; procedures will be documented in a revised Standard Operating Procedure which is under management review; 2) documents are retained, and retention requirements will be incorporated in the revised SOP; 3) price analysis procedures to 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; and 6) providing a list of approvers to payment personnel will be addressed in the revised SOP. Estimated completion date is 1/31/17.

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: Six remaining recommendations include four to the Office of Communications and Public Liaison that require 1) a 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) the OCPL and the Office of the General Counsel have drafted a revised SOP with significantly expanded coverage of the roles and responsibilities of fiscal agents and other cosponsors. SOP 90 75 was approved and signed by the Administrator. The OCPL and OGC are working together to issue new revisions to the co-sponsorship template to reflect policies set forth in the new SOP; 2) exploration of technology to collect co-sponsorship information and track agreements; 3) the OCPL staff conduct periodic reviews of headquarter and field co-sponsorship files for completeness and compliance. OCPL management is reviewing strategies to provide additional outreach oversight via a new team member; and 4) providing training focused on roles and responsibilities of fiscal agents. Estimated completion date is 12/31/16. One recommendation is to the OGC and requires the revision of SOP 90 75 3 to include specific procedures on the disposition of excess funds that remain after co-sponsored activities. The SOP has been issued, and the OGC is working with the OIG to close this recommendation. Estimated completion date for all recommendations is 11/30/16.

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 the application is electronically verified. Estimated completion date is 9/30/17.

Report # 14-04, Audit of SBA's FY 2013 Financial Statements

Program: OCIO

Date Issued: 12/16/13

Management Decision Date: 4/9/14

Explanation: The remaining four recommendations 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) documentation of procedures for account authorization, creation, and periodic access reviews; 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 deployed Splunk to provide robust logging and auditing capabilities on the LAN/WAN but experienced lack of resources to review logs, and there is no automated system to produce the logs. OCIO cannot keep Splunk resource in place to complete; and 4) the OCIO has deployed a segregation of duties matrix to prevent issuance of excessive privileged network accounts; a policy is being developed for communication to program offices before implementation is complete. Estimated completion date for all recommendations is 6/30/17.

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. The OCRM has conducted its quality assurance reviews of the loan centers and is preparing its report. Estimated completion is 11/30/16.

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 three remaining recommendations require the Office of the Chief Information Officer 1) implement Personal Identification Verification, or PIV, card logical access to all SBA systems; 2) improve Security Authorization Packages and retain all documentation; and 3) upgrade remote access solution to time-out after 30 minutes of inactivity. Resolution activities include 1) workstation PIV enforcement across the agency was implemented in April 2016; additional research is being conducted to address the outstanding ongoing issues; 2) a risk assessment analysis was conducted in 2016 and a risk management plan was developed; in 2017, the OCIO will work to mitigate risks the program offices face when implementing security requirements; and 3) one remote access (Citrix) is configured to time-out after 30 minutes of inactivity. The new AT&T Global network client will enforce use of the PIV card and will also enforce disconnection after periods of inactivity. Estimated completion date for all recommendations is 6/1/17.

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 GCBD is developing an SOP for the Non-Manufacturer Rules Waiver Program which will include procedures for maintaining file documentation. Estimated completion date is 9/30/17.

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 Communications and Public Liaison to establish controls to ensure cash gifts from co-sponsored activities are documented and properly closed out. A tracking system was recently created to capture all data related to outreach, which will assist in properly closing out co-sponsored events and activities. Estimated completion date is 12/31/16.

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 1) update their Standard Operating Procedures to address statutory and regulatory changes and to establish corresponding internal controls; and 2) implement Lead Center controls to exclude excess sub-recipient costs when computing indirect costs. The SOP will be updated after the completion of the update to the Regulations, which is in clearance. The SOP will include statutory and regulatory changes. The enhancement of controls over indirect cost computation will be documented in a specific SOP. Estimated completion date for both recommendations is 12/31/16.

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 6/1/17.

