

Agency Financial Report



Fiscal Year 2013



ABOUT THIS REPORT

The U.S. Small Business Administration's (SBA) Agency Financial Report (AFR) for FY 2013 provides an overview of the Agency's financial and performance data to help Congress, the President, and the public assess SBA's stewardship over the resources entrusted to it. The AFR is the first in a series of three annual financial and performance reports for federal agencies choosing to produce a separate AFR. An Annual Performance Report (APR) and a Summary of Performance and Financial Information (SPFI) make up the other two reports. The FY 2013 APR is included as part of the FY 2015 Congressional Budget Justification (CBJ), which is the Agency's budget request to Congress. The FY 2013 SPFI is a summary of the financial, performance and budgetary information presented in the AFR and the CBJ/APR.

FY 2013 HIGHLIGHTS

<i>(Dollars in Thousands)</i>	FY 2010	FY 2011	FY 2012	FY 2013
Loan Portfolio⁽¹⁾	\$ 93,339,844	\$ 99,203,933	\$ 102,630,652	\$ 106,775,561
Regular FTE Employees	2,135	2,175	2,089	2,148
Disaster Employees	1,120	1,141	1,145	1,628
Total Employees	3,255	3,316	3,234	3,776
Total Assets	\$ 15,230,476	\$ 16,882,801	\$ 14,014,855	\$ 13,846,170
Total Liabilities	\$ 16,765,021	\$ 17,191,824	\$ 13,640,581	\$ 12,462,316
Total Net Position	\$ (1,534,545)	\$ (309,023)	\$ 374,274	\$ 1,383,854
Total Net Cost of Operations	\$ 5,277,197	\$ 3,460,562	\$ 1,274,805	\$ 524,086
Total Budgetary Resources	\$ 18,340,769	\$ 19,277,292	\$ 14,400,162	\$ 14,059,594

⁽¹⁾ The total portfolio consists of guaranteed business loans outstanding, direct business loans, and direct disaster loans. The data includes all performing loans and defaulted loans that have not been charged off.

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: performancereports@SBA.gov

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SBA'S MISSION

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

The Association of Government Accountants has awarded the U.S. SMALL BUSINESS ADMINISTRATION

THE CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

In recognition of SBA's outstanding efforts in preparing its

PERFORMANCE AND ACCOUNTABILITY REPORT

OR

AGENCY FINANCIAL REPORT

for the fiscal years ended September 30, 2006, 2007, 2008, 2009, 2010, 2011 and 2012



2006



2007



2008



2009



2010



2011



2012

MESSAGE FROM THE ADMINISTRATOR

December 16, 2013

I am proud to present the U.S. Small Business Administration's Fiscal Year 2013 Agency Financial Report. This report details SBA's financial and high-level program performance results and provides transparency in SBA's ongoing efforts towards seeking greater operational efficiencies and improvements.



The support that the Agency offers to small businesses affects the growth and expansion of the nation's economy. The SBA ensures that America's small businesses have the access and opportunities they need to start and grow their operations and create new jobs. In FY 2013 the SBA continued to build on the Agency's strong track record of providing entrepreneurs and small businesses access to capital, increased opportunities in government contracting, entrepreneurial development and disaster assistance.

I am pleased to provide an assurance that SBA's financial and performance data in this report are reliable and complete. SBA's auditors issued an unmodified opinion on our FY 2013 financial statements and the auditors did not note any material internal weaknesses.

Key SBA accomplishments in FY 2013

Third-Highest Year in SBA Lending: The SBA recorded its third highest year of SBA lending ever and built on its FY 2011 and FY 2012 record-breaking years. In FY 2013, the SBA supported more than \$29 billion in lending to America's small businesses through the Agency's 7(a) and 504 loan programs. This marked the third consecutive year of roughly \$30 billion in lending despite the end of the popular and temporary 504 Refinancing loan program.

Fourth Consecutive Record Year in Growth Capital: The Small Business Investment Company (SBIC) Debenture program had its fourth consecutive record-breaking year. Investment funds licensed as SBICs provided nearly \$3.3 billion in growth capital to small businesses, a 10 percent increase from FY 2012 and a 105 percent increase from FY 2010. In FY 2013, the SBA licensed a record 34 SBIC funds and licensing times dropped over 53 percent from 14.6 months in FY 2009 to 6.8 months in FY 2013. This helped the SBIC program execute a record of more than \$2.1 billion in commitments to its funds in 2013.

Increasing Contracting Opportunities for Small Business: The SBA continues to lead the effort across the federal government to expand contracting opportunities for small businesses. Since January 2009, federal agencies awarded small businesses more than \$376.2 billion in federal contracts. This was a \$48.1 billion increase over the four prior years, even as the federal government reduced overall contract spending during those years. With expanding contracting opportunities to small businesses, the SBA saw significant impact in key areas. In FY 2012 the federal government also exceeded the goal for small business contracting from service-disabled veterans for the first time and more agencies than ever achieved their prime contracting goals.

