SBA U.S. Small Business Administration

AGENCY FINANCIAL REPORT

WE MAKE
small business
OUR BUSINESS

FISCAL YEAR 2018

ABOUT THIS REPORT

The U.S. Small Business Administration's Agency Financial Report (AFR) for FY 2018 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 required annual reports for federal agencies. The *FY 2018 Annual Performance Report* (APR) is the other report and is part of the *FY 2020 Congressional Budget Justification* (CBJ). The CBJ/APR is scheduled for publication in February 2019. The reports can be found at: **www.sba.gov/performance.**

FY 2018 HIGHLIGHTS

(Dollars in Thousands)	FY 2015	FY 2016	FY 2017	FY 2018
Principal Program Portfolio[1]	$ 118,767,451	$ 124,118,505	$ 131,814,718	$ 142,315,295
Regular FTE Employees	1,947	1,950	1,960	1,881
Disaster FTE Employees	1,013	1,153	1,311	3,608
Total Employees[2]	2,960	3,103	3,271	5,489
Total Assets	$ 12,020,867	$ 12,657,172	$ 13,215,919	$ 16,988,497
Total Liabilities	$ 10,682,837	$ 11,882,988	$ 11,703,589	$ 14,915,340
Total Net Position	$ 1,338,030	$ 774,184	$ 1,512,330	$ 2,073,157
Total Net Cost of Operations	$ (644,590)	$ 339,477	$ 3,910	$ 621,675
Total Budgetary Resources	$ 10,296,788	$ 10,878,012	$ 12,243,154	$ 17,114,677

(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 Office of Advocacy and Office of 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.management@sba.gov**

Or, you may write to:

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This report is minimally 508-compliant and will be made 508-compliant by November 30, 2018.

TABLE OF CONTENTS

Message from the Administrator ... 1

Management's Discussion & Analysis ... 5

SBA's History, Goals, and Organization ... 7
Executive Summary ... 9
Primer of SBA's Principal Programs ... 14
SBA by the Numbers ... 16
Analysis of Performance Results ... 17
Analysis of Performance and Agency Priority Goals ... 17
Evidence and Evaluation ... 23
Verification and Validation of Performance Data ... 24
Operational Portfolio Analysis ... 24
Forward Looking Analysis ... 29
Analysis and Highlights of Financial Statements and Results ... 30
Highlights of Financial Results ... 30
Analysis of Financial Results ... 31
Analysis of SBA's Systems, Controls, and Legal Compliance ... 36
Internal Control Environment ... 36
Financial Management Systems Strategy ... 37
Management Assurances: FMFIA and FFMIA Assurance Statement for FY 2018 ... 39

Financial Reporting ... 41

Message from the Chief Financial Officer ... 42
Audit and Financial Management Advisory Committee's Report ... 44
Inspector General's Audit Report ... 45
Independent Auditors' Report on FY 2018 Financial Statements ... 47
CFO Response to Draft Audit Report on FY 2018 Financial Statements ... 52
Financial Statements and Notes ... 53

Other Information ... 89

OIG Report on the Most Serious Management and Performance Challenges ... 91
Payment Integrity ... 111
Summary of Financial Statement Audit and Management Assurances ... 120
Fraud Reduction Report ... 121
Reduce the Footprint Report ... 122
Civil Monetary Penalty Adjustment for Inflation ... 122
GONE Act Report ... 123

Appendices ... 125

Appendix 1—Contact SBA: Useful Websites and Numbers ... 127
Appendix 2—Glossary ... 128
Appendix 3—OIG Audit Follow-up Activity ... 134

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 2018 Agency Financial Report* (AFR) provides financial and performance information for the fiscal year beginning October 1, 2017 and ending September 30, 2018. 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 each 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 combined 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 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.

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, 2018

It is my honor to present the Small Business Administration's *FY 2018 Agency Financial Report*. This report highlights the SBA's key accomplishments in helping entrepreneurs start, grow, expand, and recover. The financial and performance data published in this report are reliable, complete, and in accordance with the Office of Management and Budget Circulars A-136 and A-11.

The SBA powers the American Dream. Small businesses are the engines of our economy — driving innovation, creating jobs, and making our cities and towns vibrant places to live, work, and raise a family. Since becoming Administrator in February 2017, I have met with more than 800 small business owners from coast to coast, and I have visited more than 100 small businesses. They reflect the diversity of our economy and the innovative spirit of America. Entrepreneurs who take a risk on launching or scaling a small business exhibit confidence in their communities and faith in our economy. The SBA is proud to be their ally.

In FY 2018, the Agency launched an initiative called "SBA Reimagined." This yearlong process of research and reflection focused on improving outreach to small business owners and aspiring entrepreneurs who might not know about the services the SBA provides. The new logo is the most visible sign of the reform, but its core is ensuring the entrepreneurs we serve are at the center of our mission. Simply put, small businesses can confidently start, grow, expand or recover from declared disasters with the assistance they get from the SBA.

The SBA is working to ensure that each of its 68 district offices is aligned with the vision, momentum, and outreach of its headquarters in Washington, DC. We are one Agency. And we are working toward a shared goal of helping small businesses succeed. As SBA Administrator, I have pledged to visit each of these district offices and hear directly from staff about how they are working to advance the Agency and better serve its customers. As of today, I have visited 60, and I am scheduled to have visited all 68 by the end of calendar 2018. I call this the Ignite Tour because I truly believe this engagement will spark ideas and drive change. I have personally seen the dedication, energy, and initiative that SBA employees commit to their jobs, supporting the Agency's mission of advancing entrepreneurs and small businesses.

Capital is the lifeblood of any small business. The SBA works with approved lenders and community development organizations to guarantee loans, mitigating their risks, and offering access to capital to those unable to obtain conventional loans. In FY 2018, the SBA approved more than 66,000 loans in the 7(a) and 504 loan programs, providing more than $30 billion to small businesses and supporting nearly 600,000 jobs.

Minority business owners received a record $9.7 billion in combined 7(a) and 504 lending, or 32 percent of the SBA's loan portfolio. The SBA's 7(a) lending to women-owned businesses grew in total dollar and volume to $7.4 billion in FY 2018. Lending from the 504 program to women-owned businesses reached nearly $1.5 billion, a $420 million increase over the previous fiscal year. Loans to veterans totaled nearly $1.1 billion for the 7(a) and 504 programs. The Small Business Investment Company program, in which the SBA partners with private investors to finance small businesses through professionally managed investment funds, supported more than 1,000 small businesses with $5.5 billion in financing.

Entrepreneurship is a team effort, and the SBA ensures small business owners do not have to go it alone. The SBA's 68 district offices, as well as Small Business Development Centers, Women's Business Centers, Veterans Business Outreach Centers, and SCORE chapters, offer free or low-cost programs to help entrepreneurs plan their business, research market trends, expand their customer base, and secure funding. In FY 2018, more than 1 million small businesses took advantage of counseling, mentoring, and training assistance through the SBA.

When a small business is ready to build its customer base, the SBA can help it qualify to market to the world's largest purchaser of good and services — the U.S. government. By statute, the federal government has a goal that 23 percent of all contract dollars go to small businesses, and it has specific programs to ensure businesses owned by women and other disadvantaged groups have access to these contracts. This spring, the SBA announced that the federal government met the small business prime contracting goal for FY 2017, awarding 23.9 percent of its contracts, worth nearly $106 billion, to small businesses.

The SBA helps businesses, nonprofits, homeowners, and renters prepare for, and recover from, disasters. From wildfires in California to Hurricanes Florence in the Carolinas and Michael in Florida, declared disasters in FY 2018 upended many communities. Many parts of the country continued to recover from the unprecedented damage of hurricanes Harvey, Irma, and Maria during the previous year. Low-interest loans from the SBA have enabled borrowers to replace or repair uninsured losses, whether through physical damage or economic injury. The SBA is working with FEMA and other federal agencies as well as partners at the state and local levels to help make these areas' economic recovery occur as expediently as possible. During FY 2018, the SBA approved more than 140,000 disaster loans for nearly $7 billion.

It is my privilege to advocate on behalf of America's 30 million small businesses as a member of President Trump's Cabinet. The SBA is committed to being a responsible steward of taxpayers' dollars and the public's trust. The Agency is working to ensure the SBA functions as efficiently and effectively as possible, using modern technology and streamlined operations to eliminate waste and redundancy. It is my duty to ensure the Agency continues to deliver the support entrepreneurs need to succeed. As we look toward FY 2019 and beyond, the team of professionals at the SBA is committed to building on that success.

Warm regards,

Linda E. McMahon
Administrator


U.S. Small Business Administration
Administrator Linda McMahon visiting districts on her Ignite Tour

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MANAGEMENT'S DISCUSSION AND ANALYSIS

DID YOU KNOW?

The SBA provides mentorship, counseling, and strategic advice to more than 1 million entrepreneurs and small business owners annually through Small Business Development Centers, Women's Business Centers, Veterans Business Outreach Centers, SCORE, the online SBA Learning Center, and through 68 SBA district offices.

Success Story

Starting Business: Small Business Person of the Year Leverages SBA Resources

Landmark Pest Management
Schaumburg, Illinois

Rebecca Fyffe started her business in 2010 when she was 25 years old and became the youngest pest control company CEO in the country. Landmark's approach to pest control is science-based featuring the most up-to-date methods, including many that were developed through field trials and proprietary innovations. Since its establishment, her company has prospered by growing from 18 to 70 full-time employees with substantial gains in revenue. Through the knowledge she acquired from an SBA Women's Business Center, Rebecca applied and was approved for an SBA 7(a) loan that provided her with the capital she needed. In FY 2018, Landmark expanded service to neighboring areas in Michigan, Indiana, and Missouri; and is exploring market opportunities in California and New York. As a testament to her accomplishments, the SBA named Rebecca the SBA Small Business Person of the Year.

SBA'S HISTORY, GOALS, AND ORGANIZATION

In 1953, Congress created the SBA to aid, counsel, assist, and protect the interests of small business. As the nation's only go-to resource and voice for small businesses, the SBA provides programs and services that help small businesses confidently start, grow, expand, or recover. The SBA is backed by the strength of the Federal Government and is the only cabinet-level federal agency fully dedicated to small business. SBA's headquarters is located in Washington, DC, while its business products and services are delivered through field personnel and a network of private sector and nonprofit partners in every U.S. state and territory. Major SBA offices fall under one of four Agency-wide strategic goals as outlined in SBA's *FY 2018-2022 Strategic Plan*:

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

Support small business revenue and job growth

- **1.1** Expand access to capital
- **1.2** Help small business exporters succeed in global markets
- **1.3** Ensure federal contract and innovation set-aside goals are met and/or exceeded

Strategic Goal 2

Build healthy entrepreneurial ecosystems and create business friendly environments

- **2.1** Develop small businesses through technical assistance
- **2.2** Build healthy entrepreneurial ecosystems
- **2.3** Create a small business friendly environment

Strategic Goal 3

Restore small businesses and communities after disasters

- **3.1** Deploy disaster assistance effectively and efficiently

Strategic Goal 4

Strengthen SBA's ability to serve small businesses

- **4.1** Ensure effective and efficient management of Agency resources
- **4.2** Build a high-performing workforce
- **4.3** Implement enterprise-wide information system modernization and cost-effective technology

STRATEGIC GOAL ONE — *Support small business revenue and job growth*

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

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

The Office of Investments and Innovation assists 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.

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 Government Contracting and Business Development assists small businesses in competing for federal contracting opportunities through the government-wide prime and subcontracting programs. The office also sets size standards for small businesses, which determine the size a business must be to be considered a small business.

STRATEGIC GOAL TWO — *Build healthy entrepreneurial ecosystems and create business friendly environments*

Strategic Goal Two focuses on business startups, growth, and expansion through technical assistance; SBA resource partners; and creating a business-friendly environment to reduce regulatory burdens.

The Office of Government Contracting and Business Development provides business development assistance to small businesses seeking federal contracts. This assistance includes the HUBZone, 8(a) business development, 7(j) management and technical assistance, and All Small Mentor-Protégé programs.

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 Entrepreneurship Education programs.

The Office of Veterans Business Development ensures the applicability and usability of all the Agency's small business programs for veterans, service-disabled veterans, reserve component members, and their dependents or survivors through veterans' business outreach centers, Boots to Business, and other grant programs.

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. The SBA also maintains a five-member Regulatory Fairness Board in each of the ten regions to hold public hearings on small business concerns.

STRATEGIC GOAL THREE — *Restore small businesses and communities after disasters*

Strategic Goal Three focuses on helping restore communities and return businesses to normal operations through direct loans to repair, rebuild, and recover from physical damage and economic losses.

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.

STRATEGIC GOAL FOUR — *Strengthen SBA's ability to serve small businesses*

Strategic Goal Four focuses on streamlining business processes and decision-making at all levels to ensure efficiency and effectiveness.

The Office of Performance Management and the Chief Financial Officer leads the Agency's performance management, program evaluation, financial management, and acquisition management functions.

The Office of Executive Management, Installations and Support Services supports resource and core administrative functions, including grant management, facilities, records management, and personnel security.

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 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.

Other offices that support the strategic goals and objectives include the Office of Field Operations; Office of Diversity, Inclusion, and Civil Rights; Office of Communications and Public Liaison; National Women's Business Council; Office of Congressional and Legislative Affairs; Office of General Counsel; Office of Hearings and Appeals; Office of Advocacy, and Office of Inspector General.

EXECUTIVE SUMMARY

America's 30 million small businesses play a critical role in job creation and retention. During the last two decades, small businesses have been responsible for creating two out of every three net new jobs. In turn, the U.S. Small Business Administration's assistance to those firms and entrepreneurs helps drive a healthy economy.

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

Throughout FY 2018, four goals from the SBA's *FY 2018-2022 Strategic Plan* guided the Agency's actions:

1. *Supporting small business revenue and job growth*
2. *Building healthy entrepreneurial ecosystems and creating business friendly environments*
3. *Restoring small businesses and communities after disasters*
4. *Strengthening SBA's ability to serve small businesses*

The following sections highlight financial and performance results for the Agency, including the four 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, released in February 2019.

Financial Results

For FY 2018, SBA's total budgetary resources used for staffing, operations, and loan subsidy costs were $2.8 billion. Total nonbudgetary resources for loan financing used to make direct loans and purchase guarantied loans in default were $7.7 billion. SBA's guarantied portion of the outstanding loan principal rose 6.1 percent in FY 2018 to $105.6 billion. During FY 2018, new guaranties disbursed by SBA participating banks were $23.0 billion, a 0.9 percent increase from last year, which resulted in the net 6.1 percent increase in outstanding guaranties. In FY 2018, purchases of defaulted guarantied loans decreased from $1.0 billion last year to $0.9 billion. The loans receivable portion of the SBA credit program portfolio increased in FY 2018 from $6.4 billion to $8.7 billion. The spike in loans receivable was caused primarily by the increase in new disaster direct loan disbursements made to assist disaster survivors of hurricanes Harvey, Irma, and Maria.

Performance Results

Capital: In FY 2018, SBA's 7(a) loan program results mirrored last year's approved loan levels of $25.4 billion. Additionally, the 504 loan program approved nearly $4.8 billion in loans, a 5 percent decrease from FY 2017. In summary, through the 7(a) loan, 504 loan, and Microloan programs, the SBA approved more than 71,000 loans and provided more than $30.2 billion in lending to small businesses. More than $5.5 billion was invested in 1,151 small businesses through the Small Business Investment Company program.

Contracting: The SBA continued to partner with agencies across the Federal Government to expand small business contracting opportunities. From the beginning of FY 2013 through FY 2017, small businesses were awarded nearly $471.0 billion in federal contracts (FY 2018 contracting numbers continue to be collected and certified). The Federal Government continues to exceed its small disadvantaged and service-disabled, veteran-owned small business goals but faces challenges with HUBZone and women-owned small business goals.

Counseling: The SBA provided mentoring, business advice, and training assistance to more than 1 million entrepreneurs and small businesses this year, which helped them start and grow their businesses, and create or retain jobs. The Agency further strengthened the alignment of performance metrics with its resource partners that will be implemented in future grant agreements.

Disaster Assistance: Disaster loan applications and approvals increased significantly, compared to the previous year, due to flooding in the southeast and hurricanes Harvey, Irma, and Maria. In FY 2018, the Agency worked on 284 active disaster assistance declarations and approved more than 140,000 disaster loans totaling nearly $7.0 billion.

Agency Priority Goals

The Government Performance and Results Act Modernization Act of 2010 requires federal agencies to establish a set of 2-year Agency Priority Goals that reflect the highest priorities of agency leadership. The SBA has established four APGs. The goals and outcomes from fiscal year 2018 were as follows.

- **Expand capital to small businesses in socially and economically disadvantaged urban (HUBZone) communities and rural areas.**

  Goal: *By September 30, 2019, increase the number of loans by 5 percent from the FY 2017 baseline to small businesses in socially and economically disadvantaged urban communities and rural areas (FY 2017 baseline of 25,475 for 7(a) loans, 504 loans, and microloans).*

  Outcome: The SBA increased small business access to capital by providing 23,497 loans (7(a), 504, and microloans), to rural and urban (HUBZone) small businesses totaling more than $10.1 billion. Through a strategy to train lender relation specialists in the district offices and develop new marketing materials, the SBA reached more lenders with access to disadvantaged small businesses.

- **Maximize small business participation in government contracting.**

  Goal: *By September 30, 2019, maximize the percent of federal contracts by awarding at least 23 percent to small businesses.*

  Outcome: The SBA will continue to collect and certify FY 2018 contracting numbers through the third quarter of FY 2019. The Federal Government exceeded its FY 2017 target making 24.8 percent of contracting dollars, worth $105.7 billion, available to small businesses. The SBA provided continuous outreach to other federal agencies to ensure that the goal was exceeded.

- **Increase federal contracts to more disadvantaged small businesses.**

  Goal: *By September 30, 2019, increase by 10 percent from the FY 2017 baseline the number of 8(a)-certified firms awarded federal contracts (FY 2017 baseline of 3,421 small businesses).*

  Outcome: The SBA instituted several process improvements for the 8(a) Business Development program and leveraged online tools like Certify.gov to decrease processing time of 8(a) applications. Additionally, through additional training of Business Opportunity Specialists in the field offices, the SBA has shifted to higher-value work. As a result, 288 active 8(a)-certified firms received their first federal contract, achieving 85 percent of the FY 2019 goal.

- **Deploy disaster assistance effectively and efficiently.**

  Goal: *By September 30, 2019, increase the average number of disaster loan applications processed from three to six applications per loan specialist per day.*

  Outcome: The SBA modernized its disaster information system and went live in May 2018. The new system and training of staff will eventually double the number of applications processed by a loan specialist each day. As a result, the SBA processed 337,722 disaster loan applications in the second largest disaster season in SBA's history from hurricanes Harvey, Irma, and Maria with an average application rate of 4 loans per specialist per day.

Cross-Agency Priority Goals

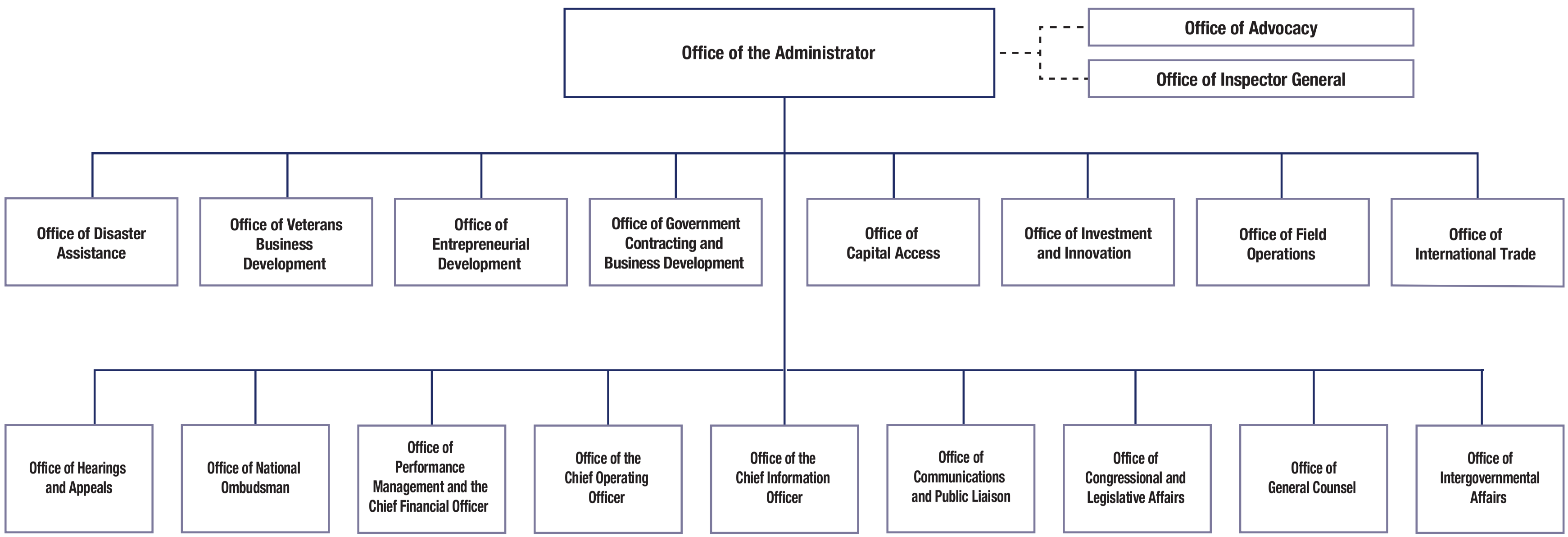
The SBA also supports the government-wide federal Cross-Agency Priority Goals. The CAP goals are Presidential priorities and are complemented by other cross-agency coordination and goal-setting efforts. The SBA serves as the co-lead for the Data, Accountability, and Transparency CAP goal.

Per the GPRA Modernization Act requirement to address Cross-Agency Priority Goals in the Agency strategic plan, the annual performance plan, and the annual performance report, please also refer to **www.Performance.gov** for more on the Agency's contributions to those goals and progress. A summary of each CAP goal follows:

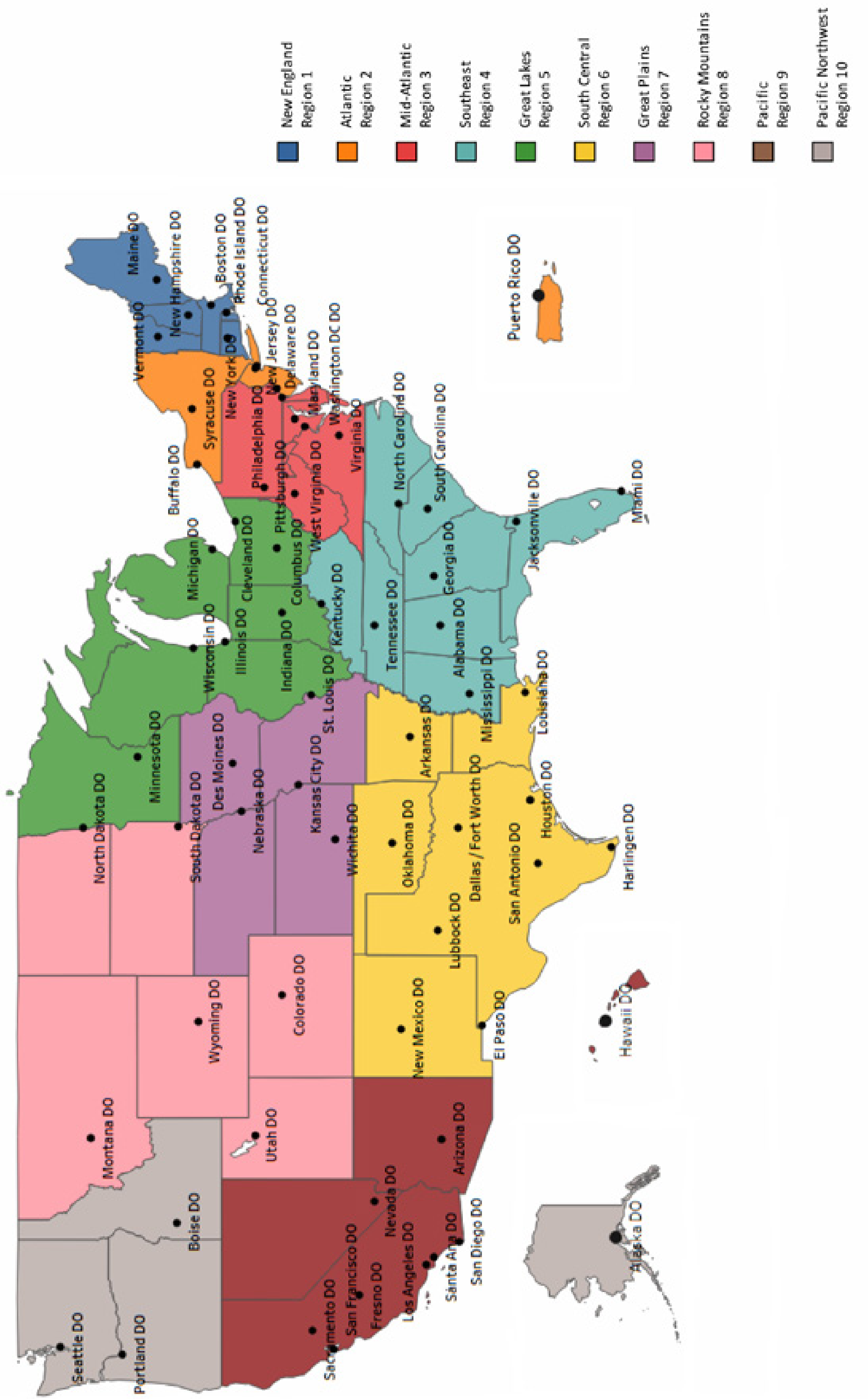
- **IT Modernization:** Build and maintain more modern, secure, and resilient information technology (IT) to enhance mission delivery and productivity.
- **Data, Accountability, and Transparency:** Leverage data as a strategic asset to grow the economy, increase the effectiveness of the Federal Government, facilitate oversight, and promote transparency.
- **Developing a Workforce for the 21st Century:** Ensure effective and efficient mission achievement and improved service to America through enhanced alignment and strategic management of the Federal workforce.
- **Improving Customer Experience:** Transform the customer experience by improving the usability and reliability of our Federal Government's most critical digital services.

- **Sharing Quality Services:** Deliver technology and process improvements that will improve citizen services.
- **Shifting from Low-Value to High-Value Work:** Eliminate low-value, unnecessary, and outdated policies and requirements issued by central management agencies.
- **Category Management:** Leverage common contracts in order to buy common goods and services as an enterprise.
- **Results-Oriented Accountability for Grants:** Rebalance compliance efforts with a focus on results for the American taxpayer.
- **Getting Payments Right:** Reduce the amount of cash lost to the taxpayer through incorrect payments.
- **Federal IT Spending Transparency:** Improve business, financial, and acquisition outcomes.
- **Improve Management of Major Acquisitions:** Successfully achieve at least two transformational program goals over the coming year through well-managed major acquisitions supporting a transformative critical or high-risk mission priority.
- **Modernize Infrastructure Permitting:** Improve the federal environmental review and authorization process to enable infrastructure project sponsors to start construction sooner, create jobs earlier, and fix our nation's infrastructure faster while also ensuring that a project's potential impacts on environmental and community resources are considered and managed throughout the planning process.
- **Security Clearance, Suitability, and Credentialing Reform:** Advance security through a trusted workforce; modern clearance process; secure, modern, and mission-capable information technology; and continuous performance improvement.
- **Lab-to-Market:** Improve the transition of federally funded innovations from the laboratory to the marketplace by reducing the administrative and regulatory burdens for technology transfer and increasing private sector investment in later-stage R&D.

SBA Organization Chart



SBA Regions and Field Offices



PRIMER OF SBA'S PRINCIPAL PROGRAMS

CAPITAL (www.sba.gov/financialassistance)

The SBA has a business loan portfolio of $120.3 billion.[1]

7(a) Loan Program — The SBA offers government guaranties on loans (up to $5 million) made by 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 Certified Development Company Loan Program — The SBA works with CDCs, which are private nonprofit corporations, and private lenders to provide long-term financing (up to $5.5 million) to support investment in major assets, such as real estate and heavy equipment. The SBA guarantees the CDC's portion of these loans.

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

Small Business Investment Companies — SBICs are privately-owned and managed investment funds that use their capital plus funds borrowed, with an SBA guaranty (up to $150 million), to make equity and debt investments in qualifying small businesses.

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 million), and International Trade loans (up to $5 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 the SBA, the Department of Commerce, and the Export-Import Bank professionals. Together, their mission is to help small- and medium-sized businesses compete in today's global marketplace by providing export marketing and finance assistance.

State Trade Expansion Program — STEP provides grants to states to assist small businesses with the information and tools they need to succeed in export related activities. These activities include participation in foreign trade missions, foreign market sales trips, international marketing campaigns, export trade shows, and training workshops.

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 businesses and 3 percent set-asides for HUBZone and service-disabled veteran-owned 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 subgoals:

- **Small Disadvantaged Businesses** — This program provides assistance through the 8(a) Business Development program and set-aside contracting for businesses owned and controlled by socially and economically disadvantaged individuals. Over the course of 9 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 designated economically disadvantaged geographical areas.

1 The business loan portfolio consists of the following loan programs: 7(a), 504 loan, Microloan, ARC 506, Dealer Floor Plan, 504 First Lien, and 504 Refi.

- **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.

Surety Bond Guarantee Program — 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 program 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, up to $6.5 million for non-federal contracts and up to $10 million for federal contracts.

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 businesses. The SBIR program protects the small business and enables it to compete on the same level as larger businesses.

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

The SBA and its partners serve more than 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 United States and the insular territories.

Women's Business Centers — WBCs provide advising and training through more than 115 nonprofit educational centers across the nation. Many WBCs provide multilingual services and a number offer flexible hour allowing mothers with children to attend training classes.

Veterans Business Outreach Centers — SBA's 22 VBOCs provide counseling and training services to veteran-owned and service-disabled veteran-owned small businesses and entrepreneurs, along with reserve component members who have an interest in either starting a new small business or expanding an established small business.

SCORE — SCORE is a nonprofit 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 small businesses.

Learning Center — The SBA Learning Center is an online portal that hosts a variety of self-paced online training courses, quick videos, web chats, and other helpful tools to help small business owners explore and learn about many aspects of business ownership.

DISASTER ASSISTANCE (www.sba.gov/disaster)

The SBA has a portfolio of $9.0 billion in direct disaster loans to businesses of all sizes, private nonprofit 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 nonprofit organizations. It is the only form of SBA assistance that is not limited to small businesses.

SBA BY THE NUMBERS

(Dollars in Millions)

		FY 2015	FY 2016	FY 2017	FY 2018
Principal Program Portfolio (1)	**Outstanding Principal Balance**	**$ 118,767**	**$ 124,118**	**$ 131,815**	**$ 142,315**
Capital (2)					
7(a) Loans	Dollars of Gross Loans Approved	$ 23,584	$ 24,128	$ 25,447	$ 25,372
504 Loans	Dollars of Gross Loans Approved	$ 4,298	$ 4,740	$ 5,014	$ 4,754
Microloans	Dollars of Gross Loans Approved to Microborrowers	$ 51	$ 58	$ 68	$ 72
Small Business Investment Company (SBIC)	Dollars of SBIC Debenture Financed to Small Businesses	$ 6,286	$ 5,992	$ 5,727	$ 5,503
Exporting					
Export Loans	Dollars of Gross Loans Approved	$ 1,454	$ 1,546	$ 1,872	$ 1,135
Contracting (3)					
Small Business Prime Contracting	Dollars of Contracts Awarded to Small Businesses	$ 90,702	$ 99,960	$ 105,660	N/A
HUBZone Small Businesses	Dollars of Contracts Awarded to HUBZone Small Businesses	$ 6,422	$ 6,864	$ 7,290	N/A
Small Disadvantaged Businesses	Dollars of Contracts Awarded to Disadvantaged Small Businesses	$ 35,430	$ 39,134	$ 40,247	N/A
Women-Owned Small Businesses	Dollars of Contracts Awarded to Women-Owned Small Businesses	$ 17,807	$ 19,670	$ 20,844	N/A
Service-Disabled, Veteran-Owned Small Businesses	Dollars of Contracts Awarded to Service-Disabled, Veteran-Owned Small Businesses	$ 13,832	$ 16,337	$ 17,939	N/A
Surety Bonds	Dollars of Bid and and Final Bonds Guaranteed	$ 6,348	$ 5,658	$ 6,032	$ 6,490
Counseling and Training (4)					
Small Business Development Centers (SBDCs)	Number of Clients Advised and Trained	454,898	453,427	433,554	N/A
Women's Business Centers (WBCs)	Number of Clients Advised and Trained	140,716	145,415	140,628	N/A
SCORE	Number of Clients Mentored and Trained	349,539	433,394	646,260	N/A
Online Training	Number of Clients Trained Online	154,132	187,162	206,172	N/A
Veteran's Business Outreach Centers (VBOCs)	Number of Clients Advised and Trained	62,117	47,342	48,839	N/A
Disaster Assistence					
Disaster Assistance (2)	Dollars of Gross Loans Approved	$ 372	$ 1,407	$ 1,666	$ 7,001

(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 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 2018 contracting numbers will continue to be collected and certified through the third quarter of FY 2019. Therefore, FY 2018 numbers are not yet available.