Report # 15-02, Audit of SBA's FY 2014 Financial Statements

Program: OCIO

Date Issued: 11/17/14

Management Decision Date: 3/2/15

Explanation: The three remaining recommendations requires the Chief Information Officer to 1) improve the remote access program to ensure employees acknowledge compliance with security requirements and that compliance is monitored; 2) ensure that passwords meet SBA standards for strength and complexity; and 3) coordinate with the OCFO, OCA, and ODA to ensure the full back-up of financial systems are retained in accordance with SBA policies. Resolution activities include 1) updating the Rules of Behavior for employees and developing an automated process to deny connectivity to the SBA network if non-compliance is detected with an estimated completion date of 9/30/17; 2) password requirements have been updated for all users to meet SBA standards and documentation will be submitted to the OIG for closure of this recommendation by 12/31/16; and 3) Phase 1 of the implementation plan to ensure back-up files are retained has been achieved with Phase 2 to include remaining servers to be completed by 6/30/17.

Report # 15-04, Audit of SBA's FY 2014 Financial Statements — Management Letter

Program: OHRS

Date Issued: 12/15/14

Management Decision Date: 3/30/15

Explanation: The three remaining recommendations require the Chief Human Capital Officer to 1) reinforce policies and procedures regarding time and attendance reports; 2) continue periodic quality assurance reviews to ensure time and attendance records are properly certified and dated; and 3) develop and implement enforcement actions for multiple instances of non-compliance. Resolution activities include 1) provided training on time and attendance record requirements to timekeepers and supervisors and reinforced guidance via conference calls and other agency meetings; 2) an in-house Quality Assurance process will be established upon selection of a new payroll supervisor with an estimated completion date of 11/30/16; and 3) a monthly non-compliance report will be developed and shared with senior executives; non-compliance will be addressed in accordance with Performance and Disciplinary SOPs. Estimated completion date is 9/30/17.

Report # 15-07, Audit of SBA's FY 2014 Federal Information Security Management Act
Program: OCIO
Date Issued: 3/13/15
Management Decision Date: 3/3/15
Explanation: The four remaining recommendations require the Chief Information Officer to 1) implement the information security continuous monitoring, or ISCM, program requirements; 2) implement two-factor authentication for public-facing internet applications; 3) ensure general support systems and major applications have valid and up-to-date authorizations to operate (ATO) while those systems are in production; and 4) ensure data stored on enterprise servers are backed up monthly and retained for one year. Resolution activities include 1) the SBA ISCM Policy document is in executive review; 2) evaluation of an identify and access management solution that covers both internal and external facing applications; 3) implementation of a risk management plan which generated a baseline to ensure all SBA systems meet or exceed guidelines; and 4) data is backed up monthly and stored in accordance with records management policy; documentation will be submitted to the OIG to close this recommendation. Estimated completion date for all recommendations is by 9/30/17.

Report # 15-09, Audit of High Risk 7(a) Loan Review Program
Program: OCA
Date Issued: 3/20/15
Management Decision Date: 3/23/15
Explanation: The two remaining recommendations require that two lenders bring high-risk loans into compliance by seeking recovery of $900,175 and $471,905, respectively. The OCA entered into the dispute process for one loan, and the OGC provided support; documentation will be submitted to the OIG for closure of the recommendation. The OCA is currently in settlement negotiations with the lender on the second loan. Estimated date for completion for both recommendations is 9/30/17.

Report # 15-10, Audit of High-Risk 7(a) Loan Review Program
Program: GCBD
Date Issued: 5/14/15
Management Decision Date: 5/18/15
Explanation: The five recommendations require the GCBD to 1) provide updated training and outreach to the contracting community on set-aside requirements; 2) provide additional training to women-owned small business firms on repository and documentation requirements; 3) revise the self-certification forms to include the name of the individual who in control of the day-to-day operations; 4) revise the SBA financial form for women-owned businesses to ensure it properly provides financial information in accordance with the program requirements; and 5) perform eligibility examinations on firms listed in the report as potentially ineligible. The GCBD has fulfilled each of the five recommendations and will work with the OIG to close these recommendations by 12/31/16.

Report # 15-11, Audit of FY 2014 Improper Payments Elimination and Recovery Act
Program: OED
Date Issued: 5/15/15
Management Decision Date: 5/15/15
Explanation: The one remaining recommendation requires the Associate Administrator for Entrepreneurial Development to recover $168,000 of unallowable indirect costs from SCORE. The OED is working with SCORE to resolve this issue. Estimated completion date is 10/31/16.