Enhanced Entrepreneurship Resources: The SBA supports an entrepreneurial ecosystem that provides training, resources and management assistance to more than 1.2 million entrepreneurs and small businesses each year. In FY 2013, these efforts helped entrepreneurs acquire over \$4.5 billion in capital infusion, start over 15,000 businesses, and create and/or retain more than 68,000 jobs. In addition, the SBA built upon the initiatives from FY 2012 and continued its partnership with the AARP to counsel more than 100,000 entrepreneurs over the age of 50. The SBA continued its outreach to veterans through *Boots to Business: From Service to Start-up*, a program designed to help returning service members transition into successful small business ownership. This coincided with SBA's launch of the Veteran Pledge Initiative, a commitment by top SBA lenders to collectively increase their lending activity to veterans by

MESSAGE FROM THE ADMINISTRATOR

5 percent per year for the next 5 years. As a result, the SBA expects to assist an additional 2,000 veterans and increase lending by \$475 million over the next 5 years.

Effective Disaster Response to Hurricane Sandy: In FY 2013, the SBA, along with our federal partners, quickly responded to the devastating impacts of Hurricane Sandy. To date the SBA has approved \$2.4 billion in low-interest disaster loans to 36,641 homeowners, renters, and businesses affected by Hurricane Sandy. In order to assist in rebuilding small businesses post-Hurricane Sandy, the SBA expanded counseling, training, and technical assistance from SBA's resource partners: small business development centers, women's business centers, and SCORE.

SBA services continue to be essential to American small businesses and their role in the nation's economic growth. As we look to the next fiscal year, we plan to build upon the FY 2013 accomplishments outlined here to ensure small businesses continue to grow and create jobs.

Sincerely,

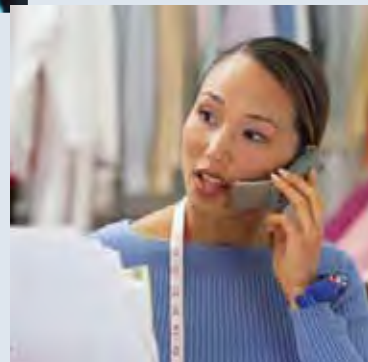


Jeanne Hulit
Acting Administrator

**DID
YOU
KNOW**

In FY 2013, the SBA supported more than **\$29 billion in lending** to America's small businesses, providing critical access to the capital they need to start and grow their businesses.

Management's Discussion & Analysis



PRIMER OF SBA'S PRINCIPAL PROGRAMS

Access to Capital (www.sba.gov/financialassistance)

The SBA has a total loan portfolio of \$106.8 billion; \$90.7 billion of that total is in the following programs:

7(a) Loan Guaranties — The SBA offers government guaranties on loans (up to \$5 million) made by commercial lenders to help expand access to capital for business owners who face challenges in getting approved for financing. The SBA guarantees a portion of 7(a) loans made and administered by commercial lending institutions. Loans can be guaranteed for a variety of general business purposes.

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

Microloans — These loans (up to \$50,000) are designed for small businesses needing small scale financing and technical assistance for start-up or expansion. They are delivered through intermediary lenders, which are nonprofit community-based organizations with experience in lending and technical assistance.

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

Opportunities in Contracting (www.sba.gov/contracting)

The SBA leads federal efforts to deliver 23 percent of contracts to small business through the following programs:

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

8(a) Business Development — This program provides assistance to businesses owned and controlled by socially and economically disadvantaged individuals. Over the course of nine years, a firm is assisted in gaining resources to compete for federal contracts as well as in the private sector.

HUBZone — This program provides sole-source and set-aside contracting for firms located in economically disadvantaged geographical areas.

Service-Disabled Veteran-Owned Small Businesses — This program allows federal agencies to set-aside contracts for competition only among service-disabled veteran-owned small businesses.

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

Access to Counseling and Training (www.sba.gov/training)

The SBA and its 19,000 partners serve over 1 million small business clients a year through the following programs:

Small Business Development Centers — SBDCs deliver an array of services to small businesses and prospective business owners using an extensive network of 63 lead centers managing more than 900 service delivery points throughout the U.S. and the insular territories. SBDCs deliver professional counseling and training in key management areas to more than 600,000 clients annually.

Women's Business Centers — WBCs provide counseling and training through 106 educational centers across the nation. They provide services on a vast array of topics, from how to write a business plan to programs specifically for veterans. Many WBCs provide multilingual services, and a number offer flexible hours allowing for mothers with children to attend training classes.

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

SCORE — SCORE is a non-profit association comprised of over 12,000 volunteer business counselors that serve entrepreneurs with in-person mentoring and local training workshops. As the largest volunteer business advisor network in the federal government, SCORE adapts its structure and services to meet the needs of the small business.

Regional Innovation Clusters — RICs support small businesses by fostering a synergistic network of businesses, university researchers, economic development experts, stakeholders and investors that work to develop and grow a particular industry or related set of industries, while providing targeted matchmaking business training, counseling, mentoring and other services.

High-growth Small Businesses (www.sba.gov/inv and www.sba.gov/oit)

The SBA supports small businesses that drive net new job growth:

SBIR — The Small Business Innovation Research program is a highly competitive program that stimulates high-tech innovation by reserving a specific percentage of federal R&D funds for small business. SBIR protects the small business and enables it to compete on the same level as larger businesses. (www.sbir.gov)

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

Exporting — The SBA – through its staff, lending, and resource partners – leads federal efforts to support small U.S. exporters through its international trade loans and counseling programs. (www.sba.gov/exporting)

Disaster Assistance (www.sba.gov/disaster)

The SBA has a portfolio of \$7.2 billion in direct disaster loans to businesses, homeowners, and renters.