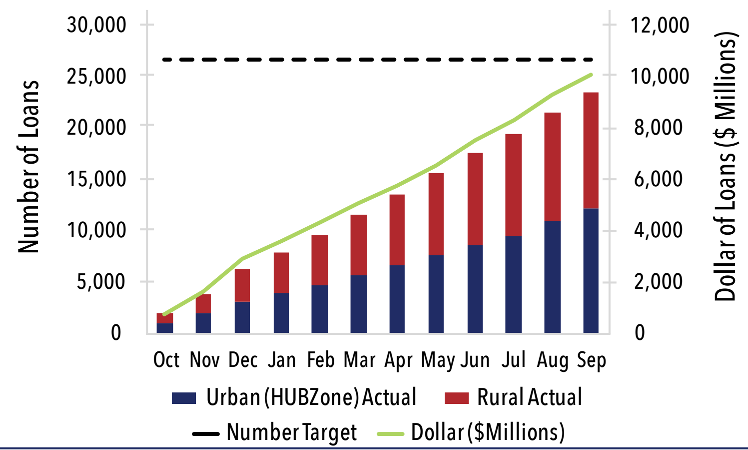
(4) Resource partners may input data up to 45 days after the close of the fiscal year; therefore FY 2018 data will be provided in the FY 2020 Congressional Budget Justification/FY 2018 Annual Performance Report to be published in February 2019.

ANALYSIS OF PERFORMANCE RESULTS

Analysis of Performance and Agency Priority Goals

The following section presents key FY 2018 performance data including the four FY 2018-2019 Agency Priority Goals that are important to the success of SBA's mission. The presentation of the data and analysis is organized by strategic objective, which follows SBA's *FY 2018-2022 Strategic Plan*. Detailed information on all SBA program performance data will be presented, including explanations of variances, in the *FY 2018 Annual Performance Report* to be published in February 2019. When new goals have been established in FY 2018 and no historical data is available, the SBA has used monthly or quarterly data to demonstrate trends.

Chart I: Cumulative Number and Dollar of Urban (HUBZone) and Rural Loans to Small Businesses



STRATEGIC OBJECTIVE 1.1: Expand access to capital[2]

Priority Goal: By September 30, 2019, increase the number of loans by 5 percent from the FY 2017 baseline to small businesses in socially and economically disadvantaged urban communities and rural areas (FY 2017 baseline of 25,475 for 7(a) loans, 504 loans, and microloans).

Performance Analysis: SBA's loan programs play a critical role in providing access to capital for small businesses, including entrepreneurs in socially and economically disadvantaged urban communities and rural areas. To support this strategy, the SBA has focused on training its lender relations specialists in the district offices and lenders and partnering with the U.S. Department of Agriculture to increase rural outreach. The SBA met 89 percent of its target by approving 23,497 loans (see **Chart I**) totaling $10.1 billion. With unemployment at record lows, demand for SBA lending has decreased overall. Lenders, however, have been responsive to SBA's ongoing fee relief for lower-dollar loans and loan program tools like Lender Match. Outreach to local lenders continues to be a challenge as fewer of them exist as a result of bank mergers and acquisitions.

Performance Goal: Increase the number of jobs supported through SBA capital assistance programs to 798,500 in FY 2018.

Performance Analysis: The number of jobs supported – jobs created and retained because of SBA intervention – is an important outcome measure of the effectiveness of SBA's programs. This measure tracks the number of jobs supported through the 7(a), 504 loan, Microloan, and Small Business Investment Company (SBIC) programs. The number of jobs supported has decreased from the prior year with more than 725,000 jobs reported in FY 2018 (see **Chart II**). The decrease is attributed to the decline in number of 7(a) and 504 loans approved. As the economy continues to grow and other economic indicators strengthen, SBA lending often reduces as lenders support more private capital. The SBA will continue to reach entrepreneurs with the greatest need who cannot access credit elsewhere.

2 The information being provided is derived solely from Agency records that are submitted by the Agency's participant lenders engaged in making SBA loans. This information is collected by the lenders from SBA loan applicants who provide it on a voluntary basis. It is then forwarded by the lenders to the SBA. Since the information is provided by the loan applicants on a voluntary basis, it is not necessarily inclusive of all SBA borrowers, nor can its accuracy be verified by the Agency. Accordingly, the SBA cannot make any representation as to the completeness or accuracy of the information provided.

STRATEGIC OBJECTIVE 1.2: Help small business exporters succeed in global markets

Performance Goal: Increase the value of small business export sales to $1.4 billion in FY 2018.

Performance Analysis: Increasing access to export financing, combined with trade counseling and training, contributes to the enhanced ability of current and future small business exporters to succeed in the global marketplace. This year, the SBA approved 987 export loans for $1.1 billion, which contributed to $2.5 billion in export sales (see **Chart III**). The SBA trained and counseled more than 13,000 small businesses on export finance. In addition, the SBA partnered with the U.S. Department of Commerce to provide trade financing experts at domestic and overseas trade shows. The State Trade Expansion Program (STEP) provided $18 million in funding to 47 states making it possible for small businesses to participate in international trade shows and trade missions.

STRATEGIC OBJECTIVE 1.3: Ensure federal contract and innovation set-aside goals are met and/or exceeded

Priority Goal: By September 30, 2019, maximize the percent of federal contract dollars by awarding at least 23 percent to small businesses.

Performance Analysis: By law, 23 percent of federal 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. For the fifth consecutive year, in FY 2017 (the latest year of data available due to the data certification process), the Federal Government surpassed its prime contracting goal by awarding small businesses nearly $106 billion, or 23.88 percent (see **Chart IV**) in contracting dollars.

Chart II: 7(a), 504, Microloan, and SBIC Jobs Supported

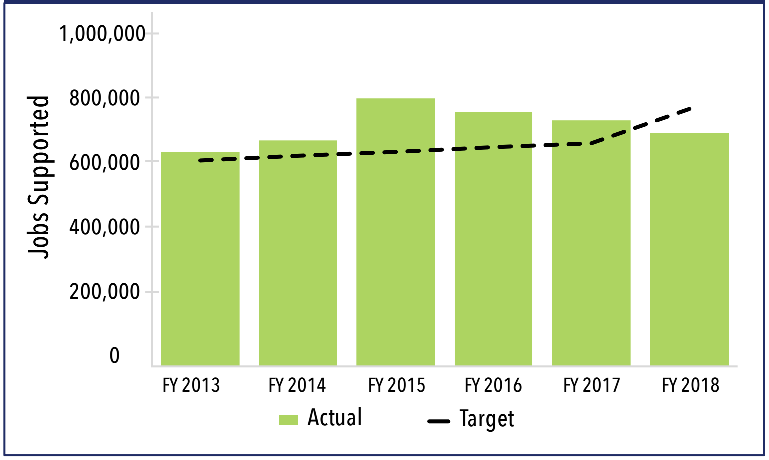


Chart III: Cumulative Value of Core Export Sales

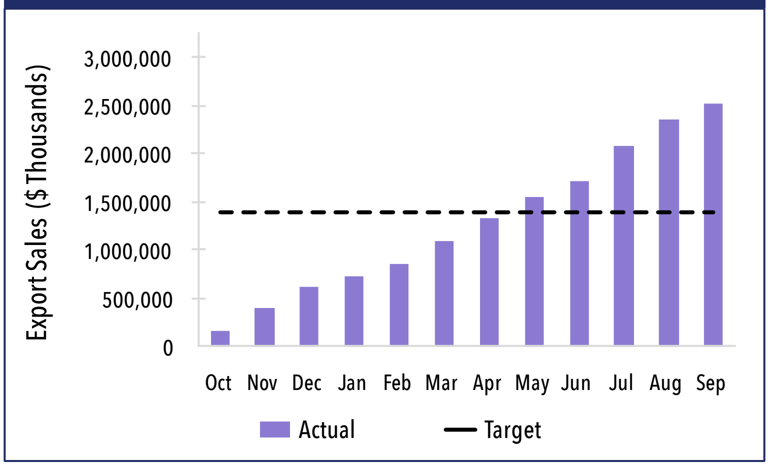
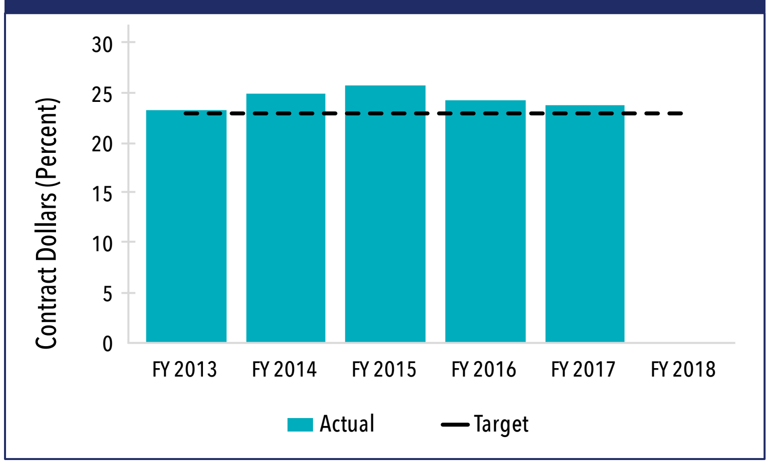


Chart IV: Percent of Federal Contract Prime Dollars Awarded to Small Businesses



The Federal Government surpassed its goals for service-disabled veterans (FY 2017 result was 4.1 percent) and small disadvantaged businesses (FY 2017 result was 9.1 percent). Also, in FY 2017, women-owned small businesses were awarded 4.7 percent of federal contracts, and HUBZone small businesses were awarded 1.7 percent of federal contracts (see **Chart V**). To help meet these goals, the SBA deployed a team of highly trained and skilled professional analysts, procurement center representatives, industrial specialists for size protests, and certificate of competency and forestry management specialists to actively engage staff across the Federal Government to promote small business contracting awards. The Federal Government continues to face challenges meeting the HUBZone goal; however, the SBA finalized a program evaluation that provides recommendations on ways for agencies to successfully meet their HUBZone target.

Chart V: FY 2017 Percent of Federal Prime Contract Dollars Awarded To Socio-Economic Small Businesses

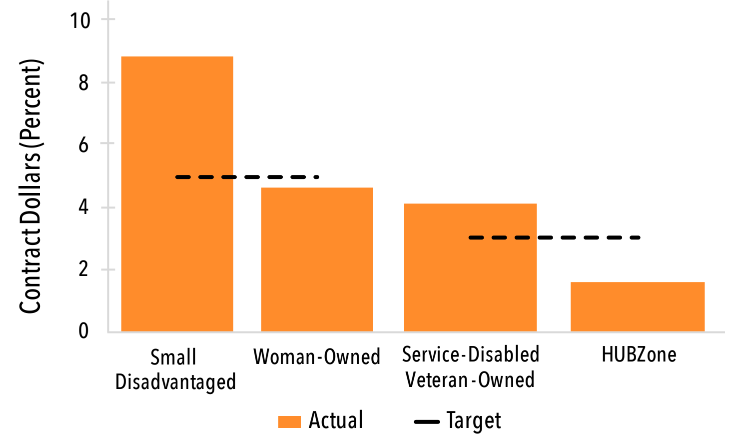
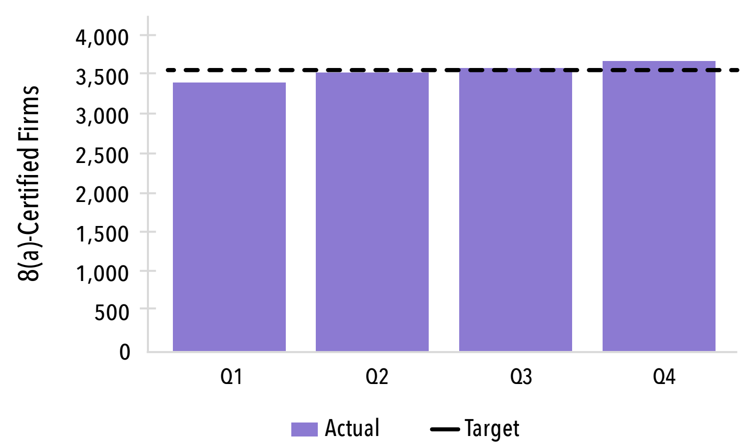


Chart VI: Number of 8(a)-Certified Firms Awarded Federal Contracts



STRATEGIC OBJECTIVE 2.1: Develop small businesses through technical assistance

Priority Goal: By September 30, 2019, increase by 10 percent from the FY 2017 baseline the number of 8(a)-certified small businesses awarded federal contracts (FY 2017 baseline of 3,420 small businesses).

Performance Analysis: The 8(a) program helps socially and economically disadvantaged entrepreneurs gain access to federal government contracts. The SBA collaborated with other agencies' Office of Small and Disadvantaged Business Utilization to provide training and share best practices for small businesses to navigate the federal acquisition process. In addition, the SBA has developed and implemented standardized training for its Business Opportunity Specialists in its district offices to ensure consistent support of disadvantaged small business across the country. In prior years, small businesses had a difficult time negotiating the lengthy 8(a) certification process which has been streamlined. Through tools like **www.Certify.SBA.gov**, the SBA has achieved 85 percent of its FY 2019 goal and exceeded its FY 2018 target of 3,591 firms (see **Chart VI**).

STRATEGIC OBJECTIVE 2.2: Build healthy entrepreneurial ecosystems

Performance Goal: Increase the number of entrepreneurs assisted through partnerships, virtual resources, and targeted outreach to 1,467,000 in FY 2018.

Performance Analysis: The SBA provided mentoring, business advice, and training assistance to more than 1 million entrepreneurs and small business owners in FY 2018 (see **Chart VII**). Resource partners may input data up to 45 days after the close of the fiscal year, and FY 2018 data will be made available in the APR publication in February 2019. The SBA provided standardized training for its Economic Development Specialists in the district offices to increase support for SBA resource partners. In addition, the SBA developed new performance measures to better align the coordination and improve accountability among the national program in headquarters, district offices in the field, and resource partners. The SBA continued sustaining and growing the Boots to Business entrepreneurship training track in partnership with the U.S. Department of Defense's (DoD) Transition Assistance Program, where nearly 12,500 veterans, service members, and military spouses benefited from entrepreneurship services.

Chart VII: Small Business Entrepreneurs Advised, Mentored, and Trained

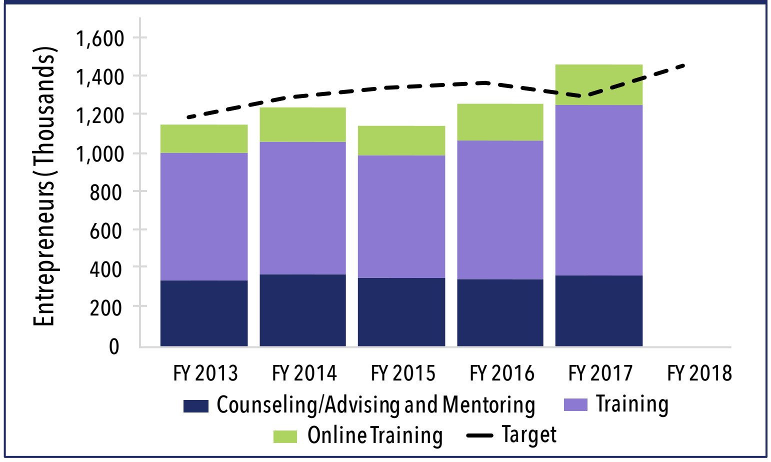
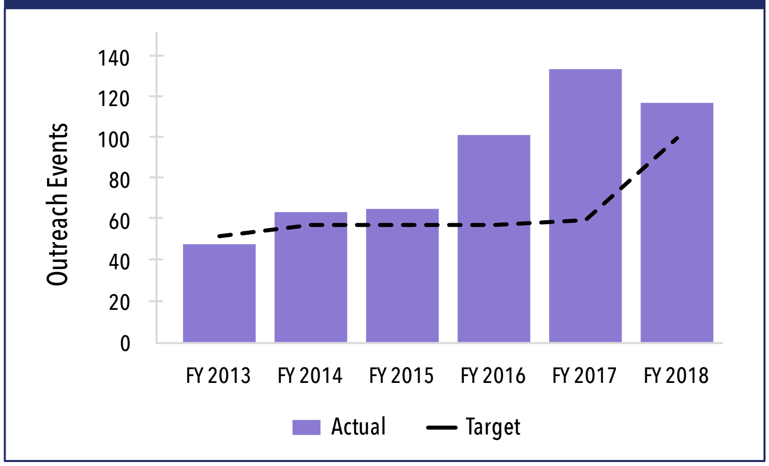


Chart VIII: Number of Outreach Events through Federal Agencies, Trade Associations, and Resource Partners



STRATEGIC OBJECTIVE 2.3: Create a small business friendly environment

Performance Goal: Increase the number of outreach events to 100 through partnerships with federal agencies, trade associations, and resource partners to reduce regulatory burdens on small businesses in FY 2018.

Performance Analysis: SBA's Office of the National Ombudsman worked with federal agencies and the small businesses they regulate to provide a confidential and impartial channel for small businesses to comment on enforcement activities, audits, on-site inspections, compliance assistance, or other types of issues. The SBA raised awareness of its products and services through direct outreach to small business owners and entrepreneurs, and established relationships with trade association leaders, resource partners, and other federal agencies. In FY 2018, the National Ombudsman completed 118 events exceeding the target by 18 percent (see **Chart VIII**).

STRATEGIC OBJECTIVE 3.1: Deploy disaster assistance effectively and efficiently

Priority Goal: By September 30, 2019, increase the average number of disaster loan applications processed from three to six applications per loan specialist per day.

Performance Analysis: To increase the speed of processing for disaster loan applications, the SBA modernized its Disaster Credit Management System in May 2018. DCMS 2.0 streamlined or eliminated institutional processes and has helped loan specialists process applications quicker for disaster survivors (see **Chart IX**). With the new technology, SBA processed 337,633 disaster loan applications for more than $7.0 billion, which increased the average number of loan applications processed to 4 applications per loan specialist per day meeting the FY 2018 midpoint target of 4 applications per loan specialist per day. Given the surge of applications in the first part of the fiscal year as a result of hurricanes Harvey, Irma, and Maria, the SBA onboarded more than 5,000 employees, which later tapered with fewer disaster loan applications. In addition, the SBA revised its SOP and has trained its loan specialists in the new system, which will help the SBA continue to increase the number of loan applications processed

Performance Goal: Increase the customer satisfaction rate for disaster loan approvals to 71 percent in FY 2018.

Performance Analysis: The SBA tracks customer satisfaction for its disaster assistance program through an annual survey that uses the American Customer Satisfaction Index methodology. The index summarizes key points in the loan process, including the application, final decision, and closing of the loan. The SBA had a customer satisfaction rate of 73 percent, which is above the target of 71 percent (see **Chart X**). The satisfaction rate is a result of several factors, including improvements to the application process and upgrades to the Disaster Loan Assistance Portal. In addition, the development of the **www.DisasterAssistance.gov** website made disaster assistance responsive, consistent, and easy for disaster survivors to find resources. The significant decrease from FY 2017 is attributable to the volume of applications from hurricanes Harvey, Irma, and Maria, which is the second largest disaster season in SBA's history.

Chart IX: Average Number of Loan Applications Processed Per Loan Specialist Per Day

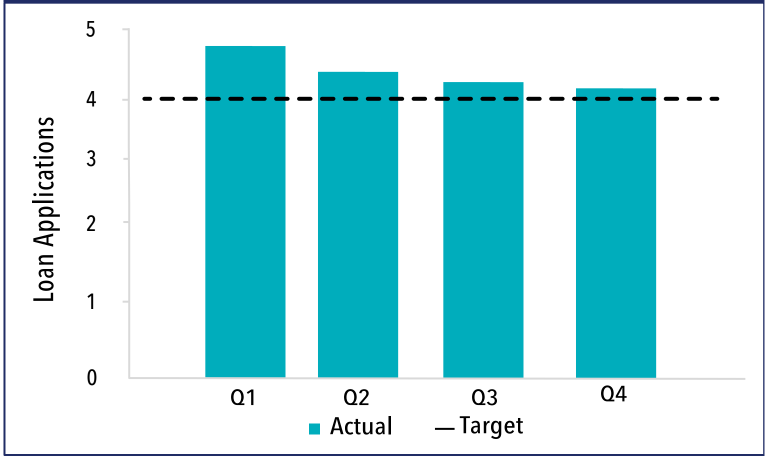
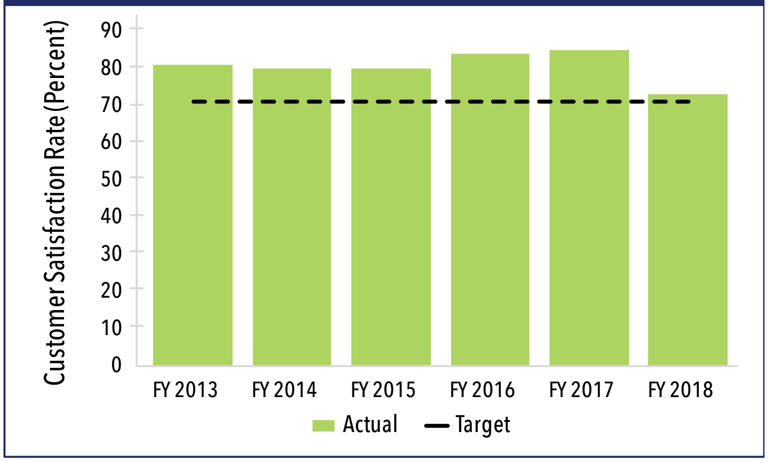


Chart X: Customer Satisfaction Rate for Disaster Loan Approvals

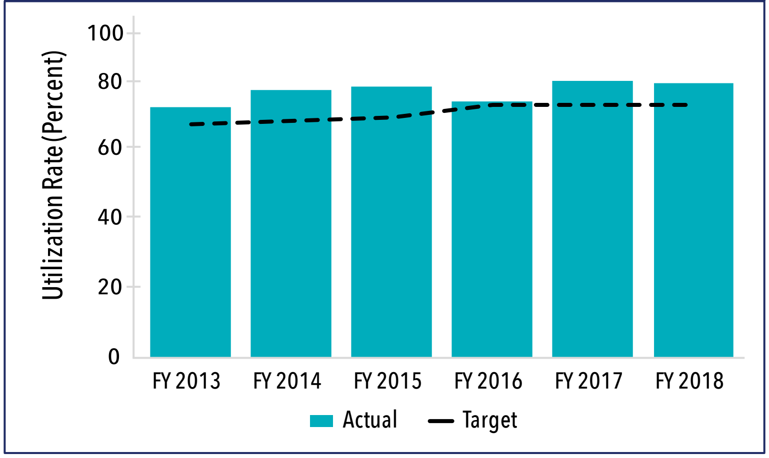


STRATEGIC OBJECTIVE 4.1: Ensure effective and efficient management of Agency resources.

Performance Goal: Increase the small business contract utilization rate to 73 percent in FY 2018.

Performance Analysis: The SBA met its small business utilization goal by awarding 78.7 percent of contracts in FY 2018 totaling $144.6 million to small businesses (see **Chart XI**), and exceeded its sub-goals for women-owned, small disadvantaged, HUBZone, and service-disabled veteran-owned small businesses. The SBA, which has the highest small business contracting goal in the Federal Government, 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.

Chart XI: Small Business Utilization Rate

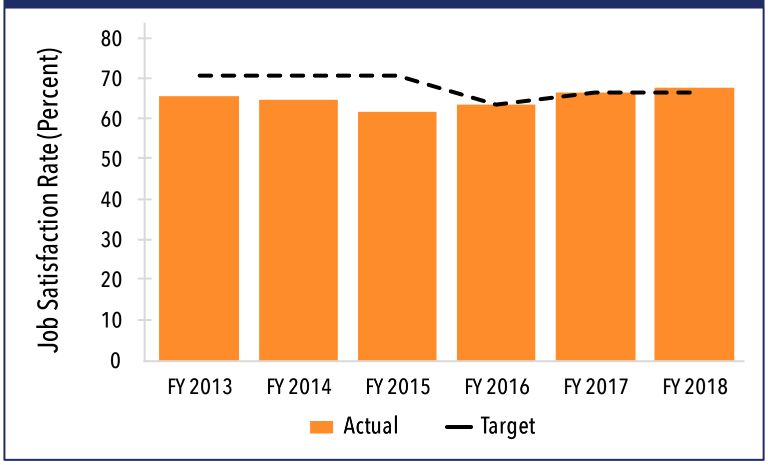


STRATEGIC OBJECTIVE 4.2: Build a high-performing workforce

Performance Goal: Increase SBA employee satisfaction scores through the Federal Employee Viewpoint Survey to 67 percent by FY 2018.

Performance Analysis: SBA's Federal Employee Survey employee engagement index score increased to 68 percent in FY 2018 from 67 percent in FY 2017 (see **Chart XII**). SBA's response rate of 74 percent, one of the highest in the Federal Government, received high marks in employee engagement, satisfaction, and positive feelings toward the Agency accomplishing its mission. Through core training and professional development activities and enhanced collaboration, more employees felt engaged, which shows in the data. Furthermore, higher engagement scores increase employee retention, which in turn reduces hiring and training costs.

Chart XII: Federal Employee Viewpoint Survey Job Satisfaction Rate

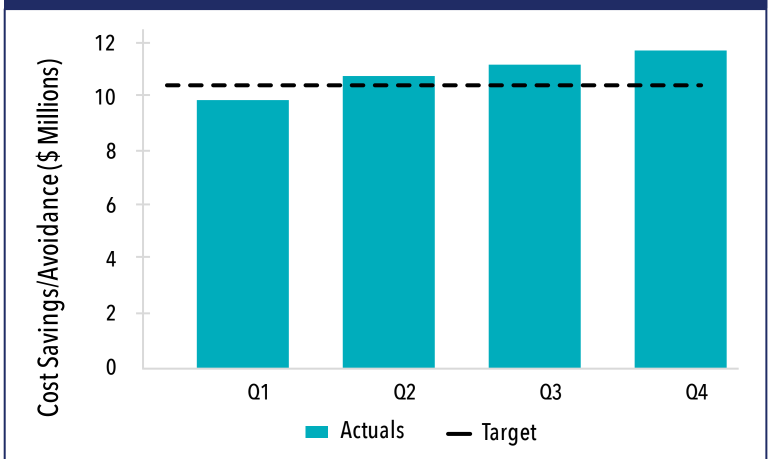


STRATEGIC OBJECTIVE 4.3: Implement enterprise-wide information system modernization and cost-effective technology

Performance Goal: Increase IT cost savings/avoidance through the streamlining of contracting, category management, and Cloud computing to $10.5 million in FY 2018.

Performance Analysis: In FY 2018, the SBA made significant progress in technology modernization through the adoption of cloud-based solutions and consolidating duplicative hardware, software, and services. In addition, through innovation and testing pilots and prototypes, the SBA has achieved cost-savings of $11.9 million by creating greater opportunities to leverage new technology. The SBA Office of Chief Information Officer partnered with the Office of Disaster Assistance to support technology requirements for the addition of more than 5,000 employees to respond to hurricanes Harvey, Irma, and Maria. The SBA configured a Virtual Desktop Cloud that enabled employees to work from home, which reduced the facility footprint and contributed to cost avoidance (see **Chart XIII**).

Chart XIII: Cumulative Dollars of IT Cost Savings / Avoidance



Evidence and Evaluation

The SBA continues to expand the availability and use of evidence and evaluation to understand and make decisions about SBA programs and operations. In FY 2018, the SBA completed program evaluations for the Community Advantage Pilot, HUBZone, and Boots to Business programs. SBA's program managers will be able to use the results of these evaluations to inform management decisions, and to identify areas where further evidence is needed, to improve outcomes for small businesses. SBA's leadership uses evidence in its quarterly deep dives (performance reviews) and strategic objective reviews and has woven evidence into the development of its Strategic Plan, Annual Performance Plan, and Annual Performance Report.

In FY 2018, the Agency created an enterprise learning agenda (ELA) with a set of key research and evaluation questions for each strategic goal. The ELA, developed in partnership with each program office, identifies areas where evaluation would provide insights about program effectiveness, progress toward outcomes, or test pilot initiatives. Based on questions in the ELA, the SBA initiated four new centralized program evaluations for the following programs: Surety Bond Guarantee, Small Business Investment Company, 7(j) Online Technical Assistance for 8(a) Certified Firms, and Federal and State Technology (FAST) Grants. The SBA continued to increase staff capacity and knowledge of program evaluation though its Performance and Evaluation Community of Practice and updated its Program Evaluation Framework and Guidelines. The SBA plans to initiate new program evaluations yearly to continue building a suite of evidence that will better inform decisions. The SBA will publish evaluation results on its website to support transparency and incorporate findings into its performance management framework.

Verification and Validation of Performance Data

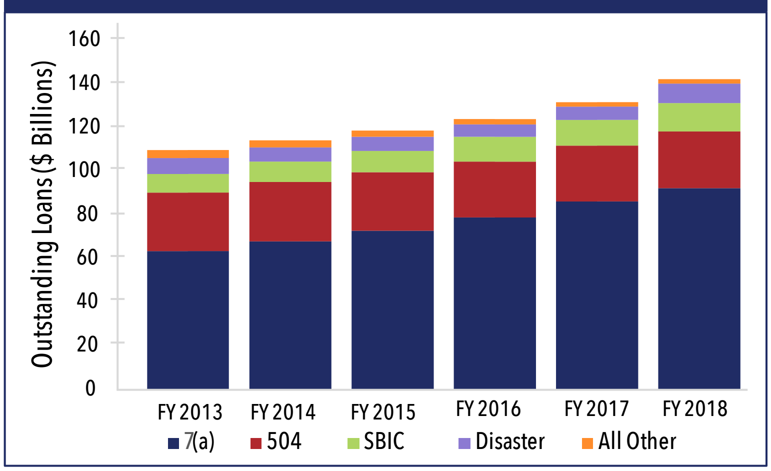
Managing for results and integrating performance, financial, and budgetary information require valid, reliable, and high-quality performance measures and data. Improving data quality continues to be a priority for the SBA. SBA's performance analysts work with program office leads across the Agency to 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 2018-2022 Strategic Plan*.
- *Fostering organizational commitment and capacity for data quality.* The SBA issues a monthly executive performance dashboard to apprise senior management on progress. The Agency also holds quarterly performance review meetings with the Deputy Administrator, Chief of Staff, Performance Improvement Officer, and program offices. At these meetings, the Agency's 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 online.
- *Assessing the quality of existing data.* SBA's performance analysts work with program office 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 small business loan guaranties and direct loans portfolio of more than $142 billion.[3] During FY 2018, the portfolio grew by $10.5 billion, or 8 percent. Since most existing loans are continually being paid, this growth implies that SBA's lending during FY 2018 was significantly greater than the $10.5 billion reflected in the portfolio growth. By program, the Agency's 7(a) loan portfolio expanded by $6.2 billion, the 504 loan portfolio increased by $0.3 billion, and the SBIC portfolio grew by $1.2 billion. The Agency's disaster loan portfolio increased by $2.8 billion, while all other portfolios declined by $0.1 billion. (see **Chart XIV**).

Chart XIV: Makeup of SBA's Outstanding Loan Portfolio



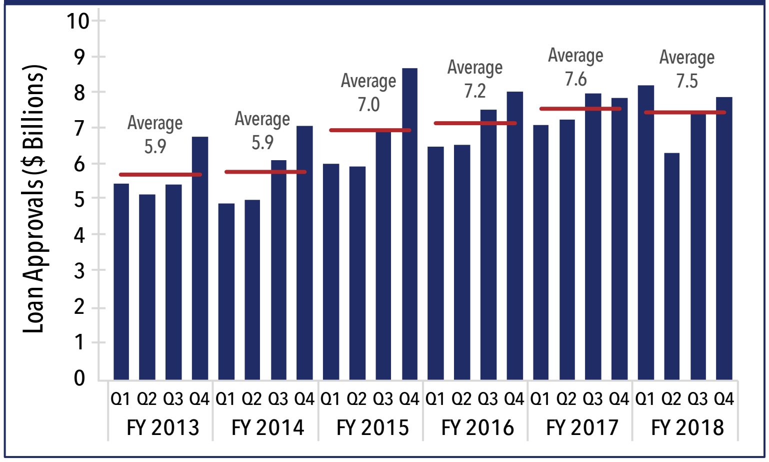
3 The total portfolio consists of guarantied business loans outstanding, guarantied debentures, direct business loans, and direct disaster loans. The data include all performing loans and defaulted loans that have not been charged-off.

NEW GUARANTIED LOANS

The quarterly average loan volume decreased slightly in FY 2018 with an average of $7.5 billion. **Chart XV** demonstrates the growth in loan approvals since FY 2013, particularly the increase between fiscal years 2014 and 2015.