Report # 15-12, Audit of Separation Controls and Procedures

Program: OCIO and OCFO

Date Issued: 5/26/15

Management Decision Date: 5/4/15

Explanation: Two of the three remaining recommendations require the Chief Information Officer to 1) ensure network oversight includes enabled network accounts which have never been accessed; and 2) clarify e-mail access policies as defined in SOP 90 49 1. The third recommendation requires the Chief Acquisition Officer revise guidance to require the contracting officer representative to monitor contractor status and reinforce responsibilities for contractor separation. Resolution activities include 1) OCIO documentation of procedures for account authorization and creation, including requesting and granting elevated privilege account access and performing user access reviews; estimated completion date 9/30/17; 2) the OCIO revised SOP 90 49 1 and will create a procedure document to handle requests for third-party access to email accounts. Estimated completion date 12/31/16; and 3) a revised Acquisition SOP includes separation responsibilities for contracting officer representatives. Recommendation will be closed upon issuance of SOP. Estimated completion date 12/31/16.

Report # 15-15, Audit of Disaster Technical Assistance Grants

Program: OED

Date Issued: 7/31/15

Management Decision Date: 8/3/15

Explanation: The two remaining recommendations require 1) a closeout report for Sandy technical assistance grants; and 2) recovery of $16,965 in expenses not included in one SBDC's budget or brings the expense into compliance. The closeout report is delayed as Sandy grants were extended through September 30; however, the Office of Entrepreneurial Development will prepare the closeout report by 10/31/16. The OED is in the conflict resolution process with the OIG for the recovery of expenses. Estimated completion date is 10/31/16.

Report # 15-16, Audit of Oversight of Loan Agents

Program: OCA

Date Issued: 9/25/15

Management Decision Date: 1/7/16

Explanation: The eight remaining recommendations require 1) development of procedures for the regular monitoring of SBA Form 159 data to identify concerning trends or risk patterns; 2) development of performance metrics for loan agents that, if exceeded, would trigger closer SBA examination; 3) development of procedures for reporting any concerning trends or suspected fraudulent activity of loan agents to Agency management and the OIG; 4) determination of the feasibility of a report to provide lenders with information on loan agents and their performance; 5) development of benchmarks for contractor performance and controls to ensure integrity of the Form 159 database; 6) a review of Form 159 database to identify and correct errors; 7) implementation of a process to uniquely identify loan agents; and 8) development of a method for CDCs to electronically report loan agent compensation. Recommendations 1-4, 7, and 9 were either completed or implemented, and the documentation to support the closure activity was submitted to the OIG. Estimated completion date is 10/31/16. Agreement has not been reached between the program office and the OIG as to the resolution of recommendations 6 and 8.

ACKNOWLEDGMENTS

This Agency Financial Report was produced with the energies and talents of the SBA staff. To all these dedicated individuals listed below, as well as those not listed, the Office of Performance Management and the Chief Financial Officer would like to offer sincere thanks and acknowledgement.

Melissa Atwood
Rory Berges
Jason Bossie
Charles Brinkley
Kay Chae
Amber Chaudhry
Martin Conrey
Alejandro Contreras
Jeff Davis
Tamara Dollarhite
Dennis Donaldson
Natalie Duncan
Alan Escobar
Amy Garcia
Leslie Godsey
Linda Grabe
Timothy Gribben
Joseph Henry
Blake Hoing
Addison Huber
Ryan Korn
John Kushman
Lala Lunstrum
Terell Lasane
Luan Loerch-Wilson
Robert Montgomery
Maureen Moore-Vellucci
Mathew Pascarella
Tami Perriello
Mike Peterson
Janette Porter
Steve Ramey
Nathaniel Reboja
Ann Marie Schaef
Charles Senseney
Deron Smallwood
Scott Stilmar
Emilie Surrusco
Yolanda Swift
LaNae Twite
Yvonne Walters
Kelly Wilcox
Donna Wood

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 2016 Financial Statements. We offer our special thanks to Circuit Media and Corporate Visions, Inc. for outstanding contributions in producing this report.

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

For the past 10 years, FY 2006 to FY 2015, the U.S. Small Business Administration is proud to have received the prestigious Certificate of Excellence in Accountability Reporting award from the Association of Government Accountants for its Agency Financial Report. 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, and cost and accountability.

The SBA is also the proud recipient of three CEAR Special/Best-in-class awards:

2015 — Presentation of Forward Looking Information
2013 — Inspector General's Summary of Management and Performance Challenges
2011 — Improper Payments Elimination and Recovery Act Detail

SBA.GOV
U.S. Small Business Administration

Office of Performance Management
and Chief Financial Officer
409 Third Street, S.W.
Washington, DC 20416