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

SUCCESS STORY: Arizona Aviator Flies High as National Small Business Person of the Year!

Guidance Aviation, Prescott, Arizona



Some entrepreneurs get their inspiration late in life, others like **John Stonecipher** know from youth what they want and pursue it with life-long persistence and passion.

As a young boy growing up in Pasadena, California, John's future was forged as he watched police helicopters fly overhead. By eighteen, John was certified to fly. By nineteen, with an instructor's certificate in hand, he was teaching others the intricacies of helicopter flight.

John is President and CEO of Guidance Aviation, the company he founded in 1998. The business took residence at Prescott, Arizona's Municipal Airport, and from there, John's dream of creating a first rate, high altitude flight school literally took off. The company's progression is a testament to success. Characterized by innovation and growth the school soon won FAA approvals, created alliances with the Yavapai Sheriff's Office, won approval from the U.S. Department of Veterans Affairs to train veterans and received accreditation with Embry-Riddle University. Yavapai College has partnered with Guidance Aviation and offers an Associate of Applied Science Professional Helicopter Pilot Degree.

Today Guidance Aviation has a staff of 55, fourteen aircraft and a waiting list of students ready to take flight into their futures.

John Stonecipher was named *2013 National Small Business Person of the Year* during SBA's celebration of National Small Business Week. He is a long-term client of the SBA SBDC at Yavapai College in Prescott.

EXECUTIVE SUMMARY

The U.S. Small Business Administration's efforts to assist entrepreneurs and small business owners are critical as the U.S. economy continues to recover and grow. Throughout history, small businesses have played a critical role in job creation. Over the last two decades, small and new businesses have been responsible for creating two out of every three net new jobs in the U.S. and today over half of all working Americans own or work for a small business.

The SBA is committed to ensuring that America's small businesses have the access and opportunities they need to start and grow their operations and create new jobs. These tools include access to capital; opportunities in federal contracting; access to entrepreneurial education and counseling; and disaster assistance for business owners, homeowners, and renters.

Throughout FY 2013, the SBA relied on three strategic goals to guide the Agency's actions:

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

In FY 2013, the SBA built on its record breaking year, FY 2012, with the third highest year of approvals, supporting nearly \$30 billion¹ in lending. The 504 loan program had a high volume despite the expiration of the 504 Refi program. Overall, for FY 2013, the SBA supported more than \$29.6 billion in lending to more than 47,000 companies.

FY 2013 reflected a fourth consecutive record breaking year for small business investment companies, a zero subsidy guaranty debenture program underpinned by a portfolio of public-private partnerships investing in small, and typically high growth, businesses in the U.S. About \$3.26 billion was invested in approximately 850 small companies. Capital deployments increased 10.5 percent year-over-year and have nearly tripled in 5 years.

In FY 2013, the Agency responded to SBA's third largest disaster, Hurricane Sandy. The improvements to the electronic loan application (ELA) resulted in a 55 percent

usage contributing to loan approvals totaling \$2,796.5 billion for all disaster activity in FY 2013.

The SBA continues to work with agencies across the government to expand small business contracting opportunities. From January 2009 through September 30, 2012, small businesses accessed more than \$376.2 billion dollars in federal contracts. (FY 2013 contracting numbers continue to be collected and certified.)

The SBA supports an entrepreneurial ecosystem that provides training, resources and management assistance to more than 1.2 million entrepreneurs and small businesses each year. In FY 2013 these efforts helped entrepreneurs start over 15,000 businesses, and create and/or retain more than 68,000 jobs.

Financial Results

(in-depth analysis found in Analysis of Financial Results section)

For FY 2013, SBA's total budgetary resources used for staffing and operations and subsidy costs were \$4.2 billion as well as \$9.9 billion in nonbudgetary resources for loan financing used to purchase guaranteed loans in default and to make direct loans. SBA's guaranteed portion of the outstanding loan principal balance rose 6.3 percent in FY 2013, to \$79.1 billion. New guaranties disbursed by SBA participating banks during FY 2013 were \$17.7 billion, a 10.7 percent increase compared to FY 2012. This caused the 6.3 percent increase in outstanding guaranties. Guaranteed loan purchases dropped again in FY 2013, falling from \$2.6 billion to \$2.1 billion. This encouraging trend is expected to continue in upcoming years as the nation moves further into economic recovery. The credit program receivables portion of the SBA portfolio continued to decline from \$7.7 billion to \$7.5 billion in FY 2013. A net reduction from defaulted guaranteed business loans accounted for this decrease. The decrease in guaranteed business loan receivables was because collections and charge-offs exceeded new guaranty purchases, even though this effect was partially offset by a \$0.3 billion increase in the subsidy allowance for expected future losses.

¹ "Lending Supported" includes gross approvals in the 7(a) loan program, gross approvals in the 504 loan program, and third party loans that are made by commercial lenders as part of the 504 funding package.