SBA loans approved per capita by state can be derived by combining SBA 7(a) and 504 business loan approval data with publicly available Census population totals.[4] Per capita SBA lending provides a look at the states where SBA lending is proportionally higher after accounting for the population distribution. **Chart XVI** displays per capita SBA lending by state for FY 2017, FY 2018 and a comparison of the two fiscal years to highlight recent trends. In discrete annual per capita terms, the state of Utah (FY 2018 value of $194/person) is the single highest state across both fiscal years. For the FY 2018 state rankings, Colorado ($157/person) is the second highest state per capita and Georgia ($132/person) is the highest state along the eastern seaboard. When looking at the comparison of state per capita differences between the two fiscal years, Louisiana (69%), Alaska (49%) and Delaware (38%) recorded the three highest increases. Despite Louisiana (25th), Alaska (48th) and Delaware's (45th) small populations relative to other states, an increasing per capita value indicates that SBA lending to these areas is growing faster than other similarly-sized areas.

Chart XV: Quarterly Gross 7(a) and 504 Loan Approvals



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

Continuous Growth in the Economy — Real Gross Domestic Product in the United States grew at an average quarterly rate of 2.3 percent during 2015-2018 Quarter 2.[5] This increase in RGDP supports increased revenues and profits at small and large firms, which in turn increases 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 remains low (on average 2.1 percent in 2017),[6] which keeps the cost of consumer goods and services affordable. Second, the dollar continued to maintain its strength in international exchange markets during 2017-2018,[7] which also supports the stability of U.S. prices. Finally, the unemployment rate has continued below 5 percent at pre-recession levels, which boosts consumer confidence and spending.[8]

4 U.S. Department of Commerce, Census Bureau: **https://www.census.gov/data/tables/2017/demo/popest/state-total.html**.

5 U.S. Department of Commerce, Bureau of Economic Analysis: **www.bea.gov/newsreleases/glance.htm**.

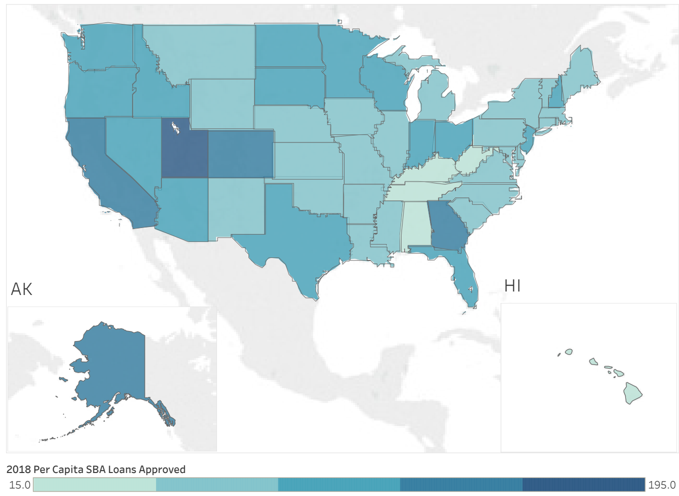
6 U.S. Department of Labor, Bureau of Labor Statistics: **www.bls.gov/cpi/home.htm**.

7 Financial Deposit Insurance Corporation: **www.macrotrends.net/1329/us-dollar-index-historical-chart**.

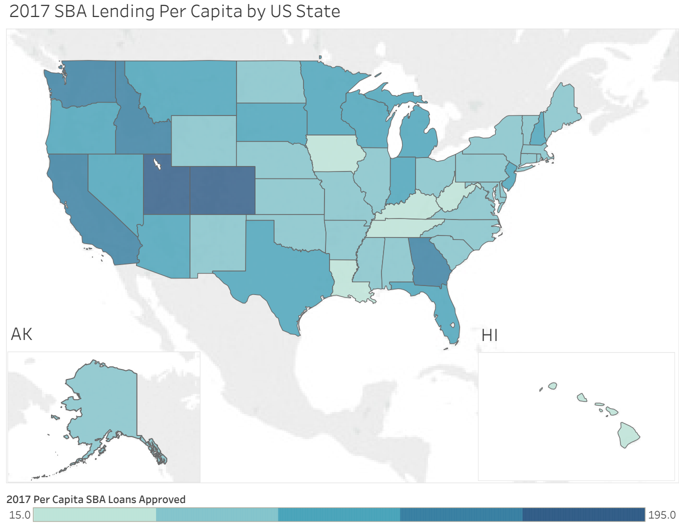
8 U.S. Department of Labor, Bureau of Labor Statistics: **data.bls.gov/timeseries/LNS14000000**.

Chart XVI: SBA Business Loans per Capita, by State – FY 2018, 2017, and FY 2017 vs. FY 2018

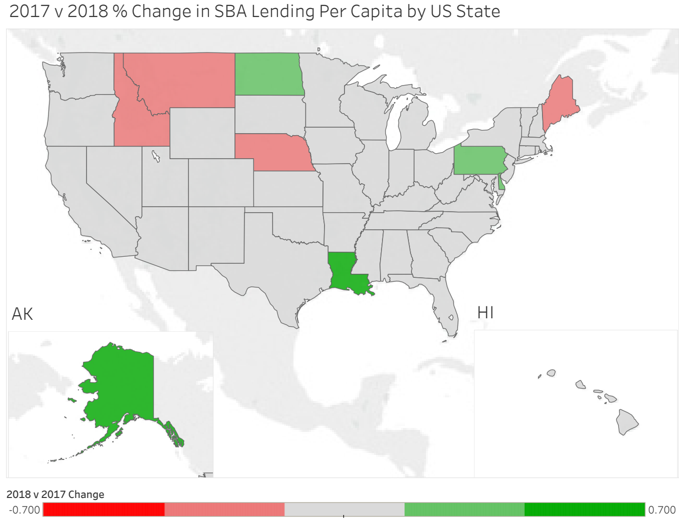
2018 SBA Lending Per Capita by US State



2017 SBA Lending Per Capita by US State

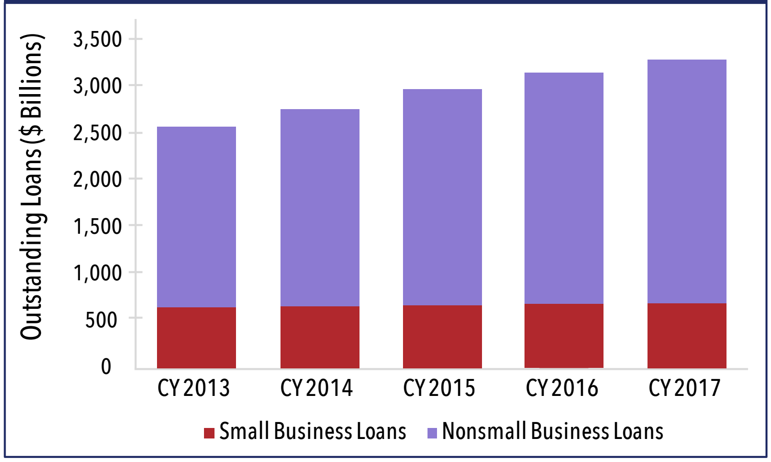


2017 v 2018 % Change in SBA Lending Per Capita by US State



Market for Small Business Lending — According to data from the Federal Deposit Insurance Corporation, the total market for business loans has increased during 2013-2017 by 28 percent ($726 billion). However, 94 percent ($679 billion) of this increase is accounted for by loans to nonsmall businesses,[9] while total small business loans increased by over $47 billion. This means the ratio of small business loans compared to the total bank market decreased (see **Chart XVII**). Furthermore, there has been a trend in the banking industry toward consolidation, which is reflected in the reduction of commercial banks between the 2013-2017 period by 17 percent. This makes SBA's guarantee products even more critical for growing small businesses that may be denied credit in the private loan market.

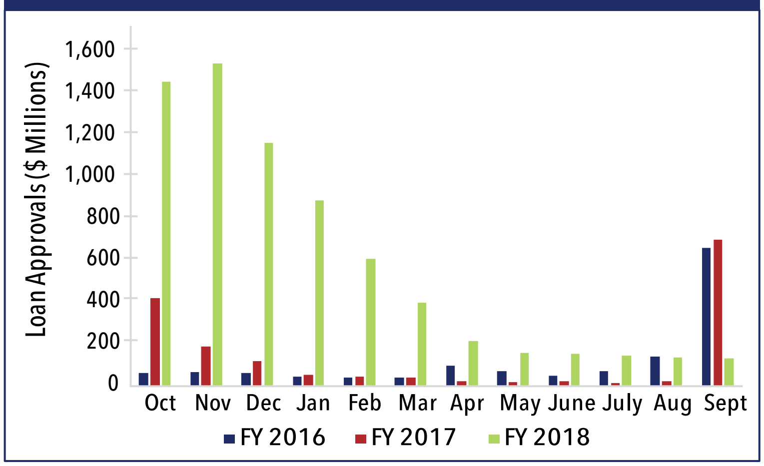
Chart XVII: Outstanding Commercial Loans to Small vs. Nonsmall Businesses



NEW DIRECT LOANS

In FY 2018, SBA's annual lending for the Disaster Assistance program is over $7 billion due to the response to hurricanes Harvey, Irma, and Maria (HIM). The HIM hurricanes caused significant physical damage to Texas, Louisiana, Florida, Puerto Rico, and the U.S. Virgin Islands. The magnitude of FY 2018's disaster loan activity is apparent in the 320% increase of loan approvals above the FY 2017 total of $1.7 billion. **Chart XVIII** illustrates the relative increase of disaster loans in FY 2018 by month, compared to the prior two fiscal years.

Chart XVIII: Monthly Gross Disaster Assistance Loan Approvals



Most 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.

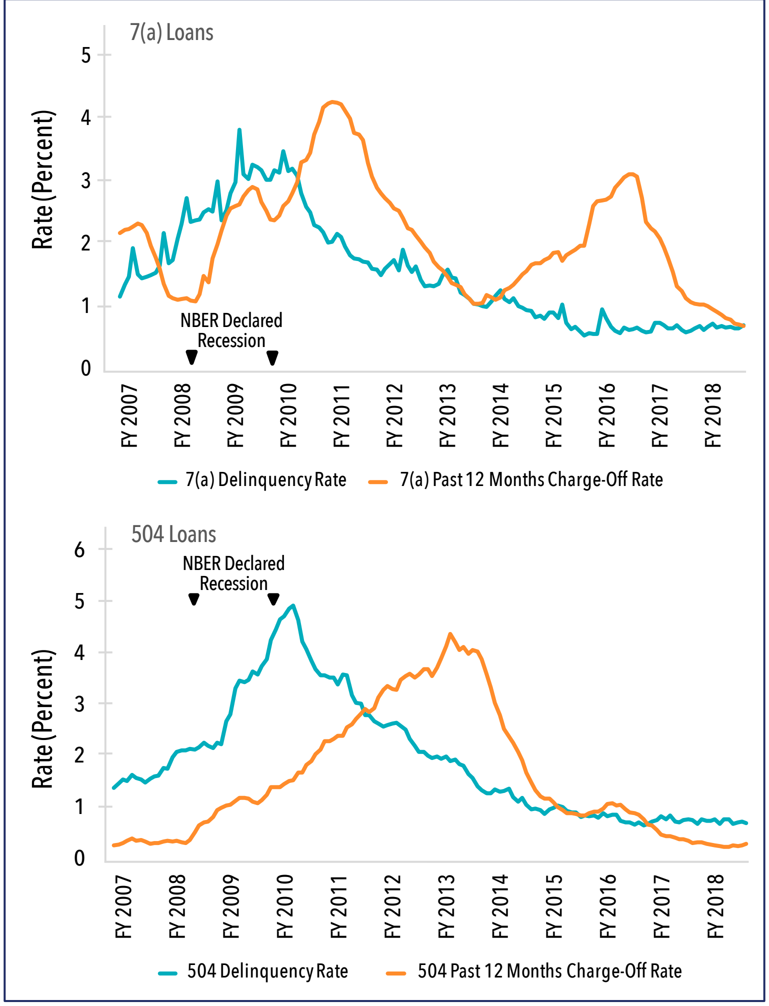
9 Nonsmall businesses are firms that have more than 500 employees.

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 XIX**) is a positive indicator for the financial performance of any loan portfolio.

Strong economic growth, strong profit performance, and tighter lending standards by financial institutions during the past several years have reduced delinquency rates for all business loans, which have been steadily declining since reaching cyclical peaks in the latter part of 2009. A declining national unemployment rate, down from a peak rate of 10 percent in October 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 3.8 percent peak in January 2009 to 0.7 percent in September 2018. Delinquency rates for the 504 loan program likewise declined from the 5 percent peak in February 2010 to 0.8 percent in September 2018.

Chart XIX: Delinquency and Charge-Off Rates for the 7(a) and 504 Loan Programs by Fiscal Year



PORTFOLIO PERFORMANCE — CHARGE-OFFS

The 12-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. However, the rate experienced a noticeable increase thereafter, until decreasing in September 2018 to 0.7 percent (see **Chart XIX**). The 7(a) loans 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 in 2013 is attributable to recession-era loans that were charged-off after efforts to recover delinquent balances had been exhausted. Now that this effort to charge-off the recession-era loans is complete, the charge-off rate is mirroring the delinquency rate for FY 2018.

The 12-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 0.4 percent during September 2018. This trend is not surprising, since the 504 loan program is an economic development program with a commercial real estate focus. As such, recovery rates of defaulted 504 loans are, with some noticeable time lag, significantly impacted by the pricing trend in this sector. Real estate prices have been on the rise since the latter part of 2009 and, as of 2018, commercial real estate prices are increasing.

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 **www.sba.gov/performance**.

FORWARD LOOKING ANALYSIS

The SBA maintains and strengthens the nation's economy by helping small businesses start, grow, expand, and recover. The Agency will ensure that it can adapt to a changing environment and deliver programs that meet the needs of America's entrepreneurs. The following areas serve as both challenges and opportunities that will factor into SBA's strategies for delivering on its outcomes and using taxpayer resources efficiently. The Agency will continue to review these factors as it implements its programs to ensure optimal performance.

Technology

Technology has evolved so that entrepreneurs have greater access to markets and more capabilities to start and expand their businesses. However, not all entrepreneurs have access to adequate markets and face challenges connecting to resources. The SBA will continue adapting and developing new platforms to reach entrepreneurs in emerging markets. Virtual training platforms and online tools will allow the SBA to reach more customers. Through modernization efforts like Certify.gov and the DCMS 2.0, the SBA can process applications more expeditiously and electronically. Greater advancements in technology will continue to develop and shape how small businesses operate and how the Agency responds.

Markets

As the economy continues to grow and diversify, small businesses must be nimble to these changes and learn how to adapt to new markets. With an ever-expanding global economy, small businesses will need to look toward new markets and determine how to reach new consumers of goods and services. Only 1 percent of small businesses export in the global market, which poses an excellent opportunity for expansion. In the domestic market, interest rates continue to increase, which will shape access to capital. The Agency will continue to depend on lenders, including banks, credit unions, and community development financial institutions. However, more than 3,000 lenders have left the market since 2002. With fewer lenders, small businesses must adapt and find new ways to access capital.

Employment

The U.S. workforce continues to transform as industries modernize with new technology and market demands. While unemployment continues to decrease, a greater percentage of rural America does not have the same access to labor markets. Small businesses must be able to recruit and retain top talent, and often face challenges finding the right candidates for the job. The SBA will continue to expand its programs and services in rural areas through enhanced partnerships with the U.S. Department of Agriculture. The SBA will also look for new ways to strengthen opportunities to support an educated and skilled workforce.

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 number of these occurrences remain a serious concern. This year, Hurricane Florence left billions of dollars in damage in North Carolina and South Carolina while Hurricane Lane left more than four feet of rain in Hawaii. Small businesses must adapt by up-front planning. Disaster preparedness is a key component of SBA's Disaster Assistance program and has helped many small businesses prepare for the unexpected. The SBA continues to modernize and respond to these growing threats through updated technology and streamlining its ability to onboard staff in shorter periods of time.

SBA's Workforce

As a growing percentage of Agency employees become retirement eligible, the SBA continues to search for ways to recruit and retain the best talent. Competition with industry and other agencies is strong and retention is challenging. The Agency has identified mission critical occupations and developed workforce plans to address gaps. 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, and meet the needs of, entrepreneurs and small business owners. The SBA has developed and aligned training for its field staff to ensure that they have the tools to help small businesses succeed. By providing SBA employees with the tools and resources they need, the Agency will be able to more adequately deliver effective resources to America's small businesses.

ANALYSIS AND HIGHLIGHTS OF FINANCIAL STATEMENTS AND RESULTS

Highlights of Financial Results *(as of September 30)*

(Dollars in Thousands)

At End of Fiscal Year	2018	2017	% Change
CONDENSED BALANCE SHEET DATA			
Fund Balance with Treasury	$ 8,137,946	$ 6,719,641	21.11%
Credit Program Receivables and Related Foreclosed Property, Net	8,727,792	6,359,969	37.23%
All Other Assets	122,759	136,309	-9.94%
Total Assets	**$ 16,988,497**	**$ 13,215,919**	**28.55%**
Debt	11,212,607	7,693,059	45.75%
Downward Reestimate Payable to Treasury	797,694	1,215,102	-34.35%
Liability for Loan Guaranties	2,662,786	2,556,368	4.16%
All Other Liabilities	242,253	239,060	1.34%
Total Liabilities	**14,915,340**	**11,703,589**	**27.44%**
Unexpended Appropriations	2,341,412	1,653,684	41.59%
Cumulative Results of Operations	(268,255)	(141,354)	-89.78%
Total Net Position	**2,073,157**	**1,512,330**	**37.08%**
Total Liabilities and Net Position	**$ 16,988,497**	**$ 13,215,919**	**28.55%**

For the Fiscal Year	2018	2017	% Change
STATEMENT OF NET COST BY STRATEGIC GOAL			
Goal 1: Support Small Business Revenue and Job Growth			
Loan Subsidy Cost Including Reestimates	$ (1,089,432)	$ (905,203)	-20.35%
All Other Costs Net of Revenue	173,997	437,753	-60.25%
Goal 2: Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments	253,497	86,286	193.79%
Goal 3: Restore Small Businesses and Communities after Disasters and Tomorrow's Small Business			
Loan Subsidy Cost Including Reestimates	492,668	5,788	8411.89%
All Other Costs Net of Revenue	591,777	319,959	84.95%
Goal 4: Strengthen SBA's Ability to Serve Small Businesses	176,416	36,678	380.99%
Costs Not Assigned	22,752	22,649	0.45%
Net Cost of Operations	**$ 621,675**	**$ 3,910**	**15799.62%**
CONDENSED STATEMENT OF CHANGES IN NET POSITION			
Beginning Unexpended Appropriations	$ 1,653,684	$ 1,425,883	15.98%
Total Budgetary Financing Sources	687,728	227,801	201.90%
Ending Unexpended Appropriations	**$ 2,341,412**	**$ 1,653,684**	**41.59%**
Beginning Cumulative Results of Operations	(141,354)	(651,699)	78.31%
Total Financing Sources	494,774	514,255	-3.79%
Less: Net Cost of Operations	621,675	3,910	15799.62%
Ending Cumulative Results of Operations	**$ (268,255)**	**$ (141,354)**	**-89.78%**
Ending Net Position	**$ 2,073,157**	**$ 1,512,330**	**37.08%**
CONDENSED STATEMENT OF BUDGETARY RESOURCES			
Unobligated Balance Brought Forward	$ 5,875,912	$ 4,966,556	18.31%
Other Budgetary Resources, Net	143,643	(123,924)	215.91%
Appropriations (discretionary and mandatory)	2,499,538	1,933,824	29.25%
Borrowing Authority (discretionary and mandatory)	4,239,563	1,548,576	173.77%
Spending Authority from Offsetting Collections	4,356,021	3,918,122	11.18%
Total Budgetary Resources	**$ 17,114,677**	**$ 12,243,154**	**39.79%**
Obligations Incurred, Budgetary	$ 2,768,911	$ 2,333,955	18.64%
Obligations Incurred, Nonbudgetary	7,677,795	4,033,287	90.36%
Unobligated Balances, Available and Unavailable	6,667,971	5,875,912	13.48%
Total Status of Budgetary Resources	**$ 17,114,677**	**$ 12,243,154**	**39.79%**

U.S. Small Business Administration

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 the 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 5,489 full-time employees at the end of FY 2018, including disaster FTE employees. As a result, only $1.5 billion of SBA's $17.1 billion budgetary resources in FY 2018 were for salaries and expenses, with the rest supporting SBA's credit programs. When apportioned by the OMB, budgetary resources 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 FCRA 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 using the present value of forecasted cash flows in subsidy models that are OMB-approved.

A Liability for Loan Guaranties is also reported 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. SBA's FCRA accounting is discussed further below in this section and in Notes 1 and 6.A 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 FCRA, 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. An upward reestimate occurs when the present value of expected cash outflows exceeds the present value of expected cash inflows. A downward reestimate occurs when the present value of expected cash inflows exceeds the present value of expected cash outflows.

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 was $105.6 billion as of September 30, 2018, an increase of 6.1 percent from the $99.5 billion guaranteed as of September 30, 2017 (see Note 6.C in the financial statements). As shown in **Chart XX**, new guaranties disbursed by SBA participating banks during FY 2018 were $23.0 billion, a 0.9 percent increase compared to the FY 2017 figure of $22.8 billion. The $0.2 billion increase resulted from a $0.1 billion decrease in 504 Certified Development Company loans, a $0.2 billion increase in 7(a) loans, and a $0.1 billion increase in SBIC Debentures in FY 2018. This net increase in FY 2018 guaranty disbursements and reduction in purchases of guarantied loans contributed to the 6.1 percent increase in outstanding guarantied 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 the subsidy. The allowance for the subsidy cost of the gross loans 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. Increases are funded by Treasury, while decreases are returned 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 $8.7 billion in FY 2018, which was an increase of $2.3 billion from FY 2017. The change in the credit program receivables resulted from an increase of $2.4 billion in direct disaster loans. The amount of defaulted guarantied loans remained at the 2017 levels as collections and charge-offs exceeded new guaranty purchases, partially offset by a lower subsidy allowance amount. The amount of direct disaster loans increased as collections and charge-offs were exceeded by hurricanes Harvey, Irma, and Maria loans, offset by a larger subsidy allowance amount.

As reflected in **Chart XXI**, guarantied loan purchases decreased $0.1 billion in FY 2018 to $0.9 billion. The decrease in purchases this year contributed to the net decrease in the outstanding guarantied business loans receivable.

Chart XX: Guarantied Loans Disbursed

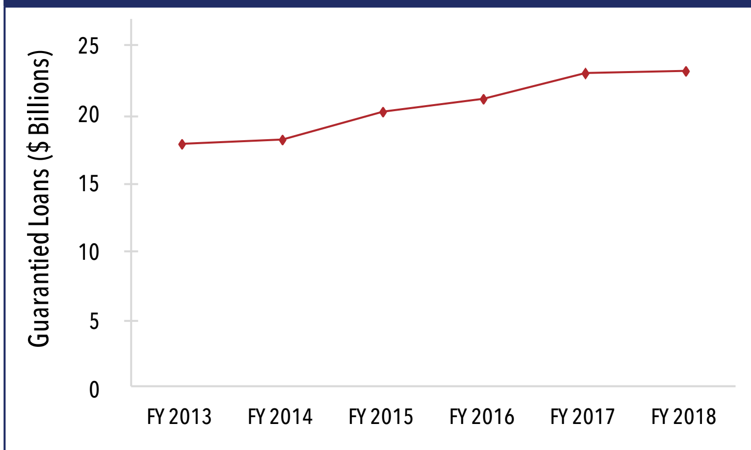
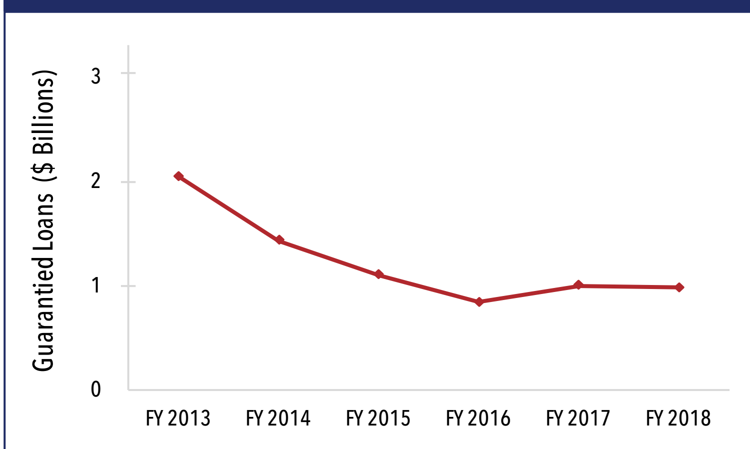


Chart XXI: Purchases of Guarantied Loans



FINANCIAL POSITION

Assets

The SBA had total assets of $17.0 billion at the end of FY 2018, up 28.6 percent from FY 2017. Total assets increased primarily due to a $2.3 billion increase in Credit Program Receivables and Related Foreclosed Property, plus a $1.4 billion increase in the Fund Balance with Treasury. The increase in Credit Program Receivables and Related Foreclosed Property was primarily due to the net increase in direct disaster loan disbursements in response to hurricanes Harvey, Irma and Maria. The increase in the Fund Balance with Treasury was due primarily to an increase in appropriations and borrowings received to fund the disbursement of disaster loans as well as associated administrative costs.

Liabilities

The SBA had total liabilities of $14.9 billion at the end of FY 2018, up 27.4 percent from FY 2017. Liabilities consist primarily of the Debt with Treasury, Liability for Loan Guaranties, and Downward Reestimate Payable to Treasury.

Debt with Treasury increased $3.5 billion due to the new borrowings with Treasury in FY 2018, as a result of direct loan disbursements to survivors of hurricanes Harvey, Irma and Maria. Note 9 in the financial statements provides additional detail on SBA's 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. Increases are funded by Treasury while the Agency returns to Treasury the decreases. The Liability for Loan Guaranties increased $0.1 billion due to the net of downward reestimates of future costs for SBA's guaranty portfolio, guarantied loan purchases, and the collection of fees.

The Downward Reestimate Payable to Treasury decreased $0.4 billion mainly due to the change in the year-end accrual of reestimates that resulted from lower than projected purchases in FY 2018 for some cohorts in the 7(a) and 504 loan programs, and higher than expected recoveries for the 504 loan program. Better than projected loan performance and higher than expected recoveries across most cohorts were the primary reasons for the downward reestimate in FY 2018.

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 $127 million because unfunded upward subsidy reestimates at year-end primarily for the 7(a) and Disaster programs were greater for FY 2018 compared to FY 2017. Upward subsidy reestimates determined at year-end are funded in the following year when they are received. **Unexpended Appropriations** increased $0.7 billion this year primarily because the amount of appropriations used was not greater than the appropriations received in FY 2018 for business, disaster, and administrative activities. 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.

The primary driver to the $0.6 billion increase in net cost is largely attributable to Goal 3, which had an overall $0.8 billion increase. The increase attributed to a $0.5 billion increase in loan subsidy costs, including reestimates combined with an increase of $0.3 billion in other nonsubsidy related costs. These increased costs are primarily due to the response to hurricanes Harvey, Irma and Maria.

Net downward reestimates for the business loan programs were only slightly larger in FY 2018 than last year due to an increase in the amount of upward reestimates, which affected Strategic Goal 1 costs. **Chart XXII** reflects the change in the net subsidy reestimates for the guarantied business and direct disaster loan programs in FY 2018.

The net downward reestimate of $0.4 billion in the 7(a) programs was mostly attributable to lower than average purchases during FY 2018 that decreased the overall purchase curve, which decreased purchase projections in future years, and contributed to the downward reestimate for FY 2018.

The 504 Loan, 504 Recovery Act, and 504 Jobs Act programs had a net downward reestimate of $0.4 billion due to better than projected loan performance and recoveries. Further detail on subsidy reestimates can be found in Note 6.I of 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 2018 that was mostly attributable to actual default purchases that were lower than projected in FY 2018.

Chart XXII: Credit Program Subsidy Reestimates

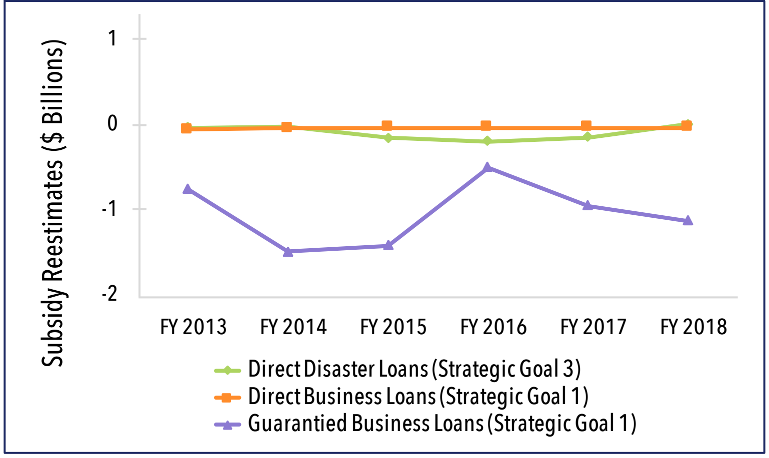
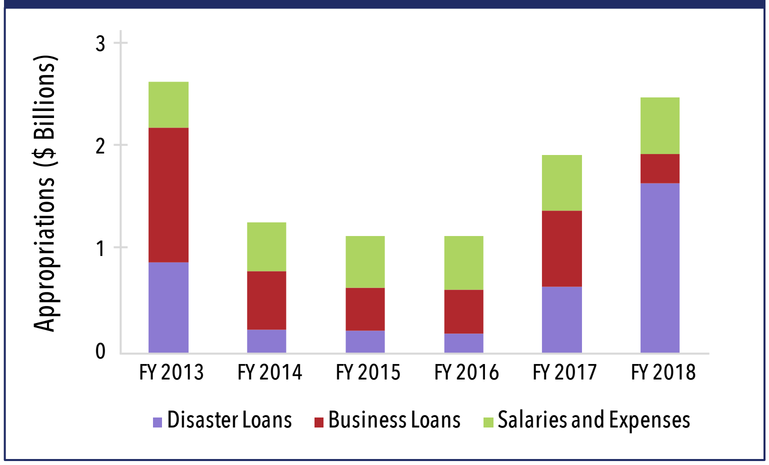


Chart XXIII: Appropriations Received



BUDGETARY RESOURCES

Total Budgetary Resources of $17.1 billion increased $4.9 billion in FY 2018. This increase is primarily the net result of a large increase in borrowing authority, unobligated balances brought forward, appropriations and spending authority from offsetting collections this year, as well as the other factors shown in the Highlights table and following discussion. Other Budgetary Resources, Net increased by $0.3 billion in FY 2018. This change attributed to a significant decrease in the amount of debt repaid from balances carried forward in FY 2018 offset by a decrease in prior year recoveries.

Appropriations (discretionary and mandatory) increased $0.6 billion in FY 2018. As shown in **Chart XXIII**, the increase was the net effect of the decrease in the amount of appropriations needed to fund SBA's upward credit subsidy reestimates and offset by an increase in appropriations for subsidy and loan administrative expenses to fund the Agency's disaster program in FY 2018.

Borrowing Authority increased $2.7 billion in FY 2018 due to an increase in borrowing needed to cover disaster loan disbursements related to hurricanes Harvey, Irma and Maria. Borrowing authority initially granted to the SBA was $8.7 billion, but the SBA withdrew $4.5 billion at year-end FY 2018, as the excess authority was not needed to fund future credit program operations.

Spending Authority from Offsetting Collections increased $0.4 billion in FY 2018. This increase is attributable to a larger amount of collections in the Salaries and Expenses fund combined with a higher amount of subsidy collected in the disaster program. This is offset by a reduction of subsidy collected in the guarantee program and a reduction in the repayment of borrowings from current year authority in FY 2018. Reduced subsidy in the guarantee program was a result of lower upward reestimates in FY 2018.

STATUS OF BUDGETARY RESOURCES

The Total Status of Budgetary Resources increased $4.9 billion in FY 2018 to $17.1 billion. Nonbudgetary obligations increased by $3.6 billion, mainly resulting from the increases in direct loan obligations for disaster loan making combined with larger downward subsidy reestimates paid to Treasury in the business loan guarantee program. Budgetary obligations increased $0.4 billion largely in part due to increased subsidy obligations for disaster loan making combined with increases in Salaries and Expenses. This was offset by a decrease in the upward subsidy reestimate in FY 2018 for the business loan guaranty program.

Unobligated balances as of September 30, 2018 and 2017 were $6.7 billion and $5.9 billion, which included $3.9 billion and $4.2 billion of unavailable unobligated balances. These balances were unavailable because they were unapportioned by the OMB. The SBA accumulates the majority of unobligated balances in its nonbudgetary financing accounts ($4.7 billion in FY 2018 and $4.6 billion in FY 2017) 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, along 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 or maintains effective internal controls over operations, reporting, and compliance to achieve programmatic goals. Each year, the SBA conducts an assessment of internal control as required by the Federal Managers' Financial Integrity Act (FMFIA) of 1982 in accordance with the Office of Management and Budget (OMB)'s Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The FMFIA requires that agencies report the assessment results to the President and Congress in a statement of assurance. The SBA Administrator provides this required statement of assurance based on the self-assessment of program managers, internal control reviews, and audits and reviews done by the Government Accountability Office (GAO) and SBA's Office of the Inspector General (OIG).

SBA's Office of Internal Controls (OIC) provides training and tools, including checklists designed specifically for program support offices and district offices, to aid management in assessing and documenting the effectiveness of internal controls within their respective area of responsibility. These assessments are performed based on the five components and 17 principles of internal control framework prescribed in GAO's *Standards for Internal Control in the Federal Government*, known as the Green Book.

The Senior Assessment Team (SAT) had been overseeing the assessments of internal controls over financial reporting conducted by the OIC and directing compliance with the requirements of OMB Circular A-123, Appendix A, *Internal Control Over Financial Reporting*. During the first quarter of FY 2018, the SAT continued to meet monthly to approve the processes and systems selected for this year's internal control assessments and to discuss the progress of these assessments. In June of this year, the Administrator established a Senior Management Council (SMC) to ensure that the Agency has an effective system of internal control as required by OMB Circular A-123 and to carry out more comprehensive internal control oversight including the responsibilities formerly assigned to the SAT. The SAT was formally disbanded when the SMC was created. The SMC, chaired by the Deputy Chief Financial Officer, and comprised of SBA senior leaders from the major program and support offices, is responsible for overseeing management's design, implementation, and operation of the internal control system. The SMC evaluates the results of internal control assessments and guides management's effort to remediate the identified control deficiencies or weaknesses. The SMC meets to discuss the progress on implementation of corrective actions and other emerging internal control matters. Furthermore, the SMC recommends to the SBA Enterprise Risk Management Board which significant deficiencies are deemed to be material weaknesses, and therefore, should be reported in the Administrator's annual statement of assurance.

While the OIC continued to perform the assessments related to the objective of internal control over financial reporting in FY 2018, it will refine its internal control program in FY 2019 to be better aligned with the revised OMB Circular A-123, Appendix A, *Management of Reporting and Data Integrity Risk*, issued June 6, 2018. The OIC documents the process and key controls, evaluates and tests the design and effectiveness of controls, and presents the results to the responsible management. Each office is responsible for developing and implementing corrective actions for any reported deficiencies. Based on the evaluation of business processes in FY 2018, the OIC identified a number of deficiencies in the internal control over financial reporting, including several in the SBA's key business processes. The SMC 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 effort. The Board is chaired by the Deputy Administrator or, in his/her absence, chaired by the Chief of Staff, and comprised of senior leaders from major SBA programs and support offices. During FY 2018, the Board completed its annual validation process of the enterprise risk profile, which outlined the top risks facing the Agency. The Board continues to review the risk profile periodically and ensures that it is accurate and up-to-date.

The SBA continued to have a significant deficiency in information technology security controls, including access controls and change controls. In FY 2018, the SBA continued strengthening the overall security posture of agency information technology systems and achieved several key milestones in the areas of cybersecurity governance, risk management, continuous monitoring, access control, event logging, and audit response by completing the following actions:

- The SBA created its first cybersecurity strategy, which establishes the direction and priorities for cybersecurity across the Agency and introduces cybersecurity services to achieve enterprise visibility and protection.
- The SBA updated its IT Security Policy in September 2017 and formalized the procedures for implementing the National Institutes of Standards and Technology (NIST) and Risk Management Framework.
- The SBA updated the IT Security acquisition requirements for all outsourced IT systems and services.

The above steps established clear and consistent baseline processes and requirements across the enterprise. As a result, the SBA was able to close about 80 percent of open OIG Federal Information Security Modernization Act (FISMA) audit findings during FY 2018.

Financial Management Systems Strategy

Financial management systems at the SBA are designed to support effective internal controls, produce reliable and timely financial information, and ensure cost-effective loan guaranty processing. Management remains focused on robust financial management systems that support SBA's ability to comply with laws and regulations. SBA systems must also 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 2018 Agency Financial Report*, the SBA seeks to comply with all federal financial management system requirements, including the Federal Financial Management Improvement Act of 1996[10] that requires compliance of the Agency's financial management systems with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

The SBA has continued to build on incremental improvement projects designed to modernize the financial management system environment, improve financial system controls, reduce sustainment costs, provide additional functionality for external lending partners, and improve system reliability. After migrating the Agency's systems to a state-of-the-art data center, with system redundancy and disaster recovery capabilities that allow for continuity of operations, the SBA has focused on reducing costs and leveraging technology advancements to optimize infrastructure in accordance with the Data Center Optimization Initiative established in OMB Memorandum M-16-19. In FY 2018, the SBA commenced the pursuit of a Financial System Cloud Strategy with the goal of reducing infrastructure maintenance costs and enhancing the user experience.

10 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 **www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2009/m09-06.pdf**)

In FY 2018, SBA's Chief Data Officer, in collaboration with the program offices, developed a Data Quality Plan for spending and award data transmitted under the DATA Act. The Plan contributed to the closing of multiple IG recommendations and was selected to be included in the government-wide DATA Act Playbook. The Plan follows an enterprise risk framework in accordance with GAO's Green Book, and provides multiple data references including a source document to the DATA Act reporting crosswalk, data element definitions, and underlying values. The Plan documents the control environment and validation processes, defines roles and responsibilities, and establishes a monthly certification process for offices that enter award data to assert to the quality of data entered into source systems for the previous month.

In FY 2018, the SBA strengthened the interface between the contracts and grants awarding system with the financial system, which resulted in a significant decrease to the DATA Act Warning message rate. The rate decreased from 0.33 percent in FY 2017 Quarter 4 to an average warning message rate of 0.04% for the first three quarters of 2018 (FY 2018 Quarter 4 will not be reported until November 2019). The SBA also created a reconciliation process that replicates the DATA Act Broker validation process to identify transactions likely to result in a DATA Act warning message.

As a result of SBA's work on the DATA Act, the Association of Government Accountants (AGA) National Awards Committee selected the SBA as the recipient of the 2018 Government Transparency Award for our achievements in implementing the DATA Act and data visualization via **USASpending.gov**.

The SBA has taken steps to 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.

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* – In the first quarter of FY 2018, the SBA upgraded to the most current release for the Joint Administrative Accounting Management System, the system for managing funding and expenditure of the Agency's administrative funds.
- *Loan Systems* — SBA-built systems support the lifecycle of loan guarantee processing, loan program funds control, management and accounting for loan servicing, and loan-related expenses.
- *Financial Management System* — An SBA-built system used to consolidate administrative and loan activity, manage cash and control funds, and provide financial reporting.

Management Assurances: FMFIA and FFMIA Assurance Statement for FY 2018

The Small Business Administration continued to strengthen internal controls over its programs and operations during FY 2018. 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, and that the SBA's independent auditor issued an unmodified opinion on the Agency's FY 2018 financial statements for the 14th year in a row.

SBA's management is responsible for managing risks, and maintaining effective internal controls and financial management systems to meet the objectives of Sections 2 and 4 of the Federal Managers Financial Integrity Act (FMFIA). 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 the FY 2018 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 the Agency managers' assessments and noting the control deficiency identified by the external auditors, I can provide reasonable assurance that internal controls over operations, reporting, and compliance with applicable laws and regulations, as of September 30, 2018, were operating effectively; and no material weaknesses were identified in the design or operation of those internal controls. Furthermore, the Agency's financial management systems conform to the principles, standards, and related requirements prescribed by Section 4 of FMFIA.

The Federal Financial Management Improvement Act (FFMIA) requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Standard General Ledger. Based on the FFMIA criteria, I can provide reasonable assurance that SBA's financial management systems substantially comply with FFMIA for FY 2018.

Linda E. McMahon
Administrator
November 14, 2018

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FINANCIAL REPORTING

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

November 14, 2018

I am pleased to report that the SBA received an unmodified audit opinion on its financial statements, which means that the statements and financial operations present fairly the financial position as of September 30, 2018. I am also honored to issue SBA's *FY 2018 Agency Financial Report* with Administrator McMahon who serves not only as a champion for America's small businesses, but an exemplary steward of federal resources who ensures that the Agency is operating as effectively, efficiently, and accountable as possible.

The auditors did not report any material weaknesses, but they identified one significant deficiency that remains from last year. The SBA made improvements this year in information technology security controls and the auditors found no deficiencies with controls over financial systems. However, the SBA must implement further enhancements to system controls to address logical access and system configuration management to effectively manage information system risks. To address this challenge, the Chief Information Officer will coordinate with program offices to implement stronger policies and controls over information systems.

Despite this challenge, this year the SBA made significant progress in key areas, including evidence-based decision making in financial and performance management. Of particular note, the SBA has co-led the President's Cross-Agency Priority Goal to leverage data as a strategic asset in partnership with the U.S. Department of Commerce and U.S. Office of Management and Budget. Bringing evidence into the decision-making process is a critical component of good government. The SBA has integrated quality evidence into its decisions for resources, policies, and strategies. With better information, SBA program managers are able to more effectively plan, improve services, increase efficiencies, and achieve a greater return on investment.

For our efforts to improve transparency in financial management, the SBA received the Association of Government Accountants "Government Transparency Award" for implementing the Digital Accountability and Transparency Act (DATA Act) and data visualization via **USASpending.gov**. The SBA focused on improving data quality and analyzing DATA Act submission data to help management make informed decisions. The SBA also updated its Data Quality Plan to include roles and responsibilities, data element mapping from source to submission, and data quality monitoring procedures in accordance with the DATA Act playbook and Data Quality Plan guidance.

For program evaluation, the SBA updated its framework and guidelines to provide program managers with information on how to establish research questions and develop rigorous research methods. The framework governs program evaluation activities and includes standards for each of the program offices. The SBA also developed and published its first Enterprise Learning Agenda, which serves as a blueprint for future evaluations, and completed three centralized program evaluations to support improvements. The SBA will track the implementation of recommendations and has recently begun four new evaluations that leverage administrative data. For more information, please visit the program evaluation page located at **www.sba.gov/performance**.

In the field of performance management, SBA senior leadership has brought together program and field office managers to align metrics and focus on outcomes. The SBA established a field alignment working group to integrate capital, government contracting, and entrepreneurial development programs with the activities in our 68 district offices. These efforts have greatly expanded engagement and supported the development of new goals to drive decision making. As an example, the SBA leveraged one of its FY 2018-2019 Agency Priority Goals to improve access to capital to entrepreneurs in disadvantaged urban and rural markets. Field staff now have uniform goals to promote outreach and support lending, which contributes to the Agency-wide goal.

Additionally, I would be remiss to note that for the 12th consecutive year, the Association of Government Accountants recognized the SBA with the prestigious Certificate of Excellence in Accountability Reporting award, which commends high quality reporting for accountability and transparency. This award is made to agencies following a thorough and independent review against established standards for presentation. Finally, the SBA received the best-in-class award for best overall quality — editorial excellence — for the *FY 2017 Agency Financial Report*. For more information on our progress, I invite you to listen to my video presentation which can be accessed at **youtu.be/AlWnaAujYfs**.

I want to thank our Audit Financial Management Advisory Committee for their thoughtful comments and critiques. This report reflects the dedication of SBA employees not only in financial and performance management, but also across the Agency. Through our employees, the SBA strives to achieve a mission focused on helping America's small businesses start, grow, expand, and recover.

Sincerely,

Tim Gribben

Tim Gribben
Chief Financial Officer and
Associate Administrator for Performance Management

AUDIT AND FINANCIAL MANAGEMENT ADVISORY COMMITTEE'S REPORT

November 14, 2018

The Audit and Financial Management Advisory Committee (the Committee) assists the Administrator in overseeing the U.S. Small Business Administration'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 generally accepted accounting principles. The Committee reviews the findings of the Inspector General and external auditors, and SBA's responses to those findings, to confirm that SBA's plan for corrective action includes appropriate and timely follow-up measures. In addition, the Committee reviews the draft Agency Financial Report, including its financial statements, and provides comments to management who has primary responsibility for the AFR.

The Committee met during 2018 with respect to these responsibilities on FY 2018 financial management and reporting. These meetings included representatives from SBA management, the Inspector General's office, and the external auditors. The Committee also had the opportunity to meet with the auditors and the Inspector General's staff without SBA management present. These meetings provided for required discussion under 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 included in the FY 2018 Agency Financial Report.

The Committee extends thanks to SBA management, the Inspector General, and KPMG for their candid discussion and cooperation in fulfilling our advisory responsibilities.

Tami Perriello

Tami Perriello
Chairpman
Audit and Financial Management Advisory Committee

INSPECTOR GENERAL'S AUDIT REPORT

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

Final Report Transmittal
Report Number: 19-03

DATE: November 14, 2018

TO: Linda E. McMahon
Administrator

FROM: Hannibal "Mike" Ware
Inspector General

SUBJECT: Independent Auditors' Report on SBA's FY 2018 Financial Statements

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the U.S. Small Business Administration's (SBA's) consolidated financial statements for fiscal year (FY) 2018, ending September 30, 2018. 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. 19-01, Audit Requirements for Federal Financial Statements; and the U.S. Government Accountability Office's Financial Audit Manual and Federal Information System Controls Audit Manual.

The attached independent auditors' report presents an unmodified opinion on SBA's consolidated financial statements for FY 2018. Specifically, KPMG reported that

- the financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- there were no material weaknesses in internal control;
- there were no instances in which SBA's financial management systems did not substantially comply with the Federal Financial Management Improvement Act of 1996 (FFMIA); and
- there is 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 Attachment 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.

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express—and we do not express—opinions on SBA's financial statements or internal control over financial reporting or conclusions on whether SBA's financial management systems substantially complied with the three FFMIA requirements, or on compliance with laws and other matters. KPMG is responsible for the attached auditors' report dated November 14, 2018, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. 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 Attachment II of this report.

We appreciate the cooperation and assistance of SBA and KPMG during the audit. Should you or your staff have any questions, please contact me or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6586.

cc: Pradeep Belur, Chief of Staff
Timothy Gribben, Chief Financial Officer and Associate Administrator for
Performance Management
Maria Roat, Chief Information Officer
Christopher M. Pilkerton, General Counsel
Martin Conrey, Attorney Advisor, Legislation and Appropriations
LaNae Twite, Director, Office of Internal Controls
Michael Simmons, Attorney Advisor

Attachment

INDEPENDENT AUDITORS' REPORT ON FY 2018 FINANCIAL STATEMENTS

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

Independent Auditors' Report

Inspector General
U.S. Small Business Administration

Administrator
U.S. Small Business Administration

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States (U.S.) Small Business Administration (SBA), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

SBA 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 U.S., 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 the Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 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

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, 2018 and 2017, and its net

KPMG

costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

SBA management has elected to reference to information on websites or other forms of interactive data outside the U.S. Small Business Administration's FY 2018 Agency Financial Report to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

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 U.S., 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, Message from the Chief Financial Officer, Appendices, and the Audit and Financial Management Advisory Committee's Report in the U.S. Small Business Administration's FY 2018 Agency Financial Report are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the 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, 2018, 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 identified the following deficiency in internal control, described in Attachment I that we consider to be a significant deficiency:

Improvement Needed in Information Technology Security Controls

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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

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 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 U.S. Government Standard General Ledger at the transaction level.

SBA's Response to Findings

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

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, DC
November 14, 2018

Attachment I

Significant Deficiency

Improvement Needed in Information Technology Security Controls

During the fiscal year (FY) 2018 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 2018 that limited SBA's ability to effectively manage its information system risks. Collectively, these conditions increase the risk of unauthorized use, modification, or destruction of financial data, which may impact the integrity of information used to prepare the financial statements. As a result, the 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 2018, 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 2018. 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 (SP) 800-53 Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*
- Federal Information Processing Standards Publication (FIPS) 200, *Minimum Security Requirements for Federal Information and Information Systems*
- SBA Standard Operating Procedure (SOP) 90 47 4, *SBA Information Technology Security Policy*

We have summarized the IT control deficiencies that we noted during the FY 2018 audit below, and have organized them by the following general IT control objectives: logical access controls, and system configuration management.

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 years persisted in FY 2018:

- User accounts were not recertified in accordance with SBA policy.
- The employee exit clearance and contractor offboarding processes were not documented to ensure that access to SBA's systems was timely removed upon separation.

Our audit identified the following new control deficiencies in FY 2018:

- Audit logs do not include sufficient detail to identify the security events that were reviewed or the staff that performed the review.
- Segregation of duties for certain system administrators that have access to the server need improvement.
- The principle of "least privilege" for user/service accounts with administrator privileges was not enforced.

Recommendations – Logical Access Controls

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

We recommend that the Administrator require the Chief Information Officer (CIO) to:

1. Implement a process to formally document and communicate recertification reviews to Office of the Chief Information Officer (OCIO) management.
2. Consider creating an Agencywide working group to provide effective oversight and solutions to address the entitywide conditions cited and implement streamlined, efficient and effective user access "best practices" currently used by the private sector and other Federal agencies.
3. Develop and document procedures over the separation process that identify the roles and responsibilities for each office.
4. Create a process to identify separated contractors from their respective program office/Contracting Officer, centrally track and monitor for contractor separations, and communicate contractor separations to stakeholders that are required for the timely removal of logical access.
5. Implement a more strict policy for account suspension after inactivity to account for SBA employees who may have not have been removed via the manual account removal process.
6. Continue to enhance and strengthen the audit logging and review controls to specify which events were reviewed, who performed the review, and whether issues were identified, escalated, and resolved.
7. Develop procedures that enforce segregation of duties and implement mitigating controls to help ensure that personnel performing security functions, such as system administrators, are restricted from using administrative privileges to modify audit records and configurations on the centralized audit log server.

System Configuration Management

An integral part of the effectiveness of an organization's security program management efforts should be to ensure that application change management controls provide reasonable assurance that program changes implemented to the applications are appropriate and authorized.

Our audit noted that although improvements have been made, the following new control deficiency exists in FY 2018:

- Certain changes to the system did not have sufficiently tracked and maintained documentation to provide traceability of the type of change and the approver.

Recommendations – System Configuration Management

To address the system configuration management condition above, we recommend that the Administrator require the Associate Administrator for the Office of Capital Access (OCA) to:

8. Strengthen change management controls in order to maintain sufficient documentation regarding the details of authorized changes and their approvals.
9. Implement a compensating control to retain the data of those with 'Approver' and 'Requestor' privileges within the Change Control Board SharePoint tool. This data must be maintained in SharePoint after personnel with those privileges have left the Agency in order to maintain the integrity of the tool.

Attachment II

CFO Response to Draft Audit Report on FY 2018 Financial Statements

DATE: November 14, 2018

TO: Hannibal M. Ware, Inspector General

FROM: Timothy Gribben, Chief Financial Officer and
Associate Administrator for Performance Management Tim Gribben

SUBJECT: FY 2018 Financial Statement Audit

The Small Business Administration has reviewed 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 continued efforts to further improve our accounting, budgeting, and reporting processes. The SBA has diligently worked in past years to address findings from our independent auditor.

The audit report includes a continuing significant deficiency in SBA's information technology security controls. The SBA appreciates the recommendations from the auditors, and we look forward to working with you to continue to improve financial management in our Agency. To address outstanding recommendations the Office of the Chief Information Officer (OCIO) increased governance and oversight, stabilized and modernized SBA's network and systems, addressed security deficiencies, and improved SBA's cybersecurity posture. In FY 2018, OCIO closed a significant number of long-term security findings by implementing new security controls and processes. Also, in FY 2018, OCIO was chosen by OMB and DHS to demonstrate the use of advanced cloud cybersecurity tools to protect a federal agency. That pilot was successful, and the results will be integrated into OMB cybersecurity policy. The SBA will continue to pursue additional policies and enhanced monitoring activities to address deficiencies in logical access controls and system configuration management.

We appreciate your efforts, 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 directly support our efforts to 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. These 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 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, 2018 and 2017

(Dollars in Thousands)

	2018	2017
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	$ 8,137,946	$ 6,719,641
Advances (Note 1)	22,331	33,451
Total Intragovernmental Assets	8,160,277	6,753,092
Assets - Public and Other		
Cash (Note 3)	2,130	1,376
Accounts Receivable, Net (Note 5)	93,523	100,874
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	8,727,792	6,359,969
General Property and Equipment, Net (Note 7)	354	505
Advances (Note 1)	4,421	103
Total Assets - Public and Other	8,828,220	6,462,827
Total Assets	**$ 16,988,497**	**$ 13,215,919**
LIABILITIES		
Intragovernmental Liabilities		
Accounts Payable (Note 1)	$ 6,000	$ 2,462
Debt (Note 9)	11,212,607	7,693,059
Net Assets of Liquidating Funds Due to Treasury (Note 10)	4,518	4,939
Downward Reestimate Payable to Treasury (Note 1, Note 13)	797,694	1,215,102
Other (Note 11)	15,592	13,892
Total Intragovernmental Liabilities	12,036,411	8,929,454
Other Liabilities - Public		
Accounts Payable (Note 1)	19,882	20,728
Accrued Grant Liability (Note 1)	68,687	75,890
Liability for Loan Guarantees (Note 6)	2,662,786	2,556,368
Federal Employees' Compensation Act Actuarial Liability (Note 1, Note 8)	34,854	34,889
Surety Bond Guarantee Program Future Claims (Note 8)	49,609	44,942
Other (Note 11)	43,111	41,318
Total Other Liabilities - Public	2,878,929	2,774,135
Total Liabilities	**14,915,340**	**11,703,589**
NET POSITION		
Unexpended Appropriations (Note 1)	2,341,412	1,653,684
Cumulative Results of Operations (Note 1)	(268,255)	(141,354)
Total Net Position	**2,073,157**	**1,512,330**
Total Liabilities and Net Position	**$ 16,988,497**	**$ $13,215,919**

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, 2018 and 2017

(Dollars in Thousands)

	2018	2017
STRATEGIC GOAL 1: Support Small Business Revenue and Job Growth		
Gross Cost	$ (704,345)	$ (275,336)
Less: Earned Revenue	211,090	192,114
Net Cost of Strategic Goal 1	**(915,435)**	**(467,450)**
STRATEGIC GOAL 2: Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments		
Gross Cost	253,497	86,286
Net Cost of Strategic Goal 2	**253,497**	**86,286**
STRATEGIC GOAL 3: Restore Small Businesses and Communities after Disasters		
Gross Cost	1,398,258	574,122
Less: Earned Revenue	313,813	248,375
Net Cost of Strategic Goal 3	**1,084,445**	**325,747**
STRATEGIC GOAL 4: Strengthen SBA's Ability to Serve Small Businesses		
Gross Cost	176,416	36,678
Net Cost of Strategic Goal 4	**176,416**	**36,678**
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost	22,752	22,649
Net Cost Not Assigned to Strategic Goals	**22,752**	**22,649**
Net Cost of Operations	**$ 621,675**	**$ 3,910**

The accompanying notes are an integral part of these statements.
See Note 14.

U.S. Small Business Administration

Consolidated Statement of Changes in Net Position

For the Years Ended September 30, 2018 and 2017

(Dollars in Thousands)

	2018	2017
Beginning Unexpended Appropriations	**$ 1,653,684**	**$ 1,425,883**
Budgetary Financing Sources		
Appropriations Received	2,504,824	1,989,933
Rescissions	(2,600)	(55,000)
Adjustment - Cancelled Authority	(11,582)	(34,647)
Return of Unrequired Liquidating Fund Appropriation	(2,686)	(1,109)
Other Adjustments	5	(497)
Appropriations Used	(1,800,233)	(1,670,879)
Total Budgetary Financing Sources	**687,728**	**227,801**
Ending Unexpended Appropriations	**$ 2,341,412**	**$ 1,653,684**
Beginning Cumulative Results of Operations	**$ (141,354)**	**$ (651,699)**
Budgetary Financing Sources		
Appropriations Used	1,800,233	1,670,879
Donations of Cash and Cash Equivalents	2	105
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others	25,428	12,162
Other - Current Year Liquidating Equity Activity	(3,991)	7,463
Other - Non-entity Activity	(1,326,898)	(1,176,354)
Total Financing Sources	**494,774**	**514,255**
Less: Net Cost of Operations	**621,675**	**3,910**
Net Change	**(126,901)**	**510,345**
Ending Cumulative Results of Operations	**$ (268,255)**	**$ (141,354)**
Ending Net Position	**$ 2,073,157**	**$ 1,512,330**

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, 2018 and 2017

(Dollars in Thousands)

	September 30, 2018		
	Budgetary	**Nonbudgetary Financing**	**Total**
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 1,412,891	$ 4,606,664	$ 6,019,555
Appropriations (discretionary and mandatory)	2,499,538	–	2,499,538
Borrowing Authority (discretionary and mandatory)	–	4,239,563	4,239,563
Spending Authority from Offsetting Collections	811,012	3,545,009	4,356,021
Total Budgetary Resources	**$ 4,723,441**	**$ 12,391,236**	**$ 17,114,677**
Memorandum (non-add) entries:			
Net adjustments to unobligated balance brought forward, Oct. 1	89,540	54,103	143,643
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (total)	$ 2,768,911	$ 7,677,795	$ 10,446,706
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	1,154,820	1,568,448	2,723,268
Unapportioned, unexpired accounts	749,494	3,144,993	3,894,487
Unexpired Unobligated Balance, end of year	1,904,314	4,713,441	6,617,755
Expired Unobligated Balance, end of year	50,216	–	50,216
Unobligated Balance, end of year (total)	1,954,530	4,713,441	6,667,971
Total Status of Budgetary Resources	**$ 4,723,441**	**$ 12,391,236**	**$ 17,114,677**
OUTLAYS, NET			
Net Outlays (discretionary and mandatory)	$ 1,790,480	$ 2,794,727	$ 4,585,207
Distributed Offsetting Receipts	229	(1,744,306)	(1,744,077)
Agency Outlays, net (discretionary and mandatory)	**$ 1,790,709**	**$ 1,050,421**	**$ 2,841,130**

The accompanying notes are an integral part of these statements.
See Note 15.

U.S. Small Business Administration

Combined Statement of Budgetary Resources

For the Years Ended September 30, 2018 and 2017

(Dollars in Thousands)

	September 30, 2017		
	Budgetary	**Nonbudgetary Financing**	**Total**
BUDGETARY RESOURCES			
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 1,146,127	$ 3,696,505	$ 4,842,632
Appropriations (discretionary and mandatory)	1,933,824	–	1,933,824
Borrowing Authority (discretionary and mandatory)	–	1,548,576	1,548,576
Spending Authority from Offsetting Collections	577,355	3,340,767	3,918,122
Total Budgetary Resources	**$ 3,657,306**	**$ 8,585,848**	**$ 12,243,154**
Memorandum (non-add) entries:			
Net adjustments to unobligated balance brought forward, Oct. 1	68,126	(192,050)	(123,924)
STATUS OF BUDGETARY RESOURCES			
New Obligations and Upward Adjustments (total)	$ 2,333,955	$ 4,033,287	$ 6,367,242
Unobligated Balance, end of year:			
Apportioned, unexpired accounts	491,684	1,135,296	1,626,980
Unapportioned, unexpired accounts	785,159	3,417,265	4,202,424
Unexpired Unobligated Balance, end of year	1,276,843	4,552,561	5,829,404
Expired Unobligated Balance, end of year	46,508	–	46,508
Total Unobligated Balance, end of year	1,323,351	4,552,561	5,875,912
Total Status of Budgetary Resources	**$ 3,657,306**	**$ 8,585,848**	**$ 12,243,154**
OUTLAYS, NET			
Net Outlays (discretionary and mandatory)	$ 1,639,090	$ (533,912)	$ 1,105,178
Distributed Offsetting Receipts	(129)	(1,201,066)	(1,201,195)
Agency Outlays, net (discretionary and mandatory)	**$ 1,638,961**	**$ (1,734,978)**	**$ (96,017)**

The accompanying notes are an integral part of these statements.
See Note 15.

SBA U.S. Small Business Administration

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

A permanent indefinite authority is available to fund any reestimated increases 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 FCRA, 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 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 accrual 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. The likelihood of loss to the SBA ranges from remote to a reasonably possible amount of $3.0 million.

Cumulative Results of Operations

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

Unexpended Appropriations

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

Other Financing Sources

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

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. Annual leave earned but not taken, within established limits, is funded from future financing sources. Sick leave and other types of nonvested 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 provide pre-retirement benefits. They may also include benefits to survivors and their dependents and 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 contributions to the extent withheld from employee and retiree pay, from matching of employee withholding for the 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.

DOL pays valid claims as they occur, which are billed to the SBA annually and funded and paid approximately 15 months later. DOL 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,	**2018**	**2017**
Appropriated Funds	$ 2,436,393	$ 1,747,177
Financing Funds	5,601,996	4,877,175
Liquidating Funds	1,229	2,870
Revolving Fund	97,835	92,235
Trust Fund	166	273
Total Entity Fund Balance with Treasury	**8,137,619**	**6,719,730**
Budget Clearing Account Balance	327	(89)
Total Fund Balance with Treasury	**$ 8,137,946**	**$ 6,719,641**
Status of Fund Balance with Treasury		
Apportioned, unexpired accounts	$ 2,723,268	$ 1,626,980
Unapportioned, unexpired accounts	3,894,487	4,202,424
Obligated Balance Not Yet Disbursed	1,692,976	1,254,164
Expired Unobligated Balance	50,216	46,508
Borrowing Authority Not Converted to Funds	(223,328)	(410,346)
Nonbudgetary	327	(89)
Total Fund Balance with Treasury	**$ 8,137,946**	**$ 6,719,641**

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 $2.1 million and $1.4 million as of September 30, 2018 and 2017.

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 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 transfer 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 MRF receives monthly payments from SBA guarantied borrowers, and disburses monthly to 7(a) secondary market pool investors based on a schedule of amounts due. 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 $33.4 billion and $32.4 billion of outstanding SBA guarantied 7(a) loan principal in the secondary market as of September 30, 2018 and 2017.

The Master Reserve Account is an SBA fiduciary activity that is administered for the SBA by PwC. The balance in the MRA is invested entirely in Treasury securities. The MRA facilitates the operation of the 504 Certified 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 504 borrowers, and retains the payments until a semi-annual debenture payment is due to 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 $26.4 billion of SBA guarantied 504 debentures outstanding in the secondary market as of September 30, 2018 and 2017.

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,	2018			2017		
	MRF	MRA	Total	MRF	MRA	Total
Short Term Securities						
Money Market Funds	$ 20,836	$ 673,079	$ 693,915	$ 17,080	$ 686,925	$ 704,005
Treasury Bills	44,930	–	44,930	891,776	–	891,776
Repurchase Agreements	643,006	–	643,006	458,897	–	458,897
Total Cash and Short Term Securities	**708,772**	**673,079**	**1,381,851**	**1,367,753**	**686,925**	**2,054,678**
Long Term Securities						
Treasury Notes/Bonds Including Interest	2,750,655	–	2,750,655	2,888,112	–	2,888,112
Total Long Term Securities	**2,750,655**	**–**	**2,750,655**	**2,888,112**	**–**	**2,888,112**
Net Assets	**$ 3,459,427**	**$ 673,079**	**$ 4,132,506**	**$ 4,255,865**	**$ 686,925**	**$ 4,942,790**

RECONCILIATION OF FIDUCIARY ASSETS

For the Years Ended September 30,	2018			2017		
	MRF	MRA	Total	MRF	MRA	Total
Beginning Net Assets	**$ 4,255,865**	**$ 686,925**	**$ 4,942,790**	**$ 3,608,051**	**$ 730,806**	**$ 4,338,857**
Receipts						
Earned Income	58,480	12,168	70,648	33,646	4,856	38,502
Contributions	7,706,535	14,898,852	22,605,387	6,482,967	16,314,573	22,797,540
Net Realized Gain (Loss)	6,890	–	6,890	3,821	–	3,821
Total Receipts	**7,771,905**	**14,911,020**	**22,682,925**	**6,520,434**	**16,319,429**	**22,839,863**
Less Disbursements						
Payments to Investors	8,568,343	14,924,866	23,493,209	5,872,620	16,363,310	22,235,930
Total Disbursements	**8,568,343**	**14,924,866**	**23,493,209**	**5,872,620**	**16,363,310**	**22,235,930**
Ending Net Assets	**$ 3,459,427**	**$ 673,079**	**$ 4,132,506**	**$ 4,255,865**	**$ 686,925**	**$ 4,942,790**

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 for guarantied loan purchases that lack the required documents. 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,	2018	2017
Public		
Guaranty Fees Receivable	$ 75,434	$ 83,414
Refunds	1,427	805
Other	17,317	17,054
Total Public	**94,178**	**101,273**
Allowance For Loss	(655)	(399)
Net Public	**$ 93,523**	**$ 100,874**

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 eligible small businesses obtain loans from participating lenders and licensed small business investment companies to make investments in qualifying small businesses. The SBA also makes loans to microloan intermediaries and provides direct loans that assist homeowners, renters, businesses of all sizes, and private nonprofit organizations 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 Guarantee
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 survivors under four categories: (1) physical disaster loans to repair or replace damaged homes and personal property; (2) physical disaster loans to businesses of any size; (3) economic injury disaster loans to eligible small businesses and nonprofit organizations without credit available elsewhere; and (4) economic injury loans to eligible small 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 Guarantee program in which the SBA guarantees up to 90 percent of the amount of loans made by participating banks and other lending institutions to eligible small businesses not able to obtain credit elsewhere.