Program Results

(in-depth analysis found in SBA's Annual Performance Plan, to be released in February 2014)

The SBA by the Numbers table reflects strong performance across all Agency programs in FY 2013. This includes:

- nearly 59,000 loans approved to small businesses through the 7(a), 504 and Microloan programs;
- increases across other capital access programs, such as Small Loan Advantage and CAPLines, due to streamlining and simplification efforts that cut turn-around times and opened them up to more lending institutions;
- fourth consecutive record year in growth capital by SBA's Small Business Investment Company Debenture program that targets high-growth small businesses;
- \$89.9 billion in federal contracts to small businesses (projected);
- service to over 1.2 million small businesses through SBA resource partners; and
- disaster loan approvals totaled \$2,796.5 billion dollars for all disaster activity in FY 2013 to businesses, homeowners and renters.

Management Results

The SBA achieved significant successes across its four Agency Priority Goals which were effective for FY 2012 and FY 2013:

1. **Process business loans as efficiently as possible:**
By September 30, 2013, increase the use of paperless processing in the 7(a) program from 72 percent to 90 percent and in the 504 program from 55 percent to 75

percent to improve the efficiency, effectiveness, and level of service in its business loan programs. The SBA met its 7(a) goal and exceeded its 504 goal by 1 percent.

2. **Increase small business participation in government contracting:** *Increase small business participation in federal government contracting to meet the statutory goals and reduce participation by ineligible firms. FY 2013 contracting numbers will continue to be collected and certified through the third quarter of FY 2014. Therefore, FY 2012 numbers are reported per OMB Circular A-11. In FY 2012, small businesses received \$89.9 billion or 22.25 percent of the total \$404 billion in government contracts. The federal government's statutory small business goal is 23 percent. The federal government substantially met its goal.*
3. **Process Disaster Assistance applications efficiently:**
By September 30, 2013, increase the use of the Disaster Assistance electronic loan application (ELA) by 50 percent. The FY 2011 baseline number was 26 percent so the goal was to achieve 39 percent by September 30, 2013. By the end of FY 2013, the SBA achieved 55 percent ELA usage, exceeding the FY 2013 target of 39 percent by 41 percent. The SBA greatly exceeded its goal.
4. **Expand access to long-term capital:** *From FY 2012 through September 30, 2013, commit at least \$4.3 billion of capital via the Small Business Investment Company (SBIC) program in order to facilitate access to capital for high-growth companies and enhance job creation and retention by these companies. By the end of FY 2013, the SBA committed \$4.08 billion to SBICs which was just 5 percent short of the goal. The SBA substantially achieved this goal.*

SBA BY THE NUMBERS

(Dollars in Millions)

		FY 2010	FY 2011	FY 2012	FY 2013
Total Portfolio ⁽¹⁾	Outstanding Principal Balance	\$ 93,340	\$ 99,204	\$ 102,631	\$ 106,776
Capital ⁽²⁾					
7(a) Loans	Dollars of Gross Loans Approved	\$ 12,407	\$ 19,638	\$ 15,153	\$ 17,868
504 Loans	Dollars of Gross Loans Approved	\$ 4,433	\$ 4,845	\$ 6,712	\$ 5,227
Microloans	Dollars of Gross Loans Approved to Microborrowers	\$ 47	\$ 47	\$ 45	\$ 53
Surety Bond	Number of Bid and Final Bonds Guaranteed	8,348	8,638	9,503	6,151
Contracting ^{(3) (4)}					
Prime Contracting	Dollars of Annual Federal Contracts to SBs	\$ 97,947	\$ 91,468	\$ 89,923	NA
	Percentage of Federal Contracts to SBs	22.66%	21.65%	22.3%	NA
HUBZone	Dollars of HUBZone Contracts	\$ 11,969	\$ 9,915	\$ 8,140	NA
8(a) Program	Dollars of 8(a) Contracts	\$ 18,466	\$ 16,678	\$ 15,837	NA
Counseling and Training ⁽⁵⁾					
SBDC	Number Clients Counseled and Trained	589,352	557,698	543,512	532,337
WBC	Number Clients Counseled and Trained	160,735	138,923	136,951	133,765
SCORE	Number Clients Counseled and Trained	407,240	356,837	458,773	345,902
Microloans	Number Clients Counseled and Trained	15,180	15,964	15,892	19,368
Disaster					
Disaster Assistance ^{(2) (6)}	Dollars of Gross Loans Approved	\$ 574	\$ 739	\$ 690	\$ 2,797
High-growth Small Businesses					
SBIC	Dollars of SBA Debenture Leverage Committed to SBICs	\$ 1,165	\$ 1,827	\$ 1,924	\$ 2,156
	Dollars of SBIC Debenture Capital to Small Businesses	\$ 1,587	\$ 2,589	\$ 2,950	\$ 3,256

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

(2) There are three basic ways to present loan data: 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 2013 contracting numbers will continue to be collected and certified through the third quarter of FY 2014. Therefore, FY 2012 numbers are reported per OMB Circular A-11.

(4) The federal goal is to give small businesses at least 23 percent of all government-wide contract dollars. The SBA negotiates goals annually with each federal agency on an individual basis, however the SBA has no authority to enforce other federal agencies' contracting goals.

(5) For FY 2013, the SBA is reporting the more inclusive indicator "Number of Clients Counseled and Trained". In FY 2012, the SBA reported only the clients trained.

(6) The significant increase in disaster loan approvals represents all disaster loan approvals in FY 2013, including Superstorm Sandy which was the third largest SBA disaster.

SBA'S HISTORY AND ORGANIZATION

In 1953, Congress created the U.S. Small Business Administration to “aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns.” SBA’s headquarters is located in Washington, D.C. while its business products and services are delivered with the help of field personnel and a vast network of private sector and nonprofit partners in each U.S. state and territory. Major SBA offices fall under one of three Agency-wide strategic goals, as outlined in SBA’s long-term Strategic Plan:

STRATEGIC GOAL ONE — Growing businesses and creating jobs

The Office of Capital Access assists small businesses in obtaining capital via the 7(a), 504 and Microloan programs through an extensive lending network.

The Office of Investments and Innovation assists high-growth small businesses through the Small Business Investment Company program, the Small Business Innovation Research program, and other tailored programs that drive innovation and competitiveness.

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

The Office of Entrepreneurial Development provides business counseling and training through its resource partner network composed of small business development centers, women’s business centers and SCORE, as well as through online training at SBA’s website. In addition to coordinating connections between SBA resource partners and local small business communities, SBA’s district offices provide business development services and support through the 8(a) program which complements and builds upon the assistance provided by SBA resource partners.

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.

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 interests of small business are considered and reflected in trade negotiations, and supporting and contributing to the U.S. government’s international commercial and economic agenda.

Across all of these offices is an emphasis on reaching underserved communities, which is a particular focus of the *Office of Veterans Business Development*, the *Office of Native American Affairs*, and the *Center for Faith-Based and Neighborhood Partnerships*.

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

SBA’s management offices support Strategic Goal Two:

The Office of Performance Management and the Chief Financial Officer provides financial and performance data and information that is useful, relevant, timely and accurate and which assists the SBA and its executive team in maximizing program performance and accountability to taxpayers.

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

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

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

The Office of Communications and Public Liaison communicates the Agency’s programs and priorities to small businesses, their partners, and the public at large by working with media outlets, developing social media content, creating user-friendly online resources, crafting high quality marketing materials, organizing events to gain

feedback from small businesses, and coordinating strategic partnerships.

Other offices include the *Office of Management and Administration*, *Congressional and Legislative Affairs*, the *Office of General Counsel*, the *Office of Hearings and Appeals*, the *Office of Human Resources Solutions*, and the *Office of Diversity, Inclusion and Civil Rights*.

STRATEGIC GOAL THREE — Serving as the voice for small business

All of SBA's management and program offices work together to support increasing interagency collaboration; reducing burdens on small business; and, providing current, accurate data statistics on small business to inform top level strategic decision-making.

Interagency Collaboration — To ensure effective delivery of programs and services, the SBA has made collaboration with other federal agencies a top priority. The SBA is the leading participant in interagency collaborations that focus on small business job creation including: access to

capital; entrepreneurial education; innovation; government contracting; exporting; and entrepreneurship among underserved communities including women, minorities, veterans and others.

Reducing Burdens — The SBA works across the federal government to increase responsiveness to and opportunities for small businesses while also reducing regulatory burdens and excessive/unnecessary enforcement. The SBA fulfills these functions through an array of listening sessions and strategic partnerships as well as the Office of the National Ombudsman, which receives complaints and comments from small businesses and acts as a “trouble shooter” between small businesses and federal agencies.

Statistics on Small Business — SBA's policy analysts are responsible for collecting data and statistics to help evaluate existing policies and programs of the SBA. They translate economic, social and demographic trends that have an impact on small business job creation into policy prescriptions that allow the Agency to be as proactive as possible in anticipating and addressing the needs of small business.

SUCCESS STORY: Restoring Power to Hurricane Victims

Delta Electric and Construction Company, Christiansted, St. Croix, U.S. Virgin Islands