The 504 Certified Development Company program guarantees 100 percent of the principal and interest payments on debentures issued by development companies for loans to eligible small businesses secured by real estate or equipment.

The Small Business Investment Company program guarantees principal and interest payments on debentures issued by small business investment companies, which in turn make investments in qualifying small businesses.

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

CREDIT SUBSIDY MODELING

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

SBA's models vary in the specific methodologies employed to forecast future program cash flows. However, models for all major credit programs generally 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 OMB's Credit Subsidy Calculator that has both forecasted and actual Treasury interest rates.

Historical data are used as the basis for program performance assumptions. The historical data undergo 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 periods
- 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 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 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 nonperforming loans in excess of 90 days delinquent. SBA's purchase of accrued interest is limited to 120 days on the defaulted guaranty unless the loan has been sold in the secondary market. Purchased interest is carried at cost, and an allowance is established for amounts in excess of 90 days delinquent.

Foreclosed property is comprised of real 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, 2018 SBA's foreclosed property was $20.7 million related to 67 loans. The properties had been held for an average of 904 days. At September 30, 2017 foreclosed property was $17.5 million related to 86 loans. The properties had been held for an average of 1,292 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 the 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, 2018	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 961	$ 190,963	$ 191,924
Interest Receivable	2,607	389	2,996
Foreclosed Property	2,606	–	2,606
Allowance	(5,124)	(20,504)	(25,628)
Total Direct Business Loans	**1,050**	**170,848**	**171,898**
Direct Disaster Loans			
Disaster Loans Receivable	878	8,994,698	8,995,576
Interest Receivable	147	64,027	64,174
Foreclosed Property	–	2,697	2,697
Allowance	(166)	(1,325,326)	(1,325,492)
Total Direct Disaster Loans	**859**	**7,736,096**	**7,736,955**
Defaulted Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied Business Loans	30	3,123,087	3,123,117
Other Loans Receivable (see note below)	–	78,859	78,859
Interest Receivable	249	25,975	26,224
Foreclosed Property	1,868	13,504	15,372
Allowance	(1,782)	(2,422,851)	(2,424,633)
Total Defaulted Guarantied Business Loans & Other Loans Receivable	**365**	**818,574**	**818,939**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 8,727,792**

As of September 30, 2017	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	$ 1,037	$ 183,856	$ 184,893
Interest Receivable	2,536	315	2,851
Foreclosed Property	3,114	–	3,114
Allowance	(5,544)	(13,343)	(18,887)
Total Direct Business Loans	**1,143**	**170,828**	**171,971**
Direct Disaster Loans			
Disaster Loans Receivable	1,424	6,160,916	6,162,340
Interest Receivable	147	30,531	30,678
Foreclosed Property	–	3,104	3,104
Allowance	(187)	(899,235)	(899,422)
Total Direct Disaster Loans	**1,384**	**5,295,316**	**5,296,700**
Defaulted Guarantied Business Loans & Other Loans Receivable			
Defaulted Guarantied Business Loans	2,251	3,482,179	3,484,430
Other Loans Receivable (see note below)	–	189,796	189,796
Interest Receivable	664	38,073	38,737
Foreclosed Property	1,868	9,427	11,295
Allowance	(3,966)	(2,828,994)	(2,832,960)
Total Defaulted Guarantied Business Loans & Other Loans Receivable	**817**	**890,481**	**891,298**
Total Credit Program Receivables & Related Foreclosed Property, Net			**$ 6,359,969**

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

C. Loans Disbursed and Outstanding Loan Obligations

(Dollars in Thousands)

DIRECT LOANS

New Loans Disbursed During the Year Ended September 30,	2018	2017
Business Direct Loan Program	$ 37,724	$ 41,231
Disaster Loan Program	3,590,561	886,275
Total Direct Loans Disbursed	**$ 3,628,285**	**$ 927,506**

Outstanding Loan Obligations as of September 30,	2018	2017
Business Direct Loan Program	$ 37,772	$ 41,835
Disaster Loan Program	1,203,018	803,049
Total Direct Loan Obligations	**$ 1,240,790**	**$ 844,884**

GUARANTIED LOANS

New Loans Disbursed During the Year Ended September 30,	2018	2017
Total Principal Disbursed at Face Value	$ 29,269,593	$ 28,992,380
Total Principal Disbursed Guarantied by the SBA	23,028,188	22,812,816

Outstanding Loan Obligations as of September 30,	2018	2017
Business Guarantied Loan Programs	$ 16,741,515	$ 16,756,254

Loans Outstanding as of September 30,	2018	2017
Total Principal Outstanding at Face Value (see note below)	$ 128,765,704	$ 121,005,886
Total Principal Outstanding Guarantied by the SBA (see note below)	105,574,381	99,512,501

Note: 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,	2018	2017
Post-1991 Business Direct and Purchased Guarantied Loans		
Beginning Balance of Allowance Account	**$ 2,842,337**	**$ 3,312,218**
Current Year's Subsidy (see 6.G for breakdown by component)	3,407	3,971
Loans Written Off	(831,015)	(971,719)
Subsidy Amortization	(2,626)	(2,364)
Allowance Related to Guarantied Loans Purchased This Year	277,050	314,131
Miscellaneous Recoveries and Costs	153,179	187,293
Balance of Subsidy Allowance Account before Reestimates	2,442,332	2,843,530
Technical Assumptions/Default Reestimates	1,023	(1,193)
Ending Balance of Allowance Account	**$ 2,443,355**	**$ 2,842,337**
Post-1991 Disaster Direct Loans		
Beginning Balance of Allowance Account	**$ 899,235**	**$ 939,342**
Current Year's Subsidy (see 6.G for breakdown by component)	456,849	119,660
Loans Written Off	(108,281)	(97,691)
Subsidy Amortization	(13,097)	(12,872)
Miscellaneous Recoveries and Costs	54,801	64,668
Balance of Subsidy Allowance Account before Reestimates	1,289,507	1,013,107
Technical Assumptions/Default Reestimates	35,819	(113,872)
Ending Balance of Allowance Account	**$ 1,325,326**	**$ 899,235**

E. Liability for Loan Guaranties

(Dollars in Thousands)

For the Years Ended September 30,		2018		2017
Pre-1992 Business Loan Guaranties				
Beginning Balance of Liability for Loan Guaranties	**$**	**8**	**$**	**7**
Adjustment to Expected Losses, Guaranties Outstanding		(7)		1
Ending Balance of Liability for Loan Guaranties		**1**		**8**
Post-1991 Business Loan Guaranties				
Beginning Balance of Liability for Loan Guaranties		**2,556,360**		**2,371,498**
Current Year's Subsidy (see 6.G for breakdown by component)		2,338		10,608
Fees		1,378,849		1,350,243
Interest Accumulation Factor		79,454		77,457
Claim Payments to Lenders		(988,670)		(1,016,981)
Adjustment Due to Reestimate & Guarantied Loan Purchases		711,620		702,850
Miscellaneous Recoveries and Costs		19,034		(20,726)
Balance of Liability for Loan Guaranties before Reestimates		3,758,985		3,474,949
Technical Assumptions/Default Reestimates		(1,096,200)		(918,589)
Ending Balance of Liability for Loan Guaranties		**2,662,785**		**2,556,360**
Total Ending Balance of Liability for Loan Guaranties	**$**	**2,662,786**	**$**	**2,556,368**

F. 2018 Subsidy Rates by Program and Component

Loan Program	Total Subsidy	Financing	Default	Other	Fee
Guaranty					
7(a)	**0.00%**	0.00%	4.49%	0.00%	-4.49%
504 CDC	**0.00%**	0.00%	5.67%	0.51%	-6.18%
504 Refi	**0.00%**	0.00%	5.88%	0.52%	-6.40%
SBIC Debentures	**0.00%**	0.00%	4.70%	0.07%	-4.77%
Direct					
Disaster	**12.54%**	3.45%	13.00%	-3.91%	0.00%
Microloan	**8.91%**	7.06%	2.29%	-0.44%	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 Note 6.G result from the disbursement of loans obligated in the current year as well as in prior years, and include reestimates.

U.S. Small Business Administration

G. Subsidy Expense by Component

(Dollars in Thousands)

For the Years Ended September 30,	2018	2017
Business Loan Guaranties		
Defaults	$ 23,202	$ 100,099
Fees	(22,888)	(98,224)
Other	2,024	8,733
Subsidy Expense Before Reestimates and Loan Modifications	2,338	10,608
Reestimates	(1,096,200)	(918,589)
Total Guarantied Business Loan Subsidy Expense	**$ (1,093,862)**	**$ (907,981)**
Business Direct Loans		
Interest	$ 2,727	$ 3,078
Defaults	829	803
Other	(149)	90
Subsidy Expense Before Reestimates	3,407	3,971
Reestimates	1,023	(1,193)
Total Business Direct Loan Subsidy Expense	**$ 4,430**	**$ 2,778**
Disaster Direct Loans		
Interest	$ 131,525	$ 38,772
Defaults	467,879	119,543
Other	(142,555)	(38,655)
Subsidy Expense Before Reestimates	456,849	119,660
Reestimates	35,819	(113,872)
Total Disaster Direct Loan Subsidy Expense	**$ 492,668**	**$ 5,788**

H. Administrative Expense

The SBA received appropriations to administer its credit programs, including the making, servicing and liquidation of its loans and guaranties. The increase in disaster loan administrative expense is due to additional funding and disaster activity, a response associated with hurricanes Harvey, Irma and Maria. Amounts expensed in the Statement of Net Cost are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,	2018	2017
Disaster Direct Loan Programs	$ 544,590	$ 225,814
Business Loan Programs	152,828	152,629
Total Administrative Expense	**$ 697,418**	**$ 378,443**

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 FY 2018 performance data for SBA's large loan programs and 9 months of actual and 3 months of projected performance data for the Secondary Market Guarantee, Microloan, and the small loan programs.

BUSINESS GUARANTIED LOAN PROGRAMS

Net subsidy reestimates for the business guarantied loan programs are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,	2018	2017
7(a)	$ (430,734)	$ (297,874)
7(a) - Recovery Act	6,616	2,595
7(a) - Jobs Act	180	5,507
504 CDC	(411,673)	(375,851)
504 CDC - Recovery Act	(10,590)	(14,874)
504 CDC - Jobs Act	(3,588)	(4,904)
504 CDC - Debt Refinancing	(19,198)	(22,336)
504 First Mortgage Loan Pooling - Recovery Act	(4,326)	3,881
SBIC Debentures	(109,542)	(133,545)
SBIC Participating Securities	(96,413)	(90,473)
Secondary Market Guarantee Program	(6,541)	2,757
ARC - Recovery Act	(584)	(646)
All Other Guaranty Loan Programs	(9,807)	7,174
Total Guarantied Loan Program Subsidy Reestimates	**$ (1,096,200)**	**$ (918,589)**

The 7(a) Loan Guarantee program, SBA's flagship and largest program, had a net downward reestimate in FY 2018 of $430.7 million. The reestimate is primarily due to lower actual losses in FY 2018 in cohorts 2014 through 2017. Part of the reestimate is also due to lower projected losses in FY 2019 and beyond for cohorts 2014 through 2017 due to updated economic assumptions.

The 7(a) Recovery Act program had a net upward reestimate of $6.6 million. The reestimate is primarily due to higher projected losses.

The 7(a) Jobs Act program had a net upward reestimate of $0.2 million. The reestimate is primarily due to higher projected losses that are mostly offset by lower actual losses in FY 2018.

The 504 Certified Development Company program had a net downward reestimate of $411.7 million. The reestimate is primarily due to better than expected FY 2018 loan performance. Although some cohorts had higher than expected purchases, they were offset by higher than expected recoveries. Part of the reestimate is also due to decreased loss projections for cohorts 2004 through 2017 due to updated economic assumptions.

The 504 Recovery Act program had a net downward reestimate of $10.6 million. The reestimate is mostly due to better than expected FY 2018 loan performance. Actual losses in the 504 Recovery Act program were less than projected losses.

The 504 Jobs Act program had a net downward reestimate of $3.6 million. The reestimate is mostly due to better than expected FY 2018 loan performance. Actual losses in the 504 Jobs Act program were less than projected losses.

The 504 Debt Refinancing program had a net downward reestimate of $19.2 million. The reestimate is mostly due to better than expected FY 2018 loan performance. Actual purchases in the 504 Debt Refinancing program were less than those projected, while actual recoveries were more than those projected.

The Section 504 First Mortgage Loan Pooling program had a net downward reestimate of $4.3 million. The downward reestimate is due to higher than expected recoveries in FY 2018 for the 2011 and 2012 cohorts.

The SBIC Debentures program had a net downward reestimate of $109.5 million. The lead drivers of the downward reestimate were lower than expected purchases in FY 2018 for all cohorts with outstanding leverage and higher than expected recoveries for cohorts 2008 and 2009. The better than anticipated performance in the SBIC Debentures program in FY 2018 was partially offset by higher projected purchases for cohorts 2008 through 2013 over the next five years.

The SBIC Participating Securities program had a net downward reestimate of $96.4 million. The downward reestimate is due to higher than expected recoveries and profit participation cash inflows. The higher than expected recoveries and profit participation cash inflows were partially offset by higher than expected purchases for the 2004 cohort.

The Secondary Market Guarantee program had a net downward reestimate of $6.5 million. The downward reestimate is due primarily to lower projected costs for pools issued in FY 2018, in part due to methodological enhancements and compositional changes to FY 2018 issued pools.

The America's Recovery Capital program had a net downward reestimate of $0.6 million. The majority of this reestimate is due to higher than expected recoveries in FY 2018 for both cohorts.

All Other Guaranty Loan Programs include the New Market Venture Capital program that had a net downward reestimate of $9.8 million. The downward reestimate was driven by higher than expected recoveries in FY 2018 and updates to projections of future recoveries on repurchased NMVC debentures.

BUSINESS DIRECT LOAN PROGRAMS

Net subsidy reestimates for the business direct loan programs are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,	**2018**	**2017**
7(m) Microloan	$ 1,675	$ (121)
7(m) Microloan - Recovery Act	(379)	(225)
Intermediary Lending Pilot Program	(270)	(841)
All Other Direct Loan Programs	(3)	(6)
Total Direct Loan Program Subsidy Reestimates	**$ 1,023**	**$ (1,193)**

The 7(m) Direct Microloan program had an upward reestimate of $1.7 million. The 2015 through 2017 cohorts were key drivers of the upward reestimate in FY 2018 as actual loan repayments lagged the forecasted principal and interest amounts for these cohorts. In addition, the net impact of prepayments in FY 2018 was lower than forecasted as recent cohort's prepaid principal at a lower rate in FY 2018.

The 7(m) Direct Microloan Recovery Act program had a net downward reestimate of $0.4 million. The downward reestimate in FY 2018 is attributed to lower than anticipated defaults for both program cohorts and increased prepayment activity in the 2010 cohort.

The Intermediary Lending Pilot program had a net downward reestimate of $0.3 million. There was an influx of prepayments in FY 2018 for the 2012 cohort and recoveries exceeded the prior year forecast. Both factors contributed to the downward reestimate in the program in FY 2018.

DISASTER DIRECT LOAN PROGRAM

Net subsidy reestimates for the disaster direct loan programs are shown in the following table.

(Dollars in Thousands)

For the Years Ended September 30,		**2018**		**2017**
Disaster	$	35,819	$	(113,872)
Total Disaster Direct Loan Program Subsidy Reestimates	**$**	**35,819**	**$**	**(113,872)**

The Disaster Assistance program had a net upward reestimate of $35.8 million. While most cohorts experienced a downward reestimate as a result of better than expected performance in FY 2018 and revised performance assumptions, this was offset by an upward reestimate for the 2018 cohort. The upward reestimate for the 2018 cohort was due to a lower actual average borrower's interest rate than originally projected.

NOTE 7 GENERAL PROPERTY AND EQUIPMENT, NET

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

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

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

Assets meeting the capitalization thresholds are detailed in the following table.

(Dollars in Thousands)

As of September 30,		**2018**		**2017**
Leasehold Improvements	$	1,811	$	1,811
Amortization of Leasehold Improvements		(1,457)		(1,306)
Net		**354**		**505**
Total General Property and Equipment, Net	**$**	**354**	**$**	**505**

NOTE 8 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

These unfunded liabilities consisted of the following categories, as shown in the following table.

(Dollars in Thousands)

As of September 30,	2018	2017
Intragovernmental Liabilities - Other		
Employment Taxes Payable	$ 3,080	$ 1,903
Federal Employees' Compensation Act Payable	5,897	6,337
Total Intragovernmental Liabilities - Other	**8,977**	**8,240**
Federal Employees' Compensation Act Actuarial Liability	**34,854**	**34,889**
Surety Bond Guarantee Program Future Claims	**49,609**	**44,942**
Other Liabilities		
Prior Liens on Real Estate Payable	59	59
Accrued Unfunded Annual Leave	29,110	26,452
Total Other Liabilities	**29,169**	**26,511**
Total Liabilities Not Covered by Budgetary Resources	**$ 122,609**	**$ 114,582**
Total Liabilities Covered by Budgetary Resources	14,792,334	11,588,940
Total Liabilities Not Requiring Budgetary Resources	397	67
Total Liabilities	**$ 14,915,340**	**$ 11,703,589**

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, the payment of downward subsidy reestimates, and other credit program disbursements (see Note 15). The increase in new borrowings in FY 2018 over 2017 was primarily driven by loan disbursements to survivors of hurricanes Harvey, Irma and Maria. 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 shown in the following table.

INTRAGOVERNMENTAL DEBT

(Dollars in Thousands)

As of September 30,	2018	2017
Beginning Balance	**$ $7,693,059**	**$ 8,019,526**
New Borrowing	4,426,583	1,138,230
Repayments	(907,035)	(1,464,697)
Ending Balance	**$ 11,212,607**	**$ 7,693,059**

NOTE 10 NET ASSETS OF LIQUIDATING FUNDS DUE TO TREASURY

Unobligated balances of liquidating funds are transferred to the Treasury general fund at the end of the fiscal year. Net Assets of Liquidating Funds Due to Treasury is the residual of the book value of assets less liabilities in the Liquidating Funds for loans made prior to FY 1992 that is not yet available for transfer.

(Dollars in Thousands)

As of September 30,		**2018**		**2017**
Disaster Loan Fund	$	861	$	1,384
Business Loan and Investment Fund		3,657		3,555
Total Due To Treasury	**$**	**4,518**	**$**	**4,939**

NOTE 11 OTHER LIABILITIES

Other liabilities are shown in the following table.

(Dollars in Thousands)

As of September 30,		**2018**		**2017**
OTHER LIABILITIES - INTRAGOVERNMENTAL				
Entity				
Current				
Employment Taxes Payable	$	5,926	$	3,704
Advances from Other Agencies		683		1,942
Total Current		**6,609**		**5,646**
Non-current				
Employment Taxes Payable		3,080		1,903
Federal Employees' Compensation Act Payable		5,897		6,337
Total Non-current		**8,977**		**8,240**
Total Entity		**15,586**		**13,886**
Non-entity				
Current				
Payable to Treasury		6		6
Total Other Liabilities - Intragovernmental	**$**	**15,592**	**$**	**13,892**
OTHER LIABILITIES - PUBLIC				
Entity				
Current				
Accrued Funded Payroll and Benefits	$	$13,505	$	14,740
Accrued Unfunded Annual Leave		29,110		26,452
Other Liabilities		40		–
Suspense Accounts		397		67
Total Current		**43,052**		**41,259**
Non-current				
Prior Liens on Real Estate Payable		59		59
Total Non-current		**59**		**59**
Total Entity		**43,111**		**41,318**
Total Other Liabilities - Public	**$**	**43,111**	**$**	**41,318**

NOTE 12 LEASES

The SBA leases all of its facilities from the General Services Administration. The SBA enters into an Occupancy Agreement with the GSA for each facility. The 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 the GSA are operating leases, and are expensed in the Statement of Net Cost when incurred. In both FY 2018 and FY 2017, historical facilities lease costs were $48.0 million. Future lease payments are based on FY 2019 GSA base year estimates. Projections after the base year assume a 3 percent inflation factor. Payments after 5 years reflect only current leases that will still be in effect, projected to the end of each lease term.

FUTURE FACILITIES OPERATING LEASE PAYMENTS

(Dollars in Thousands)

Fiscal Year		Lease Projections
2019	$	49,261
2020		50,739
2021		52,261
2022		53,829
2023		55,444
After 2023		40,724
Total	**$**	**302,258**

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; since both are included in SBA's reporting entity. The Downward Reestimate Payable to the Treasury in the non-entity Treasury general fund is not eliminated, and is reflected on the Balance Sheet as a liability line item.

(Dollars in Thousands)

As of September 30,		2018		2017
Entity				
Financing Fund Payable	$	(797,694)	$	(1,215,102)
Non-entity				
Miscellaneous Receipts Fund Receivable		797,694		1,215,102
Downward Reestimate Payable to Treasury		(797,694)		(1,215,102)
Balance Sheet Reported Payable	**$**	**(797,694)**	**$**	**(1,215,102)**

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 the 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 four strategic goals on a full cost allocation basis. The SBA issued its *FY 2018-2022 Strategic Plan* this year, and FY 2017 costs have been reclassified to be comparable to the new strategic plan architecture. Strategic Goal 1 (Support Small Business Revenue and Job Growth) includes expanding access to capital for small businesses through SBA's loan and other assistance programs, research set-asides for innovative entrepreneurship, and the small business contracting set-aside program. Strategic Goal 2 (Build Healthy Entrepreneurial Ecosystems and Create Business Friendly Environments) works to develop small businesses through technical assistance provided through SBA's resource partner network, online learning, and other specialized assistance programs like 8(a) Business Development, 7(j) Management and Technical Assistance, and All Small Mentor-Protégé. It also includes SBA's efforts to create a small business friendly environment. Strategic Goal 3 (Restore Small Businesses and Communities after Disasters) includes disaster preparedness and direct disaster loans. Strategic Goal 4 (Strengthen SBA's Ability to Serve Small Businesses) ensures effective and efficient management of Agency resources. Agency administrative overhead costs are fully allocated to the programs in Strategic Goals 1, 2, 3, and 4. 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 are costs associated with the Office of the Inspector General. The OIG's mission and funding is a separate and independent part of the SBA and is therefore not assigned.

Intragovernmental Gross Cost is incurred by the SBA in exchange transactions with other federal agencies. 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. Earned Revenue from the Public is earned in exchange transactions with the public. The General Services Administration and the Treasury 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 Goals 1and 3 is largely determined by estimates and reestimates of its credit program costs (See Note 6.I).

INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

(Dollars in Thousands)

For the Years Ended September 30,		2018		2017
STRATEGIC GOAL 1: Support Small Business Revenue and Job Growth				
Intragovernmental Gross Cost	$	117,805	$	192,043
Gross Cost with the Public		(822,150)		(467,379)
Total Strategic Goal 1 Gross Cost		**(704,345)**		**(275,336)**
Intragovernmental Earned Revenue		92,478		97,743
Earned Revenue from the Public		118,612		94,371
Total Strategic Goal 1 Earned Revenue		**211,090**		**192,114**
STRATEGIC GOAL 2: Build Healthy Entreprenuerial Ecosystems and Create Business Friendly Environments				
Intragovernmental Gross Cost	$	57,010	$	23,109
Gross Cost with the Public		196,487		63,177
Total Strategic Goal 2 Gross Cost		**253,497**		**86,286**
STRATEGIC GOAL 3: Restore Small Businesses and Communities after Disasters				
Intragovernmental Gross Cost	$	446,982	$	334,168
Gross Cost with the Public		951,276		239,954
Total Strategic Goal 3 Gross Cost		**1,398,258**		**574,122**
Intragovernmental Earned Revenue		96,217		60,714
Earned Revenue from the Public		217,596		187,661
Total Strategic Goal 3 Earned Revenue		**313,813**		**248,375**
STRATEGIC GOAL 4: Strengthen SBA's Ability to Serve Small Businesses				
Intragovernmental Gross Cost	$	39,675	$	9,823
Gross Cost with the Public		136,741		26,855
Total Strategic Goal 4 Gross Cost		**176,416**		**36,678**
COST NOT ASSIGNED TO STRATEGIC GOALS				
Intragovernmental Gross Cost	$	5,117	$	6,066
Gross Cost with the Public		17,635		16,583
Total Gross Cost Not Assigned to Strategic Goals		**22,752**		**22,649**
Net Cost of Operations	**$**	**621,675**	**$**	**3,910**

NOTE 15 STATEMENT OF BUDGETARY RESOURCES

The Statement of Budgetary Resources presents information about total budgetary resources available to the SBA and the status of those resources as of September 30, 2018 and 2017. SBA's total budgetary resources were $4.7 billion and $3.7 billion for the fiscal years ended September 30, 2018 and 2017. Additionally, $12.4 billion and $8.6 billion of nonbudgetary resources (including borrowing authority and collections of loan principal, interest, and fees in financing funds) were reported for the fiscal years ended September 30, 2018 and 2017.

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 FCRA. 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 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 2018 and FY 2017, the SBA received $4.2 billion and $1.5 billion of borrowing authority from the OMB. The increased borrowing in FY 2018 was primarily driven by loan disbursements to survivors of hurricanes Harvey, Irma and Maria. At the end of FY 2018 and FY 2017, the SBA had $0.2 billion and $0.4 billion in borrowing authority carried over to fund direct loans and default claims to be disbursed in the future. 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 mid-year 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 borrowings 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 2018 and FY 2017, the SBA incurred $10.4 billion and $6.4 billion of direct and reimbursable obligations, of which $0.4 billion and $0.5 billion were apportioned in category A, and $10.0 billion and $5.9 billion were apportioned in category B. Category A apportionments are restricted by quarter and program, while category B apportionments are restricted by purpose and program.

SBA U.S. Small Business Administration

Unobligated Balances

Unobligated balances at September 30, 2018 and 2017 are $6.7 billion and $5.9 billion, which include $3.9 billion and $4.2 billion of unavailable unobligated balances. These balances are unavailable primarily because they are unapportioned by the OMB. The SBA accumulates the majority of the unobligated balances in its nonbudgetary financing accounts during the fiscal year ($4.7 billion in FY 2018 and $4.6 billion in FY 2017) from fees and subsidy to fund default claims in future years. In addition, unobligated balances are accumulated in budgetary accounts from appropriations ($2.0 billion in FY 2018 and $1.3 billion in FY 2017) 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 consist of goods or services ordered and obligated which the SBA has not received. This includes any orders that have been paid in advance, but for which delivery or performance has not yet occurred. Total undelivered orders for the periods ended September 30, 2018 and 2017 were $2.3 billion and $1.7 billion. Unpaid undelivered orders for the periods ended September 30, 2018 and 2017 were $1.8 billion and $1.3 billion. Paid undelivered orders for the periods ended September 30, 2018 and 2017 were $0.5 billion and $0.4 billion. For FY 2018, total undelivered orders of $2.3 billion consist of $2.2 billion non-federal and $0.1 billion federal.

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

There was no material difference between the FY 2017 Statement of Budgetary Resources and the President's FY 2019 budget submission. The President's FY 2020 Budget with actual numbers for FY 2018 has not yet been published. The SBA expects no material differences between the President's Budget "actual" column and the FY 2018 reported results when the budget becomes available in February 2019.

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,	2018	2017
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	$ 10,446,706	$ 6,367,242
Less: Spending Authority from Offsetting Collections and Recoveries	5,422,687	5,296,461
Obligations Net of Offsetting Collections and Recoveries	5,024,019	1,070,781
Less: Offsetting Receipts	1,744,077	1,201,195
Net Obligations	**3,279,942**	**(130,414)**
Other Resources		
Imputed Financing	25,428	12,162
Other Financing Sources	(1,330,889)	(1,168,891)
Net Other Resources Used to Finance Activities	**(1,305,461)**	**(1,156,729)**
Total Resources Used to Finance Activities	**1,974,481**	**(1,287,143)**
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	(436,749)	47,183
Resources that Fund Expenses Recognized in Prior Periods	(149,461)	(655,332)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations		
Credit Program Collections	4,098,709	4,156,180
Offsetting Receipts	1,744,077	1,201,195
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(6,893,607)	(3,615,895)
Other - Current Year Liquidating Equity Activity	3,991	(7,463)
Other Resources that Do Not Affect Net Cost of Operations	(84)	174
Total Resources that Do Not Finance Net Cost of Operations	**(1,633,124)**	**1,126,042**
Total Resources Used to Finance the Net Cost of Operations	**341,357**	**(161,101)**
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	2,658	653
Upward Reestimates of Credit Subsidy Expense	275,387	148,831
Change in Revenue Receivable from Public	277	8,871
Provision for Losses on Estimated Guaranties	4,667	1,513
Change in Unfunded Employee Benefits	702	3,579
Total Components Requiring or Generating Resources in Future Periods	**283,691**	**163,447**
Components Not Requiring or Generating Resources		
Depreciation or Amortization	151	320
Change in Bad Debt Expense - Pre-1992 Loans	(3,420)	827
Other (Income) Expenses Not Requiring Budgetary Resources	(104)	417
Total Components Not Requiring or Generating Resources	**(3,373)**	**1,564**
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	**280,318**	**165,011**
Net Cost of Operations	**$ 621,675**	**$ 3,910**

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; 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,		**2018**		**2017**
Current Year Liabilities Not Covered By Budgetary Resources	$	122,609	$	114,582
Less: Prior Year		114,582		108,838
Change in Liabilities Not Covered By Budgetary Resources		8,027		5,744
Upward Reestimates of Credit Subsidy Expense		275,387		148,831
Change in Revenue Receivable from Public		277		8,871
All Other		–		1
Components (of Net Cost) Generating Resources in Future Periods (Per Reconciliation Above)	**$**	**283,691**	**$**	**163,447**

NOTE 17 SIGNIFICANT EVENTS

In September and October 2018, hurricanes Florence and Michael struck the continental United States. When disaster strikes the United States, SBA's loans are often the sole form of federal credit assistance for damage incurred by non-farm, private-sector homeowners, renters, and businesses.

At fiscal year-end, the SBA is uncertain as to the full future effect of the two hurricanes. The SBA has granted deferments to SBA-serviced disaster and business loan borrowers in the Florence disaster-declared areas, and has encouraged 7(a) lenders, Certified Development Companies, 504 third-party lenders, and Microlenders to provide similar deferment relief. The SBA has provided similar relief in past disasters and no adverse impact is expected from this relief. However, the SBA could experience future variations in performance of existing disaster and business loan portfolios as businesses in the affected areas strive to recover.

The SBA has begun to increase its rate of administrative spending as it conducts its disaster response. This spending is consistent with the Agency's experience responding to prior disasters and primarily takes the form of increased expenditures for travel and temporary personnel. In addition, the SBA has arranged for the reassignment of existing disaster and non-disaster staff to assist in the disaster affected areas.

The provisions of the FCRA govern the valuation of SBA's portfolio of existing business and disaster loans as well as the determination of the appropriate subsidy rate for the disaster loans that the SBA will approve in response to hurricanes Florence and Michael. The FCRA provides permanent indefinite authority for reestimates of subsidy cost for existing loans, to the extent necessary. Any initiatives that would change program terms or conditions for existing or new loans would require additional appropriations to fund subsidy costs before implementation. Therefore, any additional significant expenses associated with the hurricanes will be covered by additional appropriations and would not have an adverse impact on SBA's financial condition.

REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2018 (Unaudited)

(Dollars in Thousands)	BLIF		DLF		SBGRF
	Budgetary	**Nonbudgetary Financing**	**Budgetary**	**Nonbudgetary Financing**	**Budgetary**
BUDGETARY RESOURCES					
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 77,830	$ 4,223,215	$ 742,387	$ 383,449	$ 94,070
Appropriations (discretionary and mandatory)	285,873	–	1,662,045	–	–
Borrowing Authority (discretionary and mandatory)	–	289,829	–	3,949,734	–
Spending Authority from Offsetting Collections	–	2,596,538	1	948,471	20,981
Total Budgetary Resources	**$ 363,703**	**$ 7,109,582**	**$ 2,404,433**	**$ 5,281,654**	**$ 115,051**
Memorandum (non-add) entries:					
Net adjustments to unobligated balance brought forward, Oct. 1	10,621	(205,626)	54,880	259,729	2,123
STATUS OF BUDGETARY RESOURCES					
New Obligations and Upward Adjustments (total)	$ 285,632	$ 2,850,262	$ 1,178,834	$ 4,827,533	$ 17,598
Unobligated Balance, end of year:					
Apportioned, unexpired accounts	241	1,114,761	638,319	453,687	15,402
Unapportioned, unexpired accounts	77,830	3,144,559	587,280	434	82,051
Unexpired Unobligated Balance, end of year	78,071	4,259,320	1,225,599	454,121	97,453
Expired Unobligated Balance, end of year	–	–	–	–	–
Unobligated Balance, end of year (total)	78,071	4,259,320	1,225,599	454,121	97,453
Total Status of Budgetary Resources	**$ 363,703**	**$ 7,109,582**	**$ 2,404,433**	**$ 5,281,654**	**$ 115,051**
OUTLAYS, NET					
Net Outlays (discretionary and mandatory)	$ 285,940	$ 208,579	$ 1,086,542	$ 2,586,148	$ (5,599)
Distributed Offsetting Receipts	–	(1,617,899)	–	(126,407)	–
Agency Outlays, net (discretionary and mandatory)	**$ 285,940**	**$ (1,409,320)**	**$ 1,086,542**	**$ 2,459,741**	**$ (5,599)**

(Dollars in Thousands)	SE	OIG	ADVOCACY	EDP	BATF	TOTAL	TOTAL	
	Budgetary	**Budgetary**	**Budgetary**	**Budgetary**	**Budgetary**	**Budgetary**	**Nonbudgetary Financing**	**Total**
BUDGETARY RESOURCES								
Unobligated Balance from Prior Year Budget Authority, net (discretionary and mandatory)	$ 429,619	$ 11,660	$ 2,119	$ 54,933	$ 273	$ 1,412,891	$ 4,606,664	$ 6,019,555
Appropriations (discretionary and mandatory)	268,500	26,900	9,120	247,100	–	2,499,538	-	2,499,538
Borrowing Authority (discretionary and mandatory)	–	–	–	–	–	–	4,239,563	4,239,563
Spending Authority from Offsetting Collections	790,029	–	–	–	1	811,012	3,545,009	4,356,021
Total Budgetary Resources	**$ 1,488,148**	**$ 38,560**	**$ 11,239**	**$ 302,033**	**$ 274**	**$ 4,723,441**	**$ 12,391,236**	**$ 17,114,677**
Memorandum (non-add) entries:								
Net adjustments to unobligated balance brought forward, Oct. 1	9,770	(996)	146	12,996	–	89,540	54,103	143,643
STATUS OF BUDGETARY RESOURCES								
New Obligations and Upward Adjustments (total)	$ 1,003,672	$ 21,797	$ 9,345	$ 251,925	$ 108	$ 2,768,911	$ 7,677,795	$ 10,446,706
Unobligated Balance, end of year:								
Apportioned, unexpired accounts	456,783	9,362	1,877	32,672	164	1,154,820	1,568,448	2,723,268
Unapportioned, unexpired accounts	2,314	–	17	–	2	749,494	3,144,993	3,894,487
Unexpired Unobligated Balance, end of year	459,097	9,362	1,894	32,672	166	1,904,314	4,713,441	6,617,755
Expired Unobligated Balance, end of year	25,379	7,401	–	17,436	–	50,216	–	50,216
Unobligated Balance, End of Year (total)	484,476	16,763	1,894	50,108	166	1,954,530	4,713,441	6,667,971
Total Status of Budgetary Resources	**$ 1,488,148**	**$ 38,560**	**$ 11,239**	**$ 302,033**	**$ 274**	**$ 4,723,441**	**$ 12,391,236**	**$ 17,114,677**
OUTLAYS, NET								
Net Outlays (discretionary and mandatory)	$ 169,658	$ 21,777	$ 9,758	$ 222,298	$ 106	$ 1,790,480	$ 2,794,727	$ 4,585,207
Distributed Offsetting Receipts	229	–	–	–	–	229	(1,744,306)	(1,744,077)
Agency Outlays, net (discretionary and mandatory)	**$ 169,887**	**$ 21,777**	**$ 9,758**	**$ 222,298**	**$ 106**	**$ 1,790,709**	**$ 1,050,421**	**$ 2,841,130**

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 United States, which generates business revenue, creates and retains jobs, and enhances local and regional economies.

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

Women's Business Centers provide advising and training primarily to women entrepreneurs through over 100 nonprofit 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, which delivers 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.

Entrepreneurship Education includes a variety of educational online tools to promote active learning for aspiring entrepreneurs and small businesses. The SBA also provides high-growth small businesses and opportunity to strengthen and enhance their local entrepreneurial ecosystem through intensive, cohort-based business education programs.

All Other Training and 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:

(Unaudited)

(Dollars in Thousands)

For the Five Years Ended September 30,	2018	2017	2016	2015	2014
Small Business Development Centers	$ 110,400	$ 118,839	$ 94,196	$ 89,225	$ 154,400
SCORE	16,038	11,737	2,749	19,615	5,758
Women's Business Centers	23,995	24,300	17,135	18,658	24,842
Microloan Technical Assistance	28,595	23,658	28,864	19,216	21,552
SBA's Consulting and Training Programs	22,005	22,191	52,871	51,510	54,620
Veterans Outreach	18,151	22,924	22,999	27,031	13,244
Entrepreneurship Education	10,568	24,758	19,976	18,499	9,131
All Other Training and Assistance Programs	12,184	8,620	16,402	9,010	12,832
Total	**$ 241,936**	**$ 257,027**	**$ 255,192**	**$ 252,764**	**$ 296,379**

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DID YOU KNOW?

SBA

For the fifth consecutive year, in FY 2017, the federal government exceeded the 23 percent small business contracting goal, purchasing $105.7 billion in goods and services from small businesses through prime contract procurements. This represented 23.88 percent of all eligible federal spend and supported over 584,000 jobs in the American economy.

Success Story

Growing Business: SBA Resources Help Contractors Realize Dreams

Hensel Phelps Construction Company
Greeley, Colorado

For more than 80 years the Hensel Phelps Construction Company has been in business. The business offers a full range of construction services combined with the latest technology and world-class craftsmanship. Brad Lewis, Corporate Director of Supplier Diversity, regularly relies on SBA's Small Business Development Centers and Procurement Technical Assistance Centers to advertise subcontracting opportunities. These partnerships increase supplier diversity and have helped their business grow revenue. Last year, Hensel Phelps awarded 71 percent of subcontracts totaling $147 million to small businesses, of which $52 million went to small disadvantaged, $72 million to women-owned, $35 million to HUBZone, and $38 million to service-disabled veteran-owned small businesses.

OTHER INFORMATION

DID YOU KNOW?

SBA

The SBA's 7(a) and 504 loan programs continued to promote outreach through further training of its Lender Relation Specialists located in the district offices. The 7(a) loan program supported $25.4 billion in approved dollars for over 60,000 loans while the 504 loan program supported $4.8 billion in approved dollars for over 5,800 loans in FY 2018. This level of program activity demonstrated that access to capital through conventional sources remains a challenge for America's small business.

Success Story

Expanding Business: International Trade Is Key

Evans Capacitor Company
East Providence, Rhode Island

David Evans and Charles Dewey co-founded Evans Capacitor Company in 1996 to pursue technological inventions. Their business, based in Rhode Island, develops and manufactures high-energy, high-power density capacitors. Capacitors store energy and then, when needed, release that energy in a burst – like your camera battery releasing stored energy when you use the flash to take a picture. They now deliver capacitors to more than 100 customers annually, including Lockheed Martin Missiles and Fire Control for the U.S. Army's Apache attack helicopter. To expand their business market, they participated in SBA State Trade Export Promotion program events to gain an international presence. Through trade shows and advertising, they have expanded their customer base to Canada and the United Kingdom.

OIG REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES

REPORT ON THE MOST SERIOUS MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE SMALL BUSINESS ADMINISTRATION IN FISCAL YEAR 2019

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

Final Report Transmittal
Report Number: 19-01

DATE: October 11, 2018

TO: Linda E. McMahon
Administrator

FROM: Hannibal "Mike" Ware
Inspector General

SUBJECT: Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2019

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General's Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year (FY) 2019. The overall goal is to focus attention on significant issues with the objective of working with Agency managers to enhance the effectiveness of the Small Business Administration's (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, and 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 four 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 2019.

Summary of the Most Serious Management and Performance Challenges Facing SBA in FY 2019

	Challenge	Color Scores					
		Status at End of FY 2018				Change from Prior Year	
		Green	Yellow	Orange	Red	Up ↑	Down ↓
1	Small Business Contracting		2				
2	IT Leadership		6			1	
3	Human Capital		1				
4	SBA Loan Program Risk Management and Oversight	3[a]	1			3	
5	8(a) Business Development Program		3			3	
6	Ensuring Quality Deliverables and Reducing Improper Payments at SBA Loan Operation Centers	2				2	
7	Disaster Assistance Program	1	3	1		1	1
8	Acquisition Management						
	TOTAL	**6**	**16**	**1**		**10**	**1**

a For challenge 4 recommendation 2, 7(a) was rated green, while 504 was rated yellow. For simplicity, it is reflected as green in this table.

Significant changes to this year's management challenges include the removal of the acquisition management challenge and inclusion of a new grant management oversight challenge. SBA made substantial improvements to its acquisition program to address the challenges that we identified. SBA's increased its oversight of the acquisition program, updated its policies and procedures, and implemented a requirement for management to conduct annual reviews of the acquisition process controls. As a result, we are not including the acquisition program as a serious challenge for the agency.

We added a new challenge regarding SBA's grant management oversight. In FY 2018, SBA administered over $247 million in grants and cooperative agreements to its resource partners and other nonfederal entities to provide technical assistance and training programs to develop small businesses. Office of Inspector General audits have identified significant systemic deficiencies in SBA's grant management, including inaccurate financial and performance information, ineffective grantee and program oversight, and inefficient decentralized grant management functions.

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 most serious management and performance challenges.

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

The Small Business Act established a governmentwide goal that 23 percent of all prime contracts be awarded to small businesses each fiscal year. In its annual Small Business Goaling Report, the Small Business Administration (SBA) has reported since fiscal year (FY) 2013 that the federal government met or exceeded its goal of awarding 23 percent of federal contracting dollars to small businesses. However, SBA excludes certain procurements, such as those awarded by the Department of Defense (DoD) for overseas work, from the small business goaling baseline. These exclusions lead to overstatement of small business goaling achievements. In addition, over the years, Congress has expressed concerns about the accuracy of the report. These concerns have been substantiated by Office of Inspector General (OIG) and Government Accountability Office (GAO) audits, which identified widespread misreporting by procuring agencies, since contract awards reported as having gone to small firms have been substantially performed by larger companies. Specifically, in certain circumstances such as long-term contracts (durations of more than five years), if a firm's status as a small business changes and it is no longer small or in an SBA preference program, SBA's regulations allow those firms to be counted as small businesses. As a result, agencies continue to receive credit towards achieving their small business procurement goals for long-term contracts awarded to firms that are either no longer small or in SBA's preference programs. Furthermore, SBA has not implemented a certification process for the Women-Owned Small Business (WOSB) Federal Contracting Program, which can also affect the accuracy of the goaling achievements.

As the advocate for small business, SBA must strive to ensure that only eligible small firms obtain and perform small business awards. Since the goaling achievements SBA reports do not portray federal contract awards made only to small businesses, SBA should ensure transparency with regard to the contracting dollars to businesses that are not small. Further, SBA should ensure that procuring agencies clearly and accurately report contracts awarded to and performed by small businesses when representing their progress in meeting small business contracting goals. Without accurate and transparent data, SBA cannot reliably measure the federal government's small business procurement goal achievements, which weakens the ability of Congress and other federal policymakers to determine whether the government is maximizing contracting opportunities for small businesses.

Exclusions from the Small Business Goaling Report Impact the Overall Prime Contract Goal

SBA revised its goaling guidelines in FY 2018 to include in the goaling baseline the following four prior exclusions: Utilities, Resale, American Institute of Taiwan, and Non-Appropriated Agencies. However, SBA's guidelines continue to exclude certain types of contracts from the overall dollar baseline used to calculate achievement of small business goals. For example, the goaling guidelines exclude DoD contracts that were both awarded and performed abroad and those performed entirely abroad. While the National Defense Authorization Act for FY 2017 authorized DoD to remove certain contracts from its procurement baseline when reporting DoD-specific requirements, the congressional mandate does not exclude these categories of prime contracts from the governmentwide goal of 23 percent.

These exclusions, which are not mandated by the Small Business Act, weaken the ability of Congress and other federal policymakers to determine whether the government is maximizing contracting opportunities for small business awards and participation and meeting small business goals. By excluding certain types of contracts from the goaling baseline, SBA overstates the federal government small business goal achievements. This is evidenced in the General Services Administration FY 2017 Goaling Without Exclusions Report, which reported small business contract expenditure data without goaling exclusions applied, resulting in a small business procurement goal achievement of 21.5 percent—2.3 percent lower than the 23.8 percent reported by SBA. SBA should include the appropriate universe of federal procurement opportunities into the goaling guidelines baseline to ensure policymakers and other interested parties receive the most accurate and transparent picture of small business participation in federal contracting.

Agencies Receive Goaling Credit for Ineligible Firms, Firms No Longer in the 8(a) or HUBZone Programs, or Firms that are No Longer Small

Through our audit work, we continue to identify federal agencies that may have received credit towards their small business goals because procuring agency contracting officers incorrectly reported ineligible firms as either certified in the 8(a) or HUBZone programs in Federal Procurement Data System – Next Generation. In a September 2014 audit report, (Report 14-18) we identified over $400 million in FY 2013 contract actions that may have been awarded to ineligible firms. In a September 2018 audit report, (Report 18-22), we also identified that SBA did not consistently detect ineligible firms in the 8(a) program and did not always act to remove firms it determined were no longer eligible for the program. We found that 20 of 25 firms we reviewed should have been removed from the 8(a) program. These firms received $126.8 million in new 8(a) set-aside contract obligations in FY 2017 at the expense of eligible disadvantaged firms. The amount of dollars SBA reports to Congress and the public as being performed by 8(a) and HUBZone firms in the Small Business Goaling Report is significantly impacted by the inclusion of contract actions performed by ineligible program participants. SBA needs to strengthen its oversight to ensure only eligible firms participate in these preference contract programs.

Further, in Report 14-18, we found that over $1.5 billion dollars in FY 2013 contract actions were included towards small business contacting goals, even though the firms were no longer in the 8(a) Business Development or HUBZone programs. Through additional analytics, we also determined that of approximately $3.1 billion in contracts awarded to the top 100 individually owned firms in the 8(a) program in FY 2016, approximately $1.5 billion was awarded to firms no longer in the program.

SBA revised its regulations in 2004 to permit procuring agencies to claim small disadvantaged business and HUBZone goaling credit on certain contract actions, even after firms have left the program. SBA added these regulations in order to codify the existing “practice” of the agencies to include these firms even though they were no longer in a SBA preference program. Additionally, in 2006, SBA revised its regulations to address small business size status representations and reporting for long-term Federal contracts. These changes allow procuring agencies to receive credit for an award to a small business throughout the life of the contract, based on the size status of the firm at the time of the offer for 8(a), and at the time of application and award for HUBZone. Therefore, in cases where a small business grows to be other than small, the procuring agency may exercise options and still count the award as an award to a small business.

Although procuring agencies can award these long-term contracts, OIG contends that more transparent reporting of those awards is necessary to aid stakeholders and portray a true picture of the small business goaling achievements. While the regulations allow procuring agencies to receive credit for firms no longer in SBA preference programs, or are other than small, by including those contracts in the reported small business goals, SBA cannot accurately reflect or measure true program impact. SBA should consider enhancing its Small Business Goaling Report to be more transparent and accurately reflect small business participation by specifying the amount awarded under long-term small business contracts to firms that have since left the program, or are other than small.

Women-Owned Small Business Federal Contracting Program Susceptible to Abuse

SBA’s Women-Owned Small Business (WOSB) Program provides greater access to federal contracting opportunities to WOSBs and economically-disadvantaged WOSBs that meet the program’s requirements. Both OIG and GAO have reported weaknesses in SBA’s controls that would ensure only eligible firms receive WOSB Program set-aside contracts. While SBA stated it examines a sample of firms for eligibility and has conducted a compliance review of all four SBA-approved third-party certifiers, these processes and procedures have not yet been formalized.

The National Defense Authorization Act for FY 2015 granted contracting officers the authority to award sole-source awards to firms in the WOSB Program and required firms to be certified by a federal agency, a State government, SBA’s Administrator, or a national certifying entity approved by the Administrator. However, SBA implemented the sole-source authority provision first without a certification program. OIG considers allowing sole-source contracting authority in the

WOSB Program, without implementing the contemporaneously required certification program, inconsistent with SBA's statutory authorization. In a June 2018 audit report (Report 18-18), OIG identified that due to SBA's implementation of sole-source authority without a certification program, contracting officers at various federal agencies made sole-source awards without having the necessary documentation to determine eligibility. This implementation resulted in the awarding of approximately $52.2 million to potentially ineligible firms. SBA should continue to make progress toward addressing this shortcoming by ensuring timely completion of the remaining steps involved in the creation of a Final Rule for and implementation of a certification process for the WOSB Program. Because SBA still has not implemented a certification process for the WOSB Program as required, firms continue to self-certify, exposing the WOSB Program to potential fraud and abuse, as well as overstating SBA WOSB contracting goals.

Number of Actions Accomplished (Green Status) During Last 4 Fiscal Years (Challenge first reported in FY 2005)	2014: 1	2015: 0	2016: 1	2017: 0

Recommended Actions for FY 2019	Status at end of FY 2018
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 WOSB Program.	Yellow

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** No Progress

Challenge 2: SBA Needs to Continue to Improve Information Technology Controls to Address Operational Risks

During the past year, the Office of the Chief Information Officer (OCIO) enhanced its deployment of information technology (IT) controls and implemented most of the key components of the Federal Information Technology Acquisition Reform Act (FITARA). OCIO also made improvements in several security areas in the Federal Information Security Modernization Act (FISMA) criteria, including access controls, continuous monitoring, and configuration management. Notwithstanding these improvements, our assessments showed opportunities for improved or more complete deployment of required policies, procedures, and strategies. These areas include human resource planning, user training, contingency planning, and risk management.

OCIO Made Progress in Deploying FITARA Criteria

FITARA was enacted in December 2014. The goal of this legislation was to realize long-term cost savings through improved IT risk management, transparency, and more effective IT investment oversight. During this past year, OCIO incorporated many of the FITARA requirements, by improving its IT governance structure. Some examples include requiring program offices to engage with the Architectural Review Board for IT investments, updating system development methodology guidance to include cloud migration and Agile, and ensuring that the Business Technology Investment Council reviews performance management baselines. The Agency maintains that it has fully deployed all major process and procedures required by FITARA, and we will monitor these areas this coming year to determine whether critical controls are fully implemented.

Long-Standing Weaknesses in IT Security Controls Are Being Addressed

Our evaluations of SBA's systems and networks indicate that significant effort has been expended to formalize and document policies, procedures, and strategies. During this fiscal year, the Agency closed 35, or approximately 69 percent, of its outstanding IT recommendations, including recommendations dating back to 2011.

However, outstanding IT security vulnerabilities remain. Our evaluations utilizing the Financial Information Systems Audit Control Manual showed that the Agency had a significant deficiency in IT security controls and was assessed as "not effective" against criteria established by FY 2017 Inspector General FISMA Reporting Metrics. There are open recommendations in the areas of continuous monitoring, risk management, incident response, identify and access management and data rights management. OCIO should continue to focus on timely remediation of these vulnerabilities as SBA, like most federal agencies, continues to experience external cybersecurity threats.

Number of Actions Accomplished (Green Status) During Last 4 Fiscal Years (Challenge first reported in FY 1999, revised in FY 2016)	2015: 0	2016: 0	2017: 0	2018: 0
Recommended Actions for FY 2019				**Status at end of FY 2018**
1. Establish an OCIO human resource planning process that allows full deployment of FITARA.				Yellow
2. The OCIO performs independent oversight of IT investments consistent with guidance.				Yellow
3. The OCIO facilitates enterprise architecture and demonstrates accountability for IT investments.				Yellow
4. The OCIO establishes and implements information security and continuous monitoring practices, and contractor systems policies and standards to ensure ongoing effectiveness of information systems.				Yellow
5. The OCIO maintains effective risk management, contingency planning, and incident response practices to minimize vulnerabilities.				Yellow ↑
6. The OCIO establishes configuration management and identity and access management controls and procedures.				Yellow

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** No Progress

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

Over a decade ago, we identified human capital management as a top challenge for SBA. Since that time, SBA made substantial progress to address this long-standing challenge. Specifically, SBA developed and implemented plans that aligned talent needs and capabilities with its strategic plan. The Agency also implemented strategic workforce and succession plans to identify competency gaps, strengthen its leadership capacity, and address the challenges of its aging workforce. Nonetheless, according to GAO, agencies need to do further work to fully use workforce analytics to evaluate actions taken to demonstrate progress in closing the competency gaps. According to GAO, mission critical skill gaps within the federal workforce pose a high risk to the nation. Long-term fiscal pressures and the changing nature of the workforce, compounded with a potential wave of employee retirements, could produce gaps in leadership and institutional knowledge.[11]

SBA continues to make progress in addressing our recommendation to update its human capital management policies. In March 2018, SBA issued an Employment Development Program policy; however, two policies are still outstanding. OIG reiterates the need to establish timeframes to update and implement policies in support of the agency's long-term goals and objectives for human capital management.

SBA identified 50 percent of its employees in mission critical occupations and senior positions as being eligible to retire by 2020.[12] As a result, OIG plans in FY 2019 to assess the effectiveness of SBA's actions to mitigate its workforce challenge risk. OIG also plans to evaluate the Agency's use of workforce analytics to evaluate its progress in closing its competency gaps.

Number of Actions Accomplished (Green Status) During Last 4 Fiscal Years (Challenge first reported in FY 2001, revised FY 2007)	2014: 0	2015: 1	2016: 0	2017: 1
Recommended Actions for FY 2019				**Status at end of FY 2018**
1. Ensure that human capital management SOPs are updated and appropriately structured to support the Agency's long-term goals and objectives and governmentwide human capital management initiatives.				Yellow

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** No Progress

11 GAO, High-Risk Series: Progress on Many High Risk Areas While Substantial Efforts Needed on Others, GAO-17-317, dated February 2017.
12 SBA Strategic Workforce Plan FY 2017–2020.

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

SBA's Office of Credit Risk Management (OCRM) manages credit risk for a nearly $132 billion loan portfolio originated by lenders and certified development companies that have various degrees of expertise regarding SBA loan program requirements. The majority of SBA loans are originated by lenders with delegated approval authority, resulting in limited SBA oversight and quality control reviews until a default occurs. Many lenders 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 OIG audits identified that SBA did not recognize significant lender weaknesses, develop an effective portfolio risk management program, or effectively identify and track third-party agent involvement in its 7(a) and 504 loan portfolios. Since the audits, SBA has significantly improved its oversight of lenders and made progress in implementing a portfolio risk management program. However, SBA made limited progress in identifying and tracking third-party agents.

While SBA improved its oversight of lenders and the risk management program, SBA needs to show that the portfolio risk management program is used to support risk-based decisions and implement additional controls to mitigate risks. Moreover, SBA needs to develop an effective method for tracking loan agents and update regulations on loan agents.

SBA Improved Oversight of Lending Participants

The risks inherent in delegated lending require an effective oversight program to monitor compliance with SBA policies and procedures and take corrective actions when a material noncompliance is detected. However, in a prior audit, OIG found that SBA did not always recognize the significance of lender weaknesses or determine the risks that 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.

From FY 2013 to FY 2017, SBA improved its oversight of lending participants. For example, SBA developed risk profiles and lender performance thresholds, developed a select analytical review process to allow for virtual risk-based reviews, updated its lender risk rating model to better stratify and predict risk, and conducted test reviews under the new risk-based review protocol. Additionally, OCRM revised its review methodologies for 7(a) and 504 program lenders and engaged contractor support to expand on its corrective action follow-up process. Further, SBA monitored and verified implementation of corrective actions to ensure effective resolution prior to closeout which represented the full implementation of recommendation 1 in FY 2017. In FY 2018, OCRM continued to demonstrate that it monitored and verified implementation of corrective actions.

SBA Improved Portfolio Risk Management Program

A prior OIG report noted 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. Our analysis showed 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. The pilot 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 substantial progress in demonstrating that information from the portfolio risk management program is used to support risk-based decisions and implementing additional controls to mitigate risks in SBA loan programs. Specifically, in FY 2016 SBA established performance measures and risk mitigation goals applicable to each loan program and the entire lending portfolio. OCRM also 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. In FY 2017, SBA began an ongoing study of lender compliance with SBA loan status reporting. SBA identified deficiencies with the reporting and subsequently issued Information Notice 5000-1945, reminding lenders of the reporting requirements. Lastly, in FY 2018, SBA analyzed areas of identified risk including assessing the impact of hurricane deferments on 7(a) portfolio performance, accommodations concentration in the 7(a) portfolio, and an evaluation of the Community Advantage Program. Based on these analyses, SBA determined that the hurricane deferments would not have a significant impact on the ability to continue to operate at a zero subsidy, accommodations concentrations warrant continued monitoring, and that changes are necessary to the Community Advantage Program.

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 meetings. SBA will need to continue to demonstrate during FY 2019 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 identified that SBA did not have a way to effectively identify and track loan agent involvement in its 7(a) and 504 loan portfolios and had 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 FY 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 increasing the risk of default. Despite the prevalence of fraud in its loan portfolios, SBA's oversight of loan agents has been limited.

However, SBA has made substantial progress in developing effective methods to disclose and track loan agent activities on 7(a) program loans. Specifically, SBA requires lenders to provide a loan agent disclosure form (Form 159) to SBA's fiscal and transfer agent (FTA). Additionally, the FTA must 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. While SBA has implemented 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, SBA will likely need to make further modifications to this process. In 2016, SBA issued a notice to lenders reiterating its requirements for loan agent disclosures and submission of the Form 159 to its FTA.

Additionally, in response to OIG concerns that SBA loan agent enforcement regulations are outdated, SBA prepared the Final Rule for Agent Revocation and Suspension Procedures, which was submitted to and approved by the SBA Administrator. However, due to the Presidential Executive Order on Reducing Regulation and Controlling Regulatory Costs, SBA does not intend to submit the final regulation to the Office of Management and Budget (OMB). SBA has indicated that the additional regulation is no longer necessary to provide effective enforcement procedures for loan agents because those effective enforcement procedures already exist in the SOP. Based on our review, we have determined that SBA's existing regulations and enforcement procedures would likely be sufficient.

In response to our loan agent report, SBA stated that it would explore the feasibility of implementing a registration system. Subsequently, SBA determined that the optimal way to gather information is the enhanced Form 159 that is required to be submitted electronically. The enhanced Form 159 was recently approved by OMB and will be rolled out with official notification and lender training. In addition to the enhanced Form 159, SBA's upcoming FTA contract will require the FTA to develop application and follow-up controls over lender submissions, to ensure that critical fields on each form are completed. SBA expects the enhanced controls to be fully implemented during FY 2019. In FY 2018, OIG removed one action (previously number five) from this challenge because recommended action number three fully addresses the intent of both recommended actions and aligns with the ongoing process improvements.

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 2015 report, the number of SBA-approved LSP agreements has reached almost 2,500, due in part to SBA's effort to better control access by LSPs to its systems. Specifically, SBA assigns an identifying number for all LSPs that access SBA systems and records all SBA-approved LSP agreements. This trend has enabled OCRM to develop initial performance metrics on LSP performance, but oversight is still limited. This audit also noted that several 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 Past 4 Fiscal Years (Challenge first reported in FY 2001)	2014 7(a) loans: 0 504 loans: 0	2015 7(a) loans: 1 504 loans: 1	2016 7(a) loans: 0 504 loans: 0	2017 7(a) loans: 1 504 loans: 1

Recommended Actions for FY 2019	Status at end of FY 2018	
	7(a)	504
1. Monitor and verify implementation of corrective actions to ensure effective resolution prior to closeout.	Green	Green
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.	Green ↑	Yellow
3. Develop an effective method of disclosing and tracking loan agent involvement in SBA business loan programs.	Yellow	Yellow ↑
4. Update regulations (13 CFR Part 103) regarding loan agents to provide effective enforcement procedures.	Green ↑	Green ↑

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** 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 Into the Program, and Standards for Determining Economic Disadvantage Are Justifiable

SBA's 8(a) Business Development 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 it is providing effective business development assistance to 8(a) firms and that only eligible firms are admitted into and remain in the program. Additionally, SBA faces the challenge of developing objective and reasonable criteria for determining at which point socially disadvantaged individuals are deemed economically disadvantaged.

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 also has taken steps to ensure business opportunity specialists assess program participants' business development needs during site visits. Furthermore, during FY 2018, SBA implemented additional measures for business opportunities specialists to use to assess 8(a) firms' development for those firms participating in the 8(a) mentor-protégé program.

Despite these improvements, SBA has not fully implemented an IT system that, among other functionalities, it had designed to aid its monitoring efforts to track 8(a) participants' business development. SBA had made previous attempts to revamp its IT systems for monitoring 8(a) firms that have been unsuccessful. SBA is now taking a more comprehensive approach to service delivery through Certify.sba.gov, which is broader in scope than just the 8(a) program and includes the WOSB, HUBZone, and mentor-protégé programs. To date, SBA implemented limited functionality for the 8(a) program. According to program officials, although the system is not fully operational, they have gained efficiencies by collapsing the functionality of two previous systems they were using to manage the program—E-8(a) and the Business Development Management Information System. As of September 2018, SBA had spent over $24 million on this system, and it plans to continue implementing functionalities for the 8(a) program through FY 2020

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

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. Consequently, in FY 2016, 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 streamlined application process. However, as of April 2018, SBA reported the 8(a) program includes 4,903 firms, which is a decline of nearly seven percent over the 5,260 firms reported participating in the program as of March 2017.

According to SBA officials, the streamlined application process is less burdensome for firms applying to the 8(a) program. As part of this modified 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. Furthermore, in FY 2016, we initially reported that SBA did not fully document that 30 of 48 firms were eligible for the 8(a) program. As a result, it was not clear whether these 30 firms should have been approved into the 8(a) program (Report 16-13). At the request of SBA's former Deputy Administrator, we conducted a follow-on audit to determine whether SBA resolved eligibility concerns for the 30 firms. We determined that SBA resolved eligibility concerns for 20 of the 30 firms that we reviewed. However, we continued to question the eligibility of 10 of the 30 firms (Report 17-15). Based on the audit, SBA agreed to add additional controls to the process; however, it has not implemented any corrective actions during FY 2018.

SBA is responsible for the integrity of the 8(a) program. We urge SBA to ensure that only eligible firms are admitted into and remain in the program, and that the documentation supporting 8(a) program application approvals is maintained in a method ensuring clear eligibility of the applicant. A lack of documentation clearly demonstrating eligibility of applicants or a lack of due diligence by SBA program managers can present evidentiary challenges when pursuing fraud against SBA and its program participants.

Deficiencies in Continuing Eligibility Processes Expose the 8(a) Program to a Higher Risk of Fraud

While SBA continues to consider corrective actions to improve safeguards throughout the initial 8(a) eligibility review process, SBA also needs to implement corrective actions to improve its continuing eligibility review process. In FY 2018, we reported that SBA's oversight was insufficient to ensure that 8(a) Business Development Program participants met continuing eligibility requirements (Report 18-22). We found SBA did not consistently identify ineligible firms in the 8(a) program and did not always act to remove firms it determined were no longer eligible for the program. In addition, SBA did not perform required continuing eligibility reviews when it received specific and credible complaints regarding firms' eligibility and did not log all complaints. We found that 20 of 25 firms we reviewed should have been removed from the 8(a) program. These firms received $126.8 million in new 8(a) set-aside contract obligations in FY 2017 at the expense of eligible disadvantaged firms. Until SBA makes improvements to ensure it delivers an effective 8(a) program, 8(a) firms that are ineligible will continue to compete with and receive federal awards that were intended to develop disadvantaged small businesses.

SBA Dollar Threshold for Economic Disadvantage Not Justified

In March 2011, SBA revised its regulations and established additional standards to address the definition of "economic disadvantage" as an individual with a net worth of less than $250,000. In FY 2018, a contractor completed a study to assist SBA in defining or establishing criteria for determining what constitutes "economic disadvantage." According to Agency officials, the study concluded that individuals with an adjusted net worth of $375,000 should constitute "economically disadvantaged." Based on the results of the study, the Agency is drafting a proposed rule to address increasing the "economic disadvantage" adjusted net worth.

OIG contends that the Agency should develop objective and reasonable criteria for determining the threshold where socially disadvantaged individuals face economic disadvantage due to diminished credit and capital opportunities.