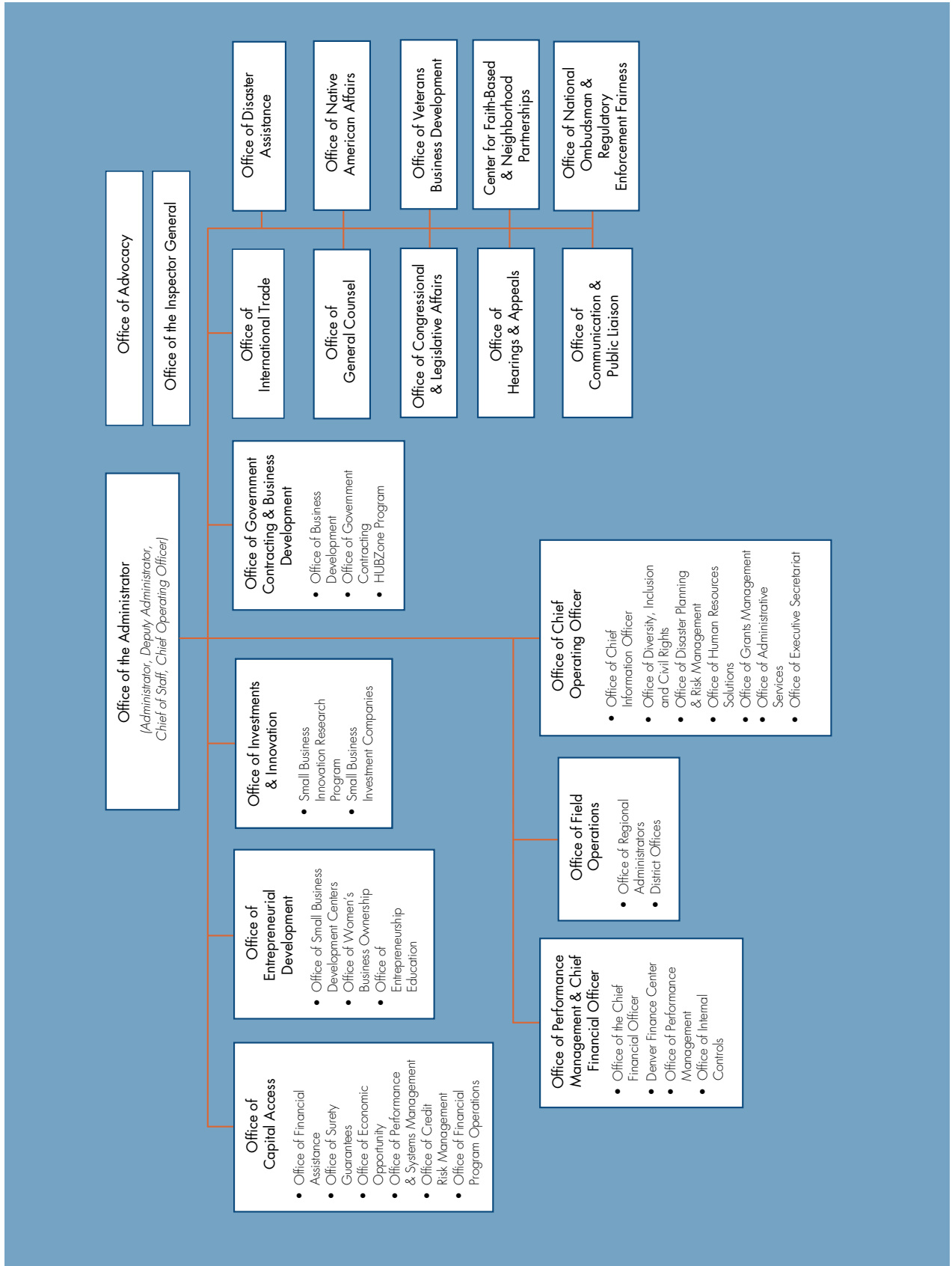
Charles N. King Jr. is President of Delta Electric and Construction Co., Inc. – a minority-owned, service-disabled veteran-owned, 8(a) and HUBZone-certified firm that stands ready to restore electricity to homes after hurricanes and provide general construction services to customers. Mr. King performed apprenticeships as a mechanic and electrician while still in high school and continued work as an electrician while serving in the U.S. Army. In 1966, upon his return from the Army, King founded Delta Electric. In 1995, the company became Delta Electric and Construction Company Inc., the same year Hurricane Marilyn hit the Virgin Islands.

Delta Electric and Construction Company Inc. is one of the longest operating businesses in St. Croix and has served thousands of clients including the General Services Administration, the Virgin Islands National Guard, the U.S. Coast Guard and the Department of Agriculture. The company has five employees and provides architectural services, building and civil engineering, masonry and excavation services.

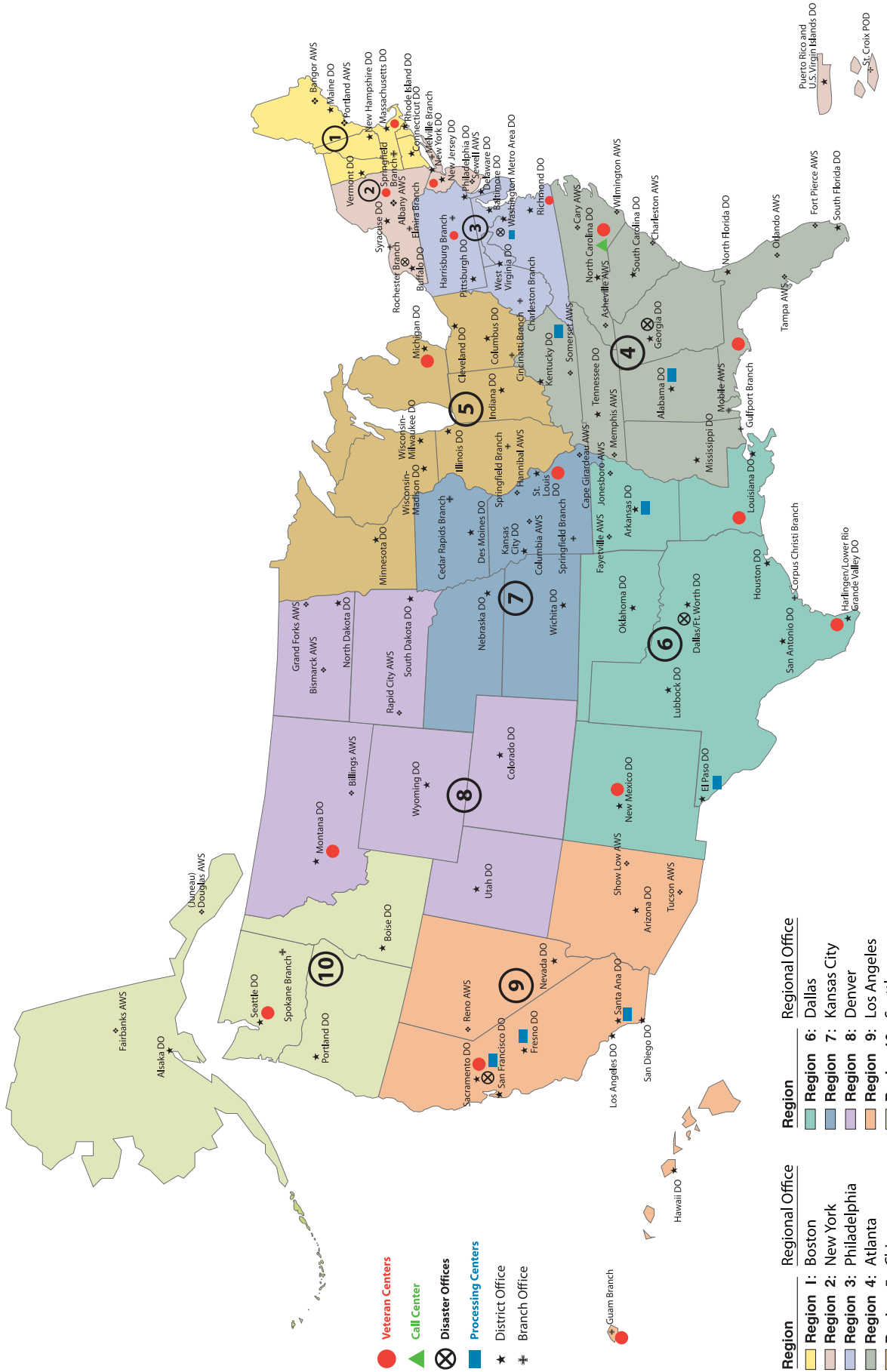
The SBA Virgin Island Small Business Development Center counseled King during his initial expansion plans for the company and advised him on opportunities for funding that were available. As a result of this counseling, King was able to secure a \$50,000 SBA-backed loan for expansion.

Charles King is the SBA 2013 Virgin Islands Small Business Person of the Year.

SBA ORGANIZATION CHART



SBA REGIONS AND FIELD OFFICES



- Veteran Centers
- ▲ Call Center
- X Disaster Offices
- Processing Centers
- ★ District Office
- ★ Branch Office

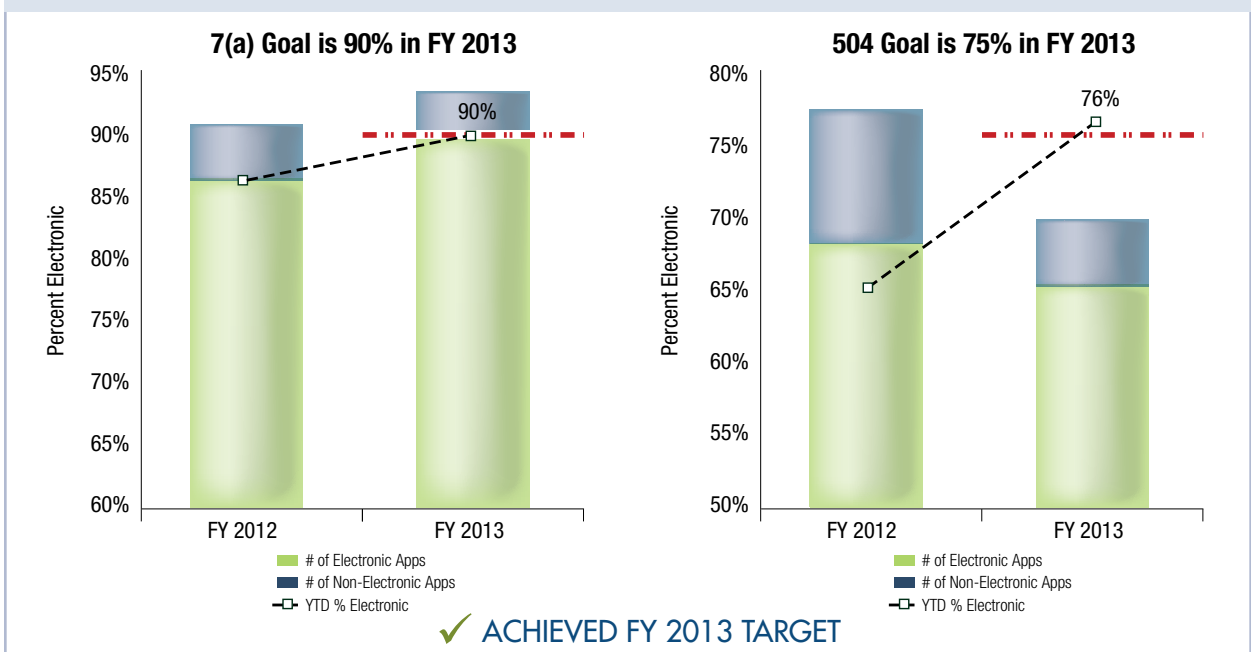
Region	Regional Office	Region	Regional Office
Region 1	Boston	Region 6	Dallas
Region 2	New York	Region 7	Kansas City
Region 3	Philadelphia	Region 8	Denver
Region 4	Atlanta	Region 9	Los Angeles
Region 5	Chicago	Region 10	Seattle