Number of Actions Accomplished (Green Status) During Past 4 Fiscal Years (Challenge first reported in FY 2003)	2014: 0	2015: 0	2016: 0	2017: 2
Recommended Actions for FY 2019				**Status at end of FY 2018**
1. Establish objective and reasonable criteria that effectively measure "economic disadvantage" and implement the new criteria.				Yellow ↑
2. Augment and Implement controls that ensure only eligible firms are admitted into the 8(a) program.				Yellow ↑
3. Develop and implement a system to assist program officials in monitoring participants' progress in the 8(a) Business Development Program and providing business development needs on an individualized basis.				Yellow ↑
4. Measure 8(a) Business Development Program participant's progress on achieving its individualized business development goals and assess program effectiveness.				New
5. Implement controls to detect ineligible firms in the 8(a) program during the continuing eligibility reviews, effectively address complaints received regarding 8(a) firms, and remove ineligible firms from the 8(a) program timely.				New

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** 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 2017, the dollar amount of SBA's 7(a) loan approvals reached a record high of $25.4 billion. Most of these loans are made by lenders with delegated approval authority. 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 2017, the amount of loans sold on the secondary market totaled approximately $9.4 billion.

Previous OIG audits noted that quality control activities were not being performed at the Centers in accordance with SBA's overall Quality Control and Center specific guidance. Also, SBA management emphasized quantity over quality for 7(a) loan origination reviews, and loan specialists were not provided adequate guidance or training. In addition, OIG 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.

Since the audits, the Office of Capital Access (OCA) improved the quality control program for its loan centers and took actions to accurately report and reduce improper payments. Also, OCA modified the structure of a key loan center to allow for appropriate supervision and revised production standards for loan specialists. Further, OCA hired additional staff at the Loan Guaranty Processing Center, developed training related to corrective actions, and revised its loan review process.

While OCA made substantial improvements, OCA needs to continue to provide evidence that the developed corrective action plans are effective in reducing improper payments. OCA will also need to demonstrate that its loan centers are staffed with qualified resources that are appropriately trained and supervised.

SBA Improved Its Quality Control Program to Ensure Timely Implementation of Corrective Actions

OCA has made significant progress in developing and implementing a quality control program for all of its loan centers to verify and document compliance with the loan process, from origination to closeout. Additionally, OCA has taken actions to accurately report and reduce improper payments in SBA's 7(a) Loan Program. Specifically, OCA has formalized its improper payment sampling, demonstrated that its improper payments review process is effective for 7(a) loan approvals, and formalized the recovery process and time standards for 7(a) purchases. In addition, OCA developed corrective action plans for 7(a) loans, established repayment ability review requirements that are effective at identifying improper payments, revised improper payment review checklists, and demonstrated recovery from lenders in a timely manner during FY 2016.

In FY 2017, OCA developed enhanced improper payments reporting to monitor root causes and identify operational risk. These reports inform management on training opportunities and improvements needed in policies and procedures. Further, the quality control team recommended policy changes in the SOP 50 10 rewrite to reduce improper payments. In FY 2018, preliminary estimates from the Agency's statistician indicate that they met their published improper payment reduction target for 7(a) guaranty purchases.

OCA needs to continue to demonstrate in FY 2019 that the developed corrective action plans are effective in reducing improper payments.

SBA Improved Staffing, Training, and Supervision at the Loan Approval Center

Program management's 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. In addition, SBA processing centers often must meet high demands for production with limited resources, resulting in inventory backlogs and a focus on production activities. For example, a prior OIG report noted that SBA management emphasized quantity over quality for 7(a) loan origination reviews at the Loan Guaranty Processing Center (LGPC) and that loan specialists were not provided adequate guidance or training to conduct their 7(a) loan review activities. SBA addressed our recommendations to revise production standards, improve internal guidance, develop a training plan, and allocate resources to ensure risk is mitigated and quality is emphasized. In doing so, SBA modified the structure of the LGPC to allow for appropriate supervision. Additionally, the center revised production standards for loan specialists related to screen outs. SBA will need to continue to demonstrate that the LGPC is appropriately staffed with qualified resources that are appropriately trained and supervised.

SBA Implemented Corrective Actions to Reduce Improper Payments

As noted above, OCA has taken actions to accurately report and reduce improper payments in SBA's 7(a) Loan Program. However, 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 the related loans.

OIG reviews high-risk loans purchased by SBA to determine whether lenders materially complied with SBA requirements and to identify suspicious activity. As of September 2018 (Report 18-26), under the OIG's High Risk 7(a) Loan Review Program, we reviewed 27 loans with purchase amounts totaling almost $23.2 million. We have recommended recoveries on 11 loans totaling more than $8.5 million. In addition, we identified suspicious activity on five loans totaling nearly $4 million, resulting in formal referrals to our Investigations Division. Our reviews also have identified concerns with change of ownership transactions and SBA's review of improper payments. We recommended that SBA evaluate the time loan specialists must review complex early-defaulted loans. In response to this recommendation, OCA modified the production standards to allow loan specialists more time to review complex early defaulted loans. In addition, OCA made improvements to its review of loans by providing training to loan specialists and updating the loan review checklist.

In FY 2018, OCA continually assessed the inventory and production levels at the loan centers to ensure the appropriateness of staffing. For example, OCA monitors the loan inventory and reallocates staff as necessary to meet the demand and ensures that all purchase reviews are being completed in a timely manner. While OCA is working to backfill vacancies at the National Guaranty Purchase Center (NGPC), the reallocation of staff has allowed the NGPC to continue to meet the demands. In addition, the quality control team conducts ongoing analyses of loan review decisions to determine root causes of deficiencies and develop corrective actions. NGPC management and quality control staff provides targeted training to Center staff based on these analyses.

OCA needs to continue to demonstrate in FY 2019 that the loan centers are appropriately staffed and that the additional time allotted to loan specialists on complex early-defaulted loans is sufficient to identify complex improper payments.

Actions Accomplished (Green Status) During Past 4 Fiscal Years (Challenge first reported FY 2010)	2014 7(a) Approvals: 1 7(a) Purchases: 1	2015 7(a) Approvals: 0 7(a) Purchases: 1	2016 7(a) Approvals: 0 7(a) Purchases: 0	2017 7(a) Approvals: 0 7(a) Purchases: 1

Recommended Actions for FY 2019	Status at end of FY 2018	
	7(a) Approvals	7(a) Purchases
1. Demonstrate that corrective action plans are effective in reducing improper payments in the 7(a) Loan Program.	Green ↑	Green ↑
2. 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.	Green ↑	Green ↑

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** No Progress

Challenge 7: SBA's Disaster Assistance Program Must Balance Competing Priorities to Deliver Timely Assistance and Reduce Improper Payments

The disaster loan programs play 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 2017 year-end disaster assistance loan portfolio balance was $6.2 billion. SBA must balance the priority of delivering timely assistance to disaster survivors in the immediate aftermath of a devastating life event against the need to ensure program integrity.

In FY 2008, following Hurricane Katrina, new private sector disaster loan programs were statutorily authorized and were intended to assist in disbursing funds quickly and effectively. SBA has not fully implemented these programs. The authorizing legislation required SBA to implement guaranteed disaster loan programs in partnership with private lenders. In FY 2018, two of the programs had their unobligated funding canceled, and SBA is now requesting the same for the two other programs in FY 2019. After that, SBA plans to seek congressional support for the cessation of program authority for all four programs. The ability to provide low-interest disaster loans in a timely manner is necessary to help small businesses and homeowners recover from a declared disaster, which is a key tenet of SBA's mission—to assist in the economic recovery of communities after disasters. In October2017, SBA announced the implementation of the Express Bridge Loan Pilot Program. The pilot program provides a streamlined approach to quickly get emergency financial relief of up to $25,000 to small businesses in presidentially declared disaster areas. The pilot program is scheduled to run for three years from October 16, 2017, through September 20, 2020; however as of August 17, 2018, SBA has not approved or disbursed any loans under this program.

We also are concerned that SBA does not sufficiently 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, taxes, and loan payments. Loans to borrowers with high debt burdens are more likely to default. On September 6, 2017, ODA increased MAFD to 75 percent for all income levels without the need to provide justification.

Finally, disaster loans are vulnerable to improper payments, fraud, and default because loan transactions are often expedited to provide quick relief to disaster survivors. SBA is continually challenged to maintain a low improper payment rate in this program. Lending personnel hired in connection with a disaster declaration may lack sufficient experience, and the volume of loan applications may overwhelm SBA's resources and its ability to exercise careful oversight of lending transactions. SBA had an increase in its reported improper payment rate from prior years, because of the need to mobilize a new workforce to respond to large-scale disasters. For example, in response to Hurricanes Harvey, Irma, and Maria, ODA increased trained staff from 800 to its peak of 5,094 on December 13, 2017. ODA increased trained staff at all five of its centers in response to the three hurricanes.

Private Lender Programs Intended to Quickly Disburse Disaster Funds Not Implemented

Following Hurricane Katrina, congressional representatives expressed concern that SBA did not effectively develop and use programmatic innovations intended to assist in disbursing funds quickly and effectively. The Small Business Disaster Response and Loan Improvements Act of 2008 required SBA to establish three new guaranteed disaster programs using private sector lenders—Expedited Disaster Assistance Program (EDAP), the Private Disaster Assistance Program (PDAP), and the Immediate Disaster Assistance Program (IDAP). Together, these programs are collectively known as the "Guaranteed Disaster Assistance Programs."

While SBA established regulations and procedures to deliver IDAP, it did not do so for the EDAP and PDAP. SBA notified Congress that it had sought advance public comment on proposed rulemaking and received limited responses, most which were opposed to their implementation. SBA also reported that its partner lenders chose not to participate. Therefore, SBA is in the process of seeking rescission of these three programs. As SBA requested, the Appropriations Act of 2018 included permanent cancelation of $2.6 million in unobligated funding for IDAP and EDAP. SBA has requested rescission of the remaining PDAP program in its FY 2019 Congressional Budget Justification. SBA officials expect that

Congress will follow the precedent set last year and permanently cancel PDAP in the Appropriations Act of 2019. After that, SBA plans to seek congressional support for cessation of program authority for all three guaranteed disaster loan programs. OIG notes that GAO has closed all audit recommendations related to these programs.

SBA indicated that it has improved its disaster assistance delivery channel and is now better equipped to provide more timely disaster assistance. The Agency also indicated that its larger unsecured disaster loan limit, now at $25,000, allows more funds to be disbursed quickly following a disaster.

Express Recovery Opportunity Loan Program Not Implemented

The RISE After Disaster Act, enacted November 25, 2015, introduced the Express Recovery Opportunity Loan Program that was intended to leverage private sector resources to quickly provide up to $150,000 loans to disaster survivors. The Act required SBA to promulgate regulations for this loan program within 270 days, which was not done.

In FY 2017, SBA studied this proposed program and concluded that it duplicates the existing SBA Express Loan Program, and cannot be delivered as designed without subsidy costs, which puts the entire SBA Express Loan Program at risk due to an extended eligibility period. SBA determined that this program could not be delivered at zero subsidy with the fee structure that was enacted. SBA also believes that the proposed five-year disaster eligibility period will cause lenders to shift ordinary Express loans to Recovery Express loans due to the higher guarantee rate, exposing SBA to greater risk and endangering the program. SBA requested rescission of the program in its FY 2019 Congressional Budget Justification and has deferred creation of program regulations. SBA plans to seek congressional support for cessation of this program.

On October 16, 2017 SBA announced the implementation of the Express Bridge Loan Pilot Program. The pilot program adopts some of the objectives included in the RISE Express Recovery Opportunity Loan Program, without duplicating or endangering the existing SBA program. It provided a streamlined approach to quickly get emergency financial relief of up to $25,000 to small businesses in presidentially declared disaster areas. This is in the form of expedited guaranteed bridge loan financing for disaster-related purposes, while small businesses apply for and await long term financing. SBA is running the pilot program for three years from October 16, 2017, through September 20, 2020. As of August 17, 2018, SBA has not approved or disbursed any loans under the pilot program.

Increased Maximum Acceptable Fixed Debt Threshold May Limit Borrower's Ability to Repay Disaster Loans

SBA uses the fixed debt method to determine disaster home loan affordability. This method assumes that there is a debt threshold, known as the maximum acceptable fixed debt (MAFD) beyond which loans become unaffordable and likely to default. Prior to November 2012, there were two MAFD tiers: 36 percent for incomes below $25,000 and 40 percent for incomes above $25,000. A November 2012 policy memorandum increased the number of tiers and raised MAFD to 50 percent for incomes of $60,000 and above. The policy memorandum, later incorporated into SOP 50 30 8, also diminished the level of authorization required to approve loans that do not conform to the established MAFD percentages. The provisions of policy memorandum have since been incorporated into SOP 50 30 8, Disaster Assistance, issued in July 2015.

On September 6, 2017, ODA issued Memo 17-22, New Credit Model Pilot, effective for all disasters declared on or after August 25, 2017. The memo provides increasing MAFD to 75 percent for all income levels without the need to provide justification, increasing the thresholds for RAPID loan processing to credit score of 670 and income of at least $50,000, and increasing the auto-decline threshold from a credit score of 539 to 569. ODA asserted in the FY 2017 Annual Financial Report that the increase in MAFD was warranted based on 24 months of working closely with a third-party consulting firm. According to ODA, the firm validated that increased MAFD percentage limits will have an insignificant impact on the loan portfolio's loss rate. On May 31, 2018, ODA issued SOP 50 30 9, which has incorporated the provisions of Memo 17-22.

ODA believes that credit score is more of an indicator of charge-off likelihood than any other factor. Further, the data supports decreasing emphasis on debt to income (DTI) as it relates to the ODA decision-making process. It is for this reason that ODA now considers credit score and income as the primary factors to determine repayment ability. When ODA is unable to make a decision based on these factors, ODA will use a DTI calculation, allowing up to 75 percent. OIG recently commenced an audit to assess ODA's MAFD and determine its potential impact on the charge-off rate.

Reserve Staff Require Training to Sustain Productivity During Mobilization

During large-scale disasters such as Hurricanes Sandy and Harvey, SBA must bring on new loan officers and loss verifiers to match the volume of loan applications and prevent processing backlogs that delay the delivery of disaster assistance. In response to Hurricanes Harvey, Irma, and Maria, ODA increased trained staff from 800 to its peak of 5,094 on December 13, 2017. This included the Processing and Disbursement Center, which increased staff by more than 700, Field Operations Centers East and West combined increased by more than 360, the Damage Verification Center increased by more than 200, and the Customer Service Center increased by more than 130. ODA trained over 1,000 loan processing staff and 600 loss verifiers to mobilize in response to the hurricanes. In addition, ODA deployed 1,500 field personnel and staffed more than 443 disaster centers in response to the three hurricanes.

On May 31, 2018, ODA completed an After Action Report for Hurricanes Harvey, Irma, and Maria, which identified successes, challenges, and action items. As a result, ODA launched a cross-functional Training Plan Development Team that is developing core training modules, as well as online and automated tutorials. In FY 2019 SBA should monitor its results and refine its training approach, if needed, depending on the results of the Hurricanes Harvey and Irma disaster cycles.

Improper Payment Rate Remains Above IPERA Significance Threshold

SBA's improper payment rate for the Disaster Direct Loan Program disbursements increased from 5.32 ($18.4 million) in FY 2016 to 13.65 percent ($123.38 million) in FY 2017, The Agency asserted the rate increase was anticipated due to larger disaster volume and less experienced staff. OMB Memorandum M-15-2 requires agencies to identify the reasons their programs or activities are at risk in developing their corrective action plan. Furthermore, it states that, for programs susceptible to significant improper payments, agencies should identify the root causes of the improper payments, and implement appropriate, robust corrective actions to prevent and reduce the related improper payments. To reduce disaster loan improper payments, 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. While SBA has made progress in reducing improper payments in the disaster loan programs, our ongoing audit work indicates that further improvements are needed. In FY 2019, SBA needs to continue to meet its improper payment reduction targets.

Actions Accomplished (Green Status) During Past 4 Fiscal Years (Challenge first reported FY 2015)	2014: 0	2015: 0	2016: 0	2017: 0
Recommended Actions for FY 2019				**Status at end of FY 2018**
1. Promulgate regulations for the new guaranteed disaster loan programs mandated by Congress in 2008				OCA Yellow
2. Promulgate regulations for the Express Recovery Opportunity loan program provided by the RISE After Disaster Act.				OCA Yellow
3. Demonstrate that the Agency has adequately trained loan processing staff that can be quickly mobilized in the event of a disaster and refine its training approach, if needed, depending on the results of the Hurricanes Harvey, Irma, and Maria disaster loan cycles.				ODA Green ↑
4. Strengthen internal controls to minimize the risk of charge-offs associated with the increased MAFD threshold.				ODA Yellow
5. Reduce the improper payment rate to meet the reduction targets in FY 2018, in accordance with the FY 2017 Agency Financial Report to comply with the Improper Payments Elimination and Recovery Improvement Act of 2012.				ODA Orange ↓

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** No Progress

Challenge 8: SBA Needs Robust Oversight of Its Grant Management

In FY 2018, SBA administered over $247 million in grants and cooperative agreements to its resource partners and other nonfederal entities to provide technical assistance and training programs to develop small businesses. With recent governmentwide emphasis on grant management reform, it is SBA's responsibility to develop processes and policies to ensure its grant programs effectively and efficiently accomplish program objectives. However, OIG reviews of SBA's grant programs continue to identify significant systemic deficiencies in SBA's grant management. Specifically, we identified systemic issues with SBA's accuracy of grant data for both financial and performance reporting, ineffective oversight, and inadequate standard operating procedures.

Data Accuracy Concerns

SBA's issues with grant program data quality affects SBA's ability to report timely, complete, and accurate information as required by the Digital Accountability and Transparency Act of 2014. In a management advisory memorandum (Report 18-15), we reported on the material weakness identified by an independent accounting firm pertaining to SBA's controls over the accuracy of data reported on USASpending.gov. Overall, the firm reported a 32 percent error rate for the transactions it reviewed, including procurement, grants, and disaster business loans. However, of the 72 randomly selected grant transactions, the firm found 64, or 89 percent, had inaccuracies reported in USASpending.gov. Further, in its own internal A-123 review on the grant management process used by the Office of Grant Management, the Agency component responsible for administering most of SBA's grants, SBA's internal auditors found that 100 percent of the sampled transactions contained inaccuracies. Without accurate reporting in USASpending.gov, policymakers and the public cannot effectively track federal spending.

Inadequate Oversight of Grant Recipient's Use of Federal Funds and Grant Program Performance

As stewards of taxpayer funds, SBA needs to make substantial improvements to its grant management processes and procedures to ensure the funds are used for allocable, allowable, and reasonable expenditures. We identified systemic issues with SBA's oversight of grant recipients' use of federal funds. These included SBA not enforcing financial reporting requirements, not detecting grant recipient budget reallocations, using weak financial review procedures, and missing supporting documentation. Further, SBA did not have adequate controls to ensure it completes grant closeouts in accordance with federal regulations, recently brought to the forefront for federal grant management with recent reporting requirements in Grants Oversight and New Efficiency Act. Without more robust review procedures, SBA's programs are at risk of funds not being used for their intended purpose.

Further, recent OIG reviews of SBA's grant programs continue to identify significant weaknesses within SBA's oversight of its grant program performance. Specifically, we've found that SBA did not ensure that performance data was accurate or complete, that recipients provided sufficient supporting documentation for its reported performance, that it enforced performance reporting requirements, and that it performed comprehensive review procedures. Without accurate and complete performance reporting and comprehensive reviews of performance reports, SBA risks its grant programs not achieving the intended results. Moreover, OIG consistently reports that SBA did not ensure that performance measures adhered to Government Performance and Results Modernization Act of 2010. Further, without outcome-based measurements, SBA cannot determine whether the program achieved its intended impact.

Organizational Structure Challenges

SBA's decentralized grant management function further perpetuates the inefficiencies found in SBA's grant management process. Currently, SBA has three offices that award, monitor, and close out grants. These offices use separate policies and procedures to manage Agency grants. Though the three offices all perform the same responsibilities, there is no overarching office or official responsible for ensuring that the various grant-making components adhere to federal laws and regulations, grant officers are adequately trained, or that process and procedures used to award and monitor grants are efficient and effective. Because the grant management function is not aligned under a centralized office, implementing corrective measures to minimize the impact of the systemic issues and sustaining the corrective actions continues to be a challenge for SBA. In recognizing common issues throughout its grants programs, SBA management should collaborate to foster agency wide improvements to ensure federal funds are used for its intended purposes and that its programs achieve intended results.

Planned Improvements

The Office of Grants Management officials acknowledged that there are systemic issues within its grant management processes and plan to address these issues by implementing a new grant management system, implementing policies to establish an overarching oversight function for all of SBA's grants, establishing new training requirements for grants officers, and focusing resources on closing out grants to comply with Grants Oversight and New Efficiency Act requirements.

New Challenge for FY 2019	2014: N/A	2015: N/A	2016: N/A	2017: N/A
Recommended Actions for FY 2019				**Status at end of FY 2018**
1. Conduct an overall evaluation of its grant management organizational structure with an emphasis on centralizing the oversight of these programs in order to reduce and ultimately eliminate systemic issues for maximum program success.				**New**
2. Implement a system to effectively manage and monitor grant awards, to include a process for ensuring the data submitted to USASpending.gov complies with DATA Act requirements.				**New**
3. Update grant management policies and procedures to ensure grant officers enforce grant recipients comply with financial and performance requirements, verify that reported information is accurate and complete, and ensure applicants' proposals include plans to measure performance in a way that will help SBA achieve program outcomes.				**New**
4. Establish training requirements for all grants officers and program personnel responsible for monitoring grant recipients performance to enforce compliance with SBA's established procedures for grant management and best practices for administering grant awards and monitoring performance. The training should address the systemic issues we identified in this summary report.				**New**

Green Implemented **Yellow** Substantial Progress **Orange** Limited Progress **Red** No Progress

PAYMENT INTEGRITY

As required by the Improper Payment Information Act of 2002 (IPIA), as amended, and OMB Circular No. 123, Appendix C, *Requirements for Payment Integrity Improvement*, the SBA reviews programs identified as susceptible to improper payments.

Improper payment reviews are a multi-layered process that start 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 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 SBA reviewed five programs and activities that are deemed susceptible to significant improper payments that included three major credit programs as mandated by OMB, and disbursements for goods and services. The three major credit programs are:

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

At the beginning of FY 2016 the OMB designated the 7(a) Loan Guaranty Approvals program as a high-priority program based on the estimated improper payments of $848 million in FY 2015, which exceeded the OMB's high-priority threshold of $750 million. In both FY 2016 and FY 2017, the improper payment amount fell below the threshold and in FY 2018 OMB approved a rescission of the designation of high-priority for this program.

The Additional Supplemental Appropriations for Disaster Relief Requirements Act, 2017 outlined reporting requirements for disaster relief funds provided to certain agencies including the SBA in response to hurricanes Harvey, Irma and Maria. The Act deemed all supplemental funds in response to those hurricanes as susceptible to significant improper payments regardless of risk assessment results; therefore agencies are required to report an improper payment estimate for the funds. The SBA received the first of two supplemental funds in September 2017 for the Disaster direct loan program and administrative expenses of disbursements of goods and services, payroll, purchase cards, and travel related to the Disaster direct loan program. The second of the supplemental funds was received in February 2018. In order to have a full year of activity to test for improper payments (from September 2017 through August 2018), SBA will begin its additional reporting of Disaster administrative funds of payroll, travel and purchase cards in FY 2019.

The next sections discuss SBA efforts and results related to improper payment assessments and reviews. More detailed information on improper payments and information previously reported in the AFR that is not included in the FY 2018 AFR can be found at **https://paymentaccuracy.gov/**.

Parts I and VII - Payment Reporting and Statistical Sampling

Payment Reporting

Table 1 presents a summary of SBA's improper payment review results and reduction outlook. There is no improper payment made by the recipients of Federal money under SBA programs as the SBA does not have an intermediary.

TABLE 1: Improper Payment Reporting and Reduction Outlook (Dollars in Millions)

Program	FY 2017			FY 2018							FY 2019		
	Outlays[1] $	IP %	IP $	Outlays[1] $	IP %	IP $	Over-paid %	Under-paid %	Over-paid $	Under-paid $	Outlays[1] $	IP %	IP $
7(a) Guaranty Purchases[1, 2]	655.56	4.32	28.35	689.2	3.22	22.18	2.55	0.67	17.57	4.61	653.16	3.12	20.38
7(a) Guaranty Approvals[1,2,3]	18,115.96	1.29	233.87	18,746.77	2.77	519.40	2.77	0.00	519.40	0.00	20,146.85	2.67	537.92
504 CDC Guaranty Approvals[1, 2]	4,947.60	1.20	59.16	4,583.91	2.58	118.14	2.58	0.00	118.14	0.00	4,736.71	2.48	117.47
Disaster Loan Disbursements[1, 4]	903.88	13.65	123.38	3,080.23	8.91	274.41	8.68	0.23	267.23	7.18	2,000.00	8.02	160.40
Disbursements for Goods and Services[2]	110.21	4.99	5.49	120.34	1.88	2.26	1.84	0.04	2.22	0.04	125.44	1.78	2.23
Total[5]	**24,733.21**	**1.82**	**450.25**	**27,220.45**	**3.44**	**936.39**	**3.40**	**0.04**	**924.56**	**11.83**	**27,662.16**	**3.03**	**838.40**

1 Outlays in this report represent the base amount of the program activity related to SBA improper payments. This amount will differ from the amount reported as outlays in SBA's President's Budget submissions because that report includes 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 loan guaranty approvals are irrespective of disbursement, net of approval increases, decreases, reinstatements and cancellations for the current year. Outlay figures for Disaster loan disbursements for current year approvals.
2 Outlay projections do not match the President's Budget as the timeframe is not the fiscal year. Outlays are estimated by taking the average growth rate in outlays for the previous three years and applying it to the current level of outlays to project future year outlays.
3 For 7(a) loan guaranty approvals, amounts reported are based on the guarantied amount only.
4 Outlay projections do not match the President's Budget as the timeframe is not the fiscal year. FY 2019 loan approvals are based on actual FY 2018 Quarter 4 loan disbursements ($620M), and projected quarterly loan approvals for the remaining FY 2019 due to additional major 2018 hurricane disasters (Hurricanes Florence and Michael).
5 Total improper payment estimates and improper payment percentages do not represent a true statistical estimate for the Agency.

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

TABLE 2: Improper Payment Root Cause Categories by Program Matrix (Dollars In Millions)

Reason for Improper Payment		7(a) Guaranty Purchases		7(a) Guaranty Approvals		504 CDC Guaranty Approvals		Disaster Direct Loan Disbursements		Disbursements for Goods and Services	
		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				519.40		118.14		136.52	7.18		
Failure to Verify:	Death Data										
	Financial Data										
	Excluded Party Data										
	Prisoner Data										
	Other Eligibility Data										
Administrative/ Process Error Made by:	Federal Agency	17.57	4.61					130.71		267.23	7.18
	State or Local Agency										
	Other Party										
Medical Necessity											
Insufficient Documentation to Determine										0.66	
Total Estimated Improper Payments		**17.57**	**4.61**	**519.40**	**0.00**	**118.14**	**0.00**	**267.23**	**7.18**	**2.22**	**0.04**

To provide more clarity for the reader, this section is organized by the five programs subjected to review for improper payments and provides statistical sampling information and review results 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, 2018. 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 220 loans from the population. The sample included aggregate purchase outlays of $182,091,737 and an absolute value of improper payments of $5,572,880 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) guaranty purchase population was calculated as 3.22 percent. This represents a decrease from the 4.32 percent reported in FY 2017. The decrease is primarily due to continuous training of the purchase processors, reviewers and approvers as well as the Quality Control program review.

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 cause for all 7(a) loan guaranty purchase improper payments were administrative/process errors made by the Agency. Improper payments generally arose when new purchase processors failed to identify material lender deficiencies in the handling of an SBA guaranteed loan and made administrative errors in the purchasing process. The primary reasons for purchase errors included:

- Lender collection had not been fully exhausted;
- Change of ownership did not comply with policy requirements;
- The debt being refinanced with loan proceeds were not eligible for refinance;
- Lender failed to record/perfect the lien required by the Loan Authorization on the property required to be taken as collateral for the loan, and that failure caused a material loss on the loan;
- Reimbursement of lender expenses were not fully justified or ineligible;
- Ineligible use of proceeds with working capital being distributed to the Eligible Passive Company;
- Incorrect payment of interest due to miscalculation of days owed; and
- Inaccurate interest rate

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:

- Internal training for purchase processors, reviewers and approvers to determine proper exhaustion of lender collection; proper determination of change of ownership requirements, proper determination of debt refinance debt eligibility, proper determination of lien perfection appropriate lender expenses, the appropriate number of days interest owed, and the proper interest rate;
- Recovery of lender expenses that were not fully justified and deemed ineligible.

The corrective actions are currently underway. Similar to the corrective action performed in FY 2018, internal feedback was provided to center staff regarding the specific loan level deficiency upon detection. The Center experienced an upsurge of purchase recommenders that were new in their role; this feedback and internal training has been specifically designed to prevent future errors. The internal training will be provided by the end of the first quarter of FY 2019.

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 2018 IPERIA reviews have been resolved 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, 2018. 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 206 loans from the population. The sample included net guaranteed approvals of $262,061,488 and improper payments of $6,463,665 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the 7(a) Loan Guaranty Approvals was calculated as 2.77 percent. This represents an increase from the FY 2017 rate of 1.29. The increase is primarily due to delegated lenders not providing sufficient documentation for eligibility verification and policy requirements not being met.

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 SBA's financial interest at risk.

Corrective Action

Approximately 80 percent of all 7(a) loan guarantee approvals are performed by lenders with delegated authority; these lenders were responsible for all but one identified improper payment approvals in FY 2018. The most prevalent root cause stemmed from the delegated lenders' failure to authenticate borrowers' eligibility at origination in compliance with loan program requirements. The primary reasons for 7(a) approval errors in FY 2018 included:

- Collateral policy requirements were not satisfied;
- Borrowing business type did not meet policy requirements;
- Proper determination of debt refinance debt eligibility were not met;
- Lender did not comply with policies prohibiting the use of an SBA guarantee loan to reduce its risk of potential losses;
- Policy requirements governing prior loss to the government were not satisfied; and
- Lack of appropriate documentation for eligibility verification.

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 the Office of Credit Risk Management to ensure specific lender deficiencies are monitored and incorporated into Risk Based Reviews;
- Internal training for approval processors, reviewers and approvers to determine proper debt refinance eligibility;
- External training for lenders on obtaining and analyzing appropriate documentation prior to loan approval, application of collateral requirement policy, policy requirements governing eligible/ineligible business types, application of lender preference policy requirements, and policy requirement governing prior loss to the government.

The corrective actions are currently underway. OFPO intends to share the loan level and lender deficiencies identified during the reviews with OCRM in October 2018, 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 first quarter of FY 2019.

Specific corrective actions on loans reviewed 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 2018 IPERIA reviews have been resolved 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 approval sample cases were chosen from all loan guaranties approved during the 12-month period ending March 31, 2017. The approval population was not stratified. The SBA determined the appropriate total sample size to be 194 loans from the population. The sample included net approval outlays of $344,968,000 and improper payments of $5,939,000 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payments rate for the 504 CDC loan guaranty approvals was calculated as 2.58 percent. This represents an increase from the FY 2017 rate of 1.20 percent which was primarily due to CDC's not providing appropriate documentation for loan eligibility.

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

Corrective Action

The most prevalent root cause stemmed from the CDC's failure to authenticate borrowers' eligibility at origination in compliance with loan program requirements. The primary reasons for 504 approval errors in FY 2018 included:

- Lack of appropriate documentation for eligibility verification; and
- Policy requirements of obtaining appropriate loan guarantees were not met.

As a means to reduce and/or eliminate the occurrence of future improper payments, a Corrective Action Plan has been formalized for the 504 approval center. 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 approval processors, reviewers and approvers to ensure appropriate documentation is obtained and analyzed prior to loan approval; and
- External training for lenders to ensure appropriate documentation is obtained and analyzed prior to loan approval and to ensure that proper loan guarantees are obtained.

The corrective actions are currently underway. OFPO intends to share the loan level and lender deficiencies identified during the reviews with OCRM in October 2018, and will continue its efforts to ensure CDC deficiencies are monitored and incorporated into lenders' Risk Based Reviews. External training will be provided by the end of the first quarter of FY 2019.

Specific corrective actions on loans reviewed are tracked at the loan level through a centralized database. The Quality Control Specialist for 504 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 2018 IPERIA reviews have been resolved through obtaining additional documentation and reduction and 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.

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 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. The statistical methodology used followed widely accepted practices and was approved by the Office of Management and Budget in 2012. The review population consisted of disaster loan disbursements made during the 12-month period ending June 30, 2018, with total disbursements of $3,080,233,914. A sample of 1,315 payments was selected for testing which yielded a weighted estimated improper payment rate of 8.91 percent. Based on the sample results, the estimated amount of improper payments was $274,408,945. The decrease from the FY 2017 rate of 13.65 percent can be attributed to a focus on evaluating what makes a payment improper and improving controls over the underwriting and disbursement process.

Corrective Action

In FY 2018, the most prevalent root cause for the Disaster direct loan improper payments stemmed from administrative and documentation errors. The lack of insurance documentation continues to have a significant impact on the elimination and reduction of errors. ODA plans to focus its resources to expand and intensify corrective actions to prevent this type of improper payment by:

- Employing the professional training staff from the Office of Disaster Strategic Engagement and Effectiveness to assist in the creation of effective insurance review training materials and assist the trainers in the Accounts Department in the presentation of training materials;
- Requiring all training materials be reviewed and approved by SBA headquarters;
- Expanding training efforts to include one-on-one training with Lead Case Managers; and
- Including specific results-driven performance elements tied to reducing the improper payment rate in the FY 2019 performance plans for the Director and Deputy Director of the Processing and Disbursement Center, Assistant Center Director for Application Processing and Assistant Center Director for Accounts.

The corrective actions will be monitored on a bi-weekly basis by the Deputy Associate Administrator for Disaster Assistance.

DISBURSEMENTS FOR GOODS AND SERVICES

Statistical Sampling

Disbursements for goods and services samples were chosen using PPS with replacement methodology from payments completed during the 12 months ending March 31, 2018. The total number of disbursements was 3,387 and the total dollar amount was $120,340,599. The SBA determined the appropriate sample size to be 207 unique invoices having total outlays of $44,574,392. The scope of the review covered three areas: invoice accuracy, compliance with contract terms, and accuracy of invoice processing. Based upon the sample results, the estimated FY 2018 disbursements for goods and services improper payment rate is 1.88 percent for an estimated total of $2,260,963. This represents a reduction in the improper payment rate and dollars over the last fiscal year, which reported a rate of 4.99 percent and $5 million. The primary reason for the reduction was the implementation of an internal control program which enhanced the quality of contract documentation and provided a more thorough review process of invoices prior to payment.

Corrective Action

The improper payment amount of $2,260,963 does not exceed the $10 million threshold for reporting a corrective action plan.

Part II - Recapture of Improper Payments Reporting

Payment Recovery Effort

Agency efforts to recapture improper payments are discussed by program.

7(A) LOAN PROGRAM PURCHASES

Overpayments identified in the improper payments reviews are recaptured from the lender. The Quality Control staff tracks and collects any monetary overpayment. Refer to Part I above for corrective action plans to prevent future improper payments.

7(A) LOAN PROGRAM APPROVALS AND 504 LOAN GUARANTY APPROVALS

Overpayments recaptured outside of payment recapture audits are not applicable to 7(a) loan guaranty approval and 504 CDC loan approval as no payment is made at the time of approval. Improper payments identified through both the annual improper payment and continuous quality control reviews are remediated 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 LOAN PROGRAM

Overpayments are the result of the borrower receiving both a SBA loan and insurance payments or other benefits received as a result of the disaster. If the duplication of benefit is recognized prior to the final disbursement, the loan amount is modified to reflect a lower amount and no repayment is required. If the duplication of benefit is identified after the final disbursement of the loan, then the borrower is given 30 days to provide evidence to prove that the disaster loan was not over-disbursed. For example, the borrower can provide documentation demonstrating that insurance funds received did not duplicate the disaster loan purpose. If the borrower has not provided the appropriate evidence within the 30-day period a demand is made for the over-disbursed funds. Collection efforts continue at the Disaster loan servicing centers, but if these efforts fail, the borrower will still be liable for the over-disbursed amount in the form of monthly payments in accordance with the loan agreement. Thus, any actual loss, if any, is the cost of funds related to the over disbursement.

DISBURSEMENTS FOR GOODS AND SERVICES

The SBA thoroughly analyzed the condition of each improper payment identified during the improper payment review of the disbursements for goods and services and issued demand letters for repayment or credit on future invoices from the responsible vendors to recoup the overpayments as applicable. The SBA will continue to monitor internal controls in place to further reduce the improper payment rate.

Payment Recapture Audits

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 Guarantee Program, the 504 Certified Development Company Loan Guarantee Program, the Disaster Direct Loan Program, Disbursements for Goods and Services, the Small Business Investment Company Financing Guarantee Program (SBIC), the Surety Bond Guarantee 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. A subsequent cost analysis for the 7(a) loan guarantee purchase program was submitted to OMB on September 13, 2017, to include the results of a payment recapture audit performed in 2015 which again concluded that such an audit is not cost effective.

The specific justification and analysis are discussed by program.

7(a) loan guaranty purchase improper payment reviews, continuous Quality Control Reviews, and OMB Circular A-123 Appendix A reviews in FY 2014 warranted a reconsideration of the cost effectiveness of a payment recapture audit. In FY 2015, the SBA performed a payment recapture audit for the 7(a) Loan Guarantee Purchase program and the results revealed that the cost of labor hours for performing and reporting the payment recapture audit exceeded the actual overpayments identified. This was reported in the FY 2015 AFR with the statement that no additional payment recapture audits would be performed. In September 2017 the SBA submitted a cost analysis to OMB and the OIG to support this decision.

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.

Disaster direct loans recapture audits would not be cost effective as improper payments are generally the result of loan documentation errors; such errors rarely, if ever result in a disaster survivor 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. Less often than documentation errors, is the identification of duplication of benefit, which occurs when a borrower receives insurance or another benefit related to the disaster in addition to the SBA loan. Twelve ineligible disbursements were identified, in the amount of $123,200. The improper payment audit was completed using 11,520 hours of staff time at an approximate labor cost of $599,040. Based on the cost to audit versus the estimated dollars of recovery, it is clear that further expenditures for a separate recovery audit is not cost effective.

Disbursements for goods and services services recapture audits would not be cost effective. The improper payment testing required 343 labor hours at a cost of $23,370.37. Payments identified during the improper payment review as eligible for recapture totaled $1,424.14; thus the cost of the review exceeds the return.

Table 3 presents a summary of Improper Payment Recaptures without Audit Programs.

TABLE 3: Improper Payment Recaptures without audit programs ($ in millions)

	Overpayments Recaptured Outside of Payments Recapture Audits		
Program or Activity	**Amount Identified $**	**Amount Recaptured $**	**Source**
7(a) Guaranty Purchase[1]	4.89	1.24	Statistical samples conducted under IPIA
Disaster Loan Disbursements[2]	0.12	0.00	Statistical samples conducted under IPIA
Disbursemtents for Goods and Services[1]	0.0014	0.0008	Statistical samples conducted under IPIA
Total	**5.011**	**1.241**	

1 Period of review is for the 12-month period-ending March 31, 2018.
2 Period of review is for the 12-month period-ending June 30, 2018.

Part III - Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

The SBA has implemented the Do Not Pay Initiative and incorporated the use of the DNP post payment services using the data source Death Master File. The agency has also implemented limited use of the online portal for processing of manual 7(a) loan applications as part of pre-award eligibility and will be implementing pre-award eligibility for the Surety Bond Guarantee program. The SBA is working to enhance its use of the DNP data sources by exploring an interface with SBA systems to identify ineligible recipients at the time of pre-award in lieu of manually entering requests for information as is done currently.

Part IV - 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 V – Accountability

The focus of SBA's Strategic Goal 4 is to strengthen SBA's ability to service small businesses. Strategic Objective 4.1 is designed to ensure effective and efficient management of Agency resources, including improving processes for managing fraud, waste, and abuse. 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 VI – 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.

7(a) loan guaranty approvals have adequate internal controls and are supported by E-Tran, SBA's electronic loan processing/servicing system. Both the SBA and delegated lenders process applications through the system 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.

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.

Part VII – Sampling and Estimation

To provide more clarity for the reader, the Sampling and Estimation section was coupled with the Payment Reporting information in Part I, organized by the five programs subjected to review for improper payments.

Part VIII – Risk Assessments

OMB Circular No. A-123, Appendix C, requires risk assessments at least once every three years for programs not deemed susceptible to significant improper payments, or earlier if a low risk program was subjected to a significant change in legislation or funding level. Significant improper payments are defined as gross annual improper payments exceeding (1) both 1.5 percent of program outlays and $10,000,000, or (2) $100,000,000. The SBA last conducted risk assessments for all programs and activities, including payments made to employees, for susceptibility to improper payments in FY 2017. 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 2018, the SBA did not conduct any new risk assessments.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

As required by OMB Circular A-136, Section II.4.4, 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

FRAUD REDUCTION REPORT

The Fraud Reduction and Data Analytics Act of 2015 (FRDAA) mandates that agencies take steps to improve their financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve their development and use of data analytics for identifying, preventing, and responding to fraud, including improper payments.

The GAO issued the *Framework for Managing Fraud Risks in Federal Programs* to assist agency efforts to meet the requirements of FRDAA and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management (ERM) and Internal Control*. The framework consists of four components related to: changing culture, assessing fraud risk, implementing controls, and evaluating fraud risk management activities. To date, the SBA has made progress in each component.

The SBA held its first fraud risk management workshop, which was a joint effort led by officials in the Office of Continuous Operations and Risk Management (OCORM), Office of the Chief Financial Officer (OCFO), Office of General Counsel (OGC), and Office of the Inspector General (OIG). SBA's Administrator communicated her commitment to integrity and ethical behavior during this workshop. The SBA documented and discussed key programs that are highly susceptible to fraud. The Agency is developing response plans to mitigate these risks and identifying personnel to lead fraud efforts in these program areas. The SBA has incorporated GAO's Green Book Principle 8, *Assess Fraud Risk*, into its Procedural Notice, which requires management to consider fraud in its risk assessment process. During SBA's monthly Enterprise Risk Management Board meetings, senior leaders can discuss various risks, including fraud. Finally, the OCORM, which leads ERM efforts, discusses fraud during its routine risk advisory work. As SBA matures its fraud risk management process, the Agency will continue to apply best practices and refer to helpful resources, such as the recently issued *Antifraud Playbook*.

REDUCE THE FOOTPRINT REPORT

Reduce the Footprint Policy Baseline Comparison			
	FY 2015 Baseline	**2017 (CY-2)**	**Change (FY 2015 Baseline - 2017 (CY-2))**
Square Footage (SF in Millions)	1.277*	1.228	0.049
Reporting of O&M costs – Owned and direct lease buildings			
	FY 2015 Reported Cost	**2017 (CY-2)**	**Change (FY 2015 - 2017 (CY-2))**
Operation and Maintenance Costs ($ in Millions)	$0	$0	$0

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. *SBA's *FY 2017 Agency Financial Report* reported FY 2015 actual square footage for FY 2015 baseline.

According to Section 3 of Office of Management and Budget Memorandum M-12-12 as amended, "Promoting Efficient Spending to Support Agency Operations" and OMB Management Procedures Memorandum 2013-03 "Reduce the Footprint" policy directs that all CFO Act entities must set annual targets to reduce the total square footage of domestic office and warehouse inventory compared to the FY 2015 baseline.

Within the SBA, effective real property asset management begins with an accurate inventory that is verified and validated on a continual basis to ensure real-time data is available for timely and quality decision making. As a fully-leased agency, close coordination between GSA and the SBA is required regarding cyclical lease expirations, space requests related to program activities and missions, security assessments, and facility-related deficiencies and emergencies. The SBA maintains an ongoing verification and validation process to assess the Agency's lease holdings and ensure functionally appropriate right-sizing using appropriate space design standards.

The SBA is pragmatically moving to reduce leased holdings by 1 percent annually, where possible, by adopting federal space standards at all locations. The SBA will make every effort to consolidate, co-locate, and share resources, wherever functional requirements align with an emphasis on occupying federal space. For example, the SBA is establishing standard office floor plans across its lease holdings to provide the Agency with a strategic view of space management so that when leases are due to expire, future managers will understand the right requirements.

CIVIL MONETARY PENALTY ADJUSTMENT FOR INFLATION

The Federal Civil Penalties Inflation Adjustment Act of 1990 (Act), 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 adjusted them 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 basis for imposing the penalties, the year the penalties were authorized, the current penalty levels, the program offices responsible for imposing the penalties, and the citation for the most recent publication of the penalty updates.

SBA Federal Civil Penalties						
Statutory Authority	**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	1966	2018	$259	Office of Investment and Innovation	83 Federal Register 7361 (February 21, 2018)
Small Business Investment Act, 15 USC 650(j)	Failing to File Report Timely for a Small Business Lending Company	2004	2018	$6,460	Office of Capital Access	83 Federal Register 7361 (February 21, 2018)
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	2018	$11,181	Multiple offices	83 Federal Register 7361 (February 21, 2018)
Small Business Act, 15 USC 634(b)(6) and Program Fraud Civil Remedies Act 31 USC 1352	Penalty for Violation of Lobbying Restrictions	1990	2018	$19,639 to $196,387	Multiple offices	83 Federal Register 7361 (February 21, 2018)

GRANTS OVERSIGHT AND NEW EFFICIENCY (GONE) ACT REPORT

The Grants Oversight and New Efficiency Act was passed by the Congress with a goal of closing expired grants. The GONE Act requires the Office of Management and Budget, in coordination with the U.S. Department of Health and Human Services, to submit to the Congress and HHS a report that provides a status on an agency's grants.

The SBA Office of Grants Management has established an internal team to evaluate and reduce the number of expired grants that are not closed. The team reviews applicable administrative actions and required paperwork to ensure that procedures are followed. The team reviews for prompt payment of allowable costs, immediate refund by the recipient of any unexpended funds, submission of final financial and program reports, proper disposition of property acquired because of the award, and any outstanding audits.

SBA grants must be closed in a grants administration system and a financial system. However, the two systems often do not interface and as a result requires multiple manual input. As a challenge, the financial management system may show that a grant award has expired when, in fact, the performance end date has been extended in the grants management system. In addition, program management elements may directly impact the effective financial management of grants. For example, program managers may sometimes not alert the grants management officer that the award has been prepared and ready to close. The SBA is taking steps to address these challenges. Finally, SBA established a tiger team within the Office of Grants Management to address closeout of older awards and work to be current within the provisions of the ACT

The following table summarizes GONE Act data

Category	2–3 years	>3–5 years	> 5 years
Number of Grants/ Cooperative Agreements with Zero Dollar Balances	369	236	0
Number of Grants/ Cooperative Agreements with Undisbursed Balances	423	167	1
Total Amount of Undisbursed Balances	**$39,745,951.40**	**$5,817,022.81**	**$44,669.78**

DID YOU KNOW?

Since 1953, the SBA has approved more than 2 million disaster loans for over $63 billion to businesses of all sizes, private nonprofit organizations, homeowners, and renters. In FY 2018, through recovery efforts to help disaster survivors from hurricanes Harvey, Irma, and Maria, the SBA approved nearly $7 billion in loans.

Success Story

Recovering Business: Bakery Owners Wins SBA Phoenix Award

Three Brothers Bakery
Houston, Texas

Three Brothers Bakery was established on May 8, 1949 in Houston exactly four years after brothers Sigmund, Sol, and Max were liberated from a Nazi concentration camp. In the years since opening, the business has survived four floods, a fire, and two hurricanes. However, Hurricane Harvey hit the Houston area as Janice Jucker, marketing and business manager, and Bobby Jucker, an award-winning pastry chef, were preparing to fill orders for Rosh Hashanah celebrations. The store was inundated with five feet of water, and loss of inventory and down time cost them $1 million. To recover, they received an SBA disaster loan that allowed them to purchase new equipment and supplies and even hire extra employees to help during the holiday season. Their business opened just 17 days after the storm, and six weeks later they were able to return to normal operations. For their resilience in the aftermath of disaster, they received the distinguished SBA Phoenix Award.

APPENDICES

DID YOU KNOW?

SBA

Small businesses create nearly two of out three new American jobs with nearly 59 million Americans owning or working for small businesses. Millions of middle class families depend on SBA's ability to facilitate access to capital, counseling, and contracting opportunities.

Success Story

Recovering Business: Phoenix Award for Outstanding Small Business Disaster Recovery

Forest Lake Drapery & Upholstery Fabric Center
Columbia, South Carolina

Forest Lake Fabrics is a retail store that has served South Carolina, North Carolina, and Georgia since 1964. The business was ground zero for a storm that dumped 18 inches of rain in less than 24 hours. After the flood, owners Michael and Ginger Marsha returned to a scene of widespread destruction. The force of the flood blew a 20-foot hole in the back of the building. Bolts of expensive fabric were washed downstream, the building was nearly destroyed, and the store's entire inventory, valued at about $1 million, was ruined. Michael and Ginger were smart about rebuilding. The couple used their cash reserves to keep seven employees on the payroll, and secured an SBA disaster loan to rebuild the property, replace inventory, and install storm shields to protect the property from future floods. In the year following their post-disaster reopening, Forest Lake Fabrics saw back-to-back months of record sales.

APPENDIX 1—CONTACT SBA: USEFUL WEBSITES 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 and Business Information	
About the SBA	www.sba.gov/aboutsba
SBA Performance, Budget & Finances	www.sba.gov/performance
Small Business USA	www.usa.gov/business
Local Assistance	www.sba.gov/local-assistance
Qualifying as a Small Business	www.sba.gov/content/am-i-small-business-concern
Starting a Business?	www.sba.gov/thinking-about-starting

Capital	
Small Business Loans & Grants	www.sba.gov/financialassistance
Lender Resources	www.sba.gov/lender_resources
Export Products	www.sba.gov/exporting
Fund Your Business	www.sba.gov/business-guide/plan/fund-your-business

Contracting	
Government Contracting	www.sba.gov/contracting
Register as a Contractor	www.sam.gov
Contracting Certifications	https://certify.sba.gov
Surety Bonds	www.sba.gov/content/surety-bonds-explained

Counseling	
SBA Learning Center	www.sba.gov/training
Small Business Development Centers	www.sba.gov/sbdc
Women's Business Centers	www.sba.gov/tools/local-assistance/wbc
SCORE	www.sba.gov/score
Veterans Business Outreach Centers	www.sba.gov/tools/local-assistance/vboc

Disaster Assistance	
Disaster Assistance	www.sba.gov/disaster
Disaster Center Office Locations	www.sba.gov/about-offices-list/4

SBA Information	
SBA 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/sba
SBA blog	www.sba.gov/blogs
Instagram	https://www.instagram.com/sbagov/

APPENDIX 2—GLOSSARY

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

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

8(a) — **8(a) Business Development Program**
The 8(a) 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.

A&A — **Assessment and Authorization**
The A&A process describes the end to end process for ensuring new VA information systems adhere to and are in compliance with Federal Information Security Management Act (FISMA).

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.

AGA — **Association of Government Accountants**
AGA is the member organization for government financial management professionals.

APG — **Agency Priority Goal**
GPRAMA requires federal agencies to establish a set of 2-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.

ARC 506 — **America's Recovery Capital Loan Program**
ARC 506 loans are part of the 2009 American Recovery and Reinvestment Act Section 6 that provides loans up to $35,000 for short-term relief to businesses experiencing immediate financial hardship.

ARC Recovery Act — **The American Recovery and Reinvestment Act of 2009 (ARRA)**
A stimulus package enacted by the 111th U.S. Congress and signed into law by President Barack Obama in February 2009.

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

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.

CAP Goals — **Cross-Agency Priority Goals**
CAP Goals are a limited number of Presidential priority areas where implementation requires active collaboration among multiple agencies.

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

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

CEAR — **Certificate of Excellence in Accountability Reporting**
CEAR is awarded to agencies that are considered to have excellent Agency Financial Reports.

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.

CY — **Calendar Year**
A period of a year beginning and ending with the dates that are conventionally accepted as marking the beginning and end of a numbered year.

DATA Act — **The Digital Accountability and Transparency Act of 2014**
The DATA Act is a law that aims to make information on federal expenditures more easily accessible and transparent.

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

DHS — **Department of Homeland Security**
DHS's mission is to secure the nation from threats.

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

DNP — **Do Not Pay Initiative**
DNP was established by IPERIA to support federal agencies with their efforts to prevent and detect improper payments.

DO — **District Office**
SBA's District Offices are responsible for the delivery of SBA's many programs and services throughout the country.

DoD — **Department of Defense**
The DoD is a federal agency charged with coordinating national security and the armed services.

DOL — **Department of Labor**
DOL's mission is to foster, promote, and develop the welfare of the wage earners, job seekers, and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work-related benefits and rights.

DTI — **Debt-to-Income**
DTI ratio is derived by dividing your monthly debt payments by your monthly gross income.

EDAP — **Expedited Disaster Assistance Program**
EDAP was established to provide guarantied disaster loans using private sector lenders.

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

ELA — **Enterprise Learning Agenda**
The ELA is a plan that aligns with the Agency's strategic goals to identify where evaluations could provide insights about program effectiveness.

ERM — **Enterprise Risk Management**
The ERM provides a framework to manage risks and seize opportunities related to the achievement of their objectives.

FAST — **Federal and State Technology (FAST) Grants**
One year funding opportunity for organizations to help increase the number of SBIR and STTR proposals.

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.

FEMA — **Federal Emergency Management Agency**
The primary purpose of FEMA is to coordinate the response to a disaster that has occurred in the United States.

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 system requirements, applicable federal accounting standards, and the United States Standard General Ledger.

FICA — **Federal Insurance Contributions Act**
FICA is a federal payroll (or employment) tax imposed on both employees and employers to fund Social Security and Medicare federal programs that provide benefits for retirees, disabled people, and children of deceased workers.

FIPS — **Federal Information Processing Standards**
FIPS publications are federal government requirements for cybersecurity.

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

FITARA — **Federal Information Technology Acquisition Reform Act**
FITARA is legislation 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.

FPDS-NG — **Federal Procurement Data System – Next Generation**
FPDS-NG is a single source for U.S. government-wide procurement data.

FRDAA — **Fraud Reduction and Data Analytics Act of 2015**
To improve Federal agency financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve Federal agencies' development and use of data analytics for the purpose of identifying, preventing, and responding to fraud, including improper payments.

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.

GONE Act — **Grants Oversight and New Efficiency Act**
The goal of the GONE Act is to close out expired grants.

GPRAMA — **Government Performance and Results Act (GPRA) Modernization Act of 2010**
The GPRAMA modernizes the federal government's performance management framework, retaining and amplifying some aspects of the Government Performance and Results Act (GPRA) of 1993 while also addressing some of its weaknesses.

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.

HHS **U.S. Department of Health and Human Services**
The goal of HHS is to protect the health of all Americans and provide essential human services.

HIM **Harvey, Irma and Maria**
The HIM hurricanes caused significant physical damage to Texas, Louisiana, Florida, Puerto Rico, and the U.S. Virgin Islands.

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.

IDAP **Immediate Disaster Assistance Program**
IDAP is a guaranteed disaster loan program for small businesses that have suffered physical damage or economic injury due to a Declared Disaster.

IPERA **Improper Payments Elimination and Recovery Act**
IPERA 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.

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

LGPC **Loan Guarantee Processing Center**
The 7(a) LGPC has two physical locations (one in Hazard, Kentucky, and one in Citrus Heights, California) that are linked technologically into one process for efficiency and optimal staff utilization.

LSP **Lender Service Provider**
An LSP carries out functions in originating, dispersing, servicing, or liquating a specific SBA business loan or loan portfolio for compensation from the lender.

MAFD **Maximum Accepted Fixed Debt**
MAFD are standards used to calculate the risk of loan approvals.

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, nonprofit, nonpartisan organization dedicated to conducting economic research and providing findings to academics, public policy makers, and business professionals.

NGPC **National Guaranty Purchase Center**
The NGPC, located in Herndon, Virginia, was created to centralize SBA's 7(a) loan guaranty purchase function into a single national location.

NIST **National Institute of Standards and Technology**
NIST is a measurement standards laboratory, and a non-regulatory agency of the U.S. Department of Commerce. Its mission is to promote innovation and industrial competitiveness.

NMVC **New Markets Venture Capital**
NMVC program is designed to promote economic development and the creation of wealth and job opportunities in low-income geographic areas by addressing the unmet equity investments needs of small businesses located in those areas.

OBD **Office of Business Development**
OBD assists small, disadvantaged businesses to 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 Guarantee 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.

OCORM — **The Office of Continuous Operations and Risk Management**
OCORM ensures enterprise-wide disaster planning, readiness, and implementation of ERM best practices for the SBA.

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.

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

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.

PDAP — **Private Disaster Assistance Program**
PDAPs help residents, businesses, organizations and communities recover from natural disasters.

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

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

R&D — **Research and Development**
R&D refers to the work a business conducts for the innovation, introduction and improvement of its products and procedures.

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 law amends the Small Business Act to authorize a small business, homeowner, nonprofit 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.

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 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.

SMC **Senior Management Council**
SMC was established by the Administrator to ensure the SBA has an effective system of internal control.

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

STEP **State Trade Expansion Program**
STEP is a program to make matching fund awards to states to help small businesses enter and succeed in the international marketplace.

USEAC **U.S. Export Assistance Center**
USEACs are located nationwide and help firms grow internationally by assisting in developing a plan of action with solutions tailored to their needs.

USSGL **The United States Standard General Ledger**
USSGL provides a uniform chart of accounts and technical guidance for standardizing federal agency accounting.

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.

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.

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 that includes 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 2018, there were 117 Final Actions, resulting from 13 monetary and 104 non-monetary recommendations.

The following tables depict the SBA's Final Action activity for FY 2018 and the status of corrective action plans not implemented within one year:

- **Table I:** Final Action on Audit Recommendations with Disallowed or Questioned Costs.
- **Table II:** Final Action on Audit Recommendations with Funds Put to Better Use.
- **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, 2017 – September 30, 2018

	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.	5	$3,070
B. Recommendations on which management decisions were made during the period.	27	$324,990
C. Total recommendations pending final action during period.	32	$328,060
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	7.5	$2,848
(b) Property		
(c) Other	4	$3,200
2. Write-Offs	1.5	$166
3. Total	13	$6,214
E. Recommendations needing final action at the end of the period.	19	$321,846

TABLE II: Final Action on Audit Recommendations with Funds Put to Better Use October 1, 2017 – September 30, 2018	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.	0	$0
B. Recommendations on which management decisions were made during the period.	0	$0
C. Total recommendations pending final action during period.	0	$0
D. Recommendations on which final action was taken during the period		
1. Value of recommendations implemented (completed).	0	$0
2. Value of recommendations that management concluded should not or could not be implemented or completed.		
3. Total	0	$0
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, 2018

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

Program: GCBD

Date Issued: 12/06/11

Management Decision Date: 09/23/15

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. GCBD and the OIG are working together to come to an agreement for resolution on all of the recommendations. If an agreement cannot be reached, the matter will be referred to the Audit Follow-up Official for resolution. Estimated completion date is 12/31/18.

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 made to the Office of Business Development 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. GCBD and the OIG were unable to reach an agreement on any of the recommendations, and all were referred to the Audit Follow-up Official for resolution in 2018. Estimated completion date is 12/31/18.

Continue on next page

TABLE III: Final Action on Audit Recommendations Not Completed within One Year As of September 30, 2018

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 made to the Office of the Business Development require that SOP 80 05 3 be revised to: (1) extend time for annual reviews, subjecting firms to termination if the information is not provided; and (2) allow the SBA to place an 8(a) firm in a "decision pending" category during the additional period. GCBD and the OIG were unable to reach an agreement on any of the recommendations and all were referred to the Audit Follow-up Official for resolution in 2018. Estimated completion date is 12/31/18.

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 one remaining recommendation requires the Office of the Chief Information Officer improve Security Authorization Packages and retain all documentation. Resolution activity includes reviewing and correcting each system Assessment and Authorization (A&A) package as they are scheduled for re-assessment. Estimated completion date is 12/31/18.

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 one remaining recommendation requires the Chief Information Officer to ensure general support systems and major applications have valid and up-to-date authorizations to operate (ATO) while those systems are in production. Resolution activities include ensuring an Assessment and Authorization (A&A) package is completed for each IT system. Estimated completion date is 12/31/18.

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

Program: OCA

Date Issued: 9/25/15

Management Decision Date: 7/6/18 and 9/20/18

Explanation: The three remaining recommendations require OCA to: 1) develop benchmarks for contractor performance and controls to ensure integrity of the Form 159 database; 2) implement a process to uniquely identify loan agents; and 3) develop a method for CDCs to electronically report loan agent compensation. Agreement was recently reached between the program office and the OIG as to the resolution of the recommendations. Estimated completion dates are 7/31/19 for the first one and 12/31/18 for the other two recommendations.

Report # 16-10, Audit of FY 2015 Federal Information Security Act Review

Program: OCIO

Date Issued: 3/10/16

Management Decision Date: 3/10/16

Explanation: The one remaining recommendation requires that information system contingency plans are tested and consisted with NIST guidance. Resolution activities include coordination with all program offices to ensure that all FISMA systems perform annual contingency plan tests. Estimated completion date is 12/31/18.

Continue on next page

TABLE III: Final Action on Audit Recommendations Not Completed within One Year As of September 30, 2018

Report # 16-13, Audit of SBA's 8(a) Business Development Program Eligibility

Program: GCBD

Date Issued: 4/7/16

Management Decision Date: 4/7/16

Explanation: The one remaining recommendation requires GCBD management to clearly document justifications for approving or denying applicants into the 8(a) program. GCBD will revise its Standard Operating Procedure guidance; recommendation will be closed upon publication. Estimated completion date is 9/31/19.

Report # 17-09, New York Small Business Development Center's Phase 2 Disaster Technical Assistance Grant

Program: OED

Date Issued: 3/31/17

Management Decision Date: 3/13/18

Explanation: The two remaining recommendations require OED to recover funds that were not applicable to the Hurricane Sandy technical assistance grant. Funds were recovered and these recommendations were closed on 10/9/18.

Report # 17-10, The SCORE Association's Disaster Technical Assistance Grant

Program: OED

Date Issued: 3/31/17

Management Decision Date: 4/5/17 and 3/2/18

Explanation: The three remaining recommendations require OED to: 1) develop and implement policies and procedures to ensure four specific administrative requirements as outlined in the report; 2) recover funds for unsupported management and consulting expenses; and 3) develop and implement policies and procedures to ensure SCORE provides quarterly financial and performance reports, and that disaster grant awards are separated from SCORE's core award for separate reporting and monitoring purposes. OED revised its Standard Operating Procedures guidance to include policies and procedures to resolve recommendations one and three and once published, the recommendations will be closed. OED issued a demand letter on 8/27/18 to recover funds and the recommendation will be closed upon receipt of funds. Estimated completion is 12/31/18 for all recommendations.

Report # 17-14, FY2016 Federal Information Security Modernization Act (FISMA) Review

Program: OCIO

Date Issued: 6/15/17

Management Decision Date: 6/13/17

Explanation: The two remaining recommendations require the Chief Information Officer to 1) establish policies and procedures regarding data exfiltration and to implement a data exfiltration program across the agency; and 2) established trusted internet connection security controls to ensure all agency traffic, including mobile and cloud, are routed through defined and secure access points. Resolution for the first recommendation is dependent on the Agency's Windows 10 deployment and has an estimated completion date of 3/31/19. SBA is awaiting updated guidance from the Office of Management and Budget before proceeding to resolve the second recommendation. Estimated completion date is 1/31/19.

Continue on next page

TABLE III: Final Action on Audit Recommendations Not Completed within One Year
As of September 30, 2018

Report # 17-15, Reassessment of Eligibility Requirements for 30 Firms in SBA's 8(a) Business Development Program

Program: GCBD

Date Issued: 7/17/17

Management Decision Date: 7/18/17

Explanation: The three remaining recommendations require GCBD to: 1) conduct eligibility reviews for ten firms identified with unresolved eligibility concerns; 2) develop specific measurements to monitor the performance and compliance of applicants admitted to the program in which there was a discrepancy between the approver and the reviewer; and 3) adjust eligibility criteria, as necessary, based on the information collected in resolving recommendation. The GCBD is working with the OIG to come to an agreement on the recommendations' resolutions. Estimated completion date: 9/30/19.

Report # 17-19, Microloan Program

Program: OCA

Date Issued: 9/28/17

Management Decision Date: 1/4/18

Explanation: The two remaining recommendations to OCA require: 1) continued efforts to improve the information system to effectively monitor the program's compliance, performance, and integrity; and 2) update the reporting system manual to reflect current technology capabilities. Resolution activities include replacing the current system with Microsoft Dynamics and developing a system manual. Estimated completion date is 9/30/19.

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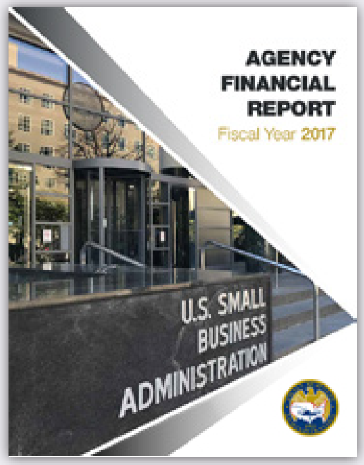
For the past 12 years, FY 2006 to FY 2017, the U.S. Small Business Administration is proud to have received the prestigious *Certificate of Excellence in Accountability Reporting* award from the Association of Government Accountants for its Agency Financial Report. The CEAR program was established by the AGA in conjunction with the Chief Financial Officers Council and the U.S. Office of Management and Budget. The award recognizes high-quality Performance and Accountability Reports and Agency Financial Reports that effectively illustrate and assess financial and program performance, accomplishments and challenges, and cost and accountability.



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