ANALYSIS OF SBA'S PERFORMANCE

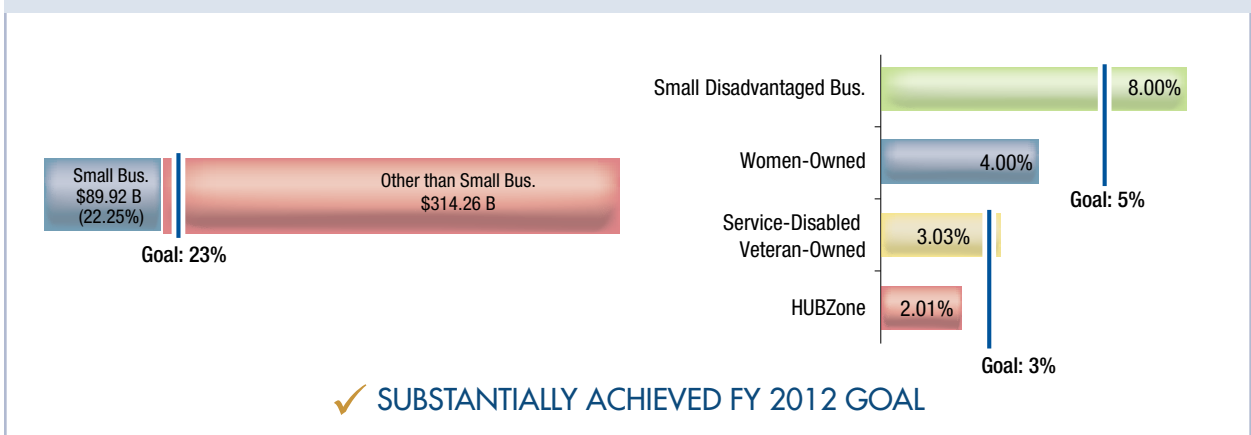
Agency Priority Goals

The SBA identified four Agency Priority Goals that reflect priorities of SBA leadership and the Administration and are critical to success in SBA's strategic plan. These goals reflect the breadth and depth of SBA's commitment both to taxpayers and to the small business community. By actively pursuing these goals, the SBA can strengthen its national contributions to entrepreneurship, innovation, and competitiveness. These are two-year goals measuring program efficacy for FY 2012 and FY 2013.

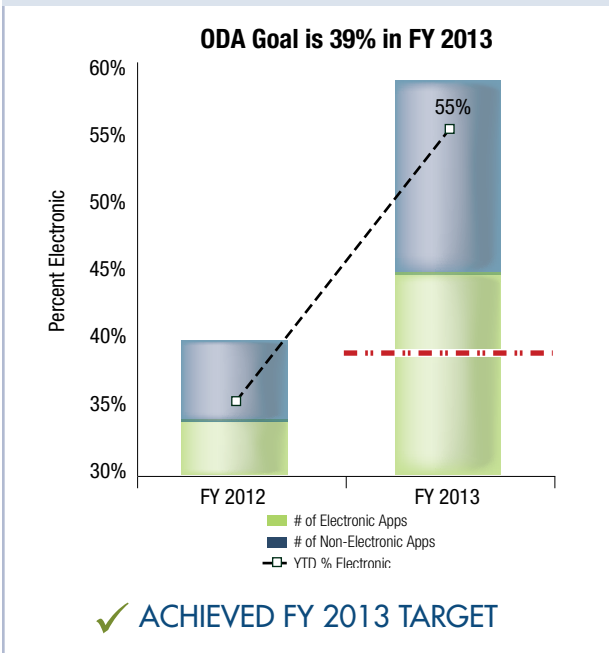
Priority Goal #1: Process business loans as efficiently as possible. By September 30, 2013, increase the use of paperless processing in the 7(a) program from 72 percent to 90 percent and in the 504 program from 55 percent to 75 percent to improve the efficiency, effectiveness, and level of service in its business loan programs. The SBA exceeded its FY 2013 targets.



Priority Goal #2: Maximize small business participation in government contracting. Maximize small business participation in federal government contracting to meet the statutory goals and ensure program benefits flow to the intended recipients. The following chart for FY 2012 shows that out of \$404 billion in government contracts, small businesses received \$89.9 billion or 22.25 percent. The federal government substantially met its goal. (The data supporting the FY 2013 indicators are not finalized until the 3rd or 4th quarter of FY 2014. Therefore, FY 2012 data is reported on as required by OMB Circular A-11.) This Goal for FY 2012/13 was also a Priority Goal for FY 2010/11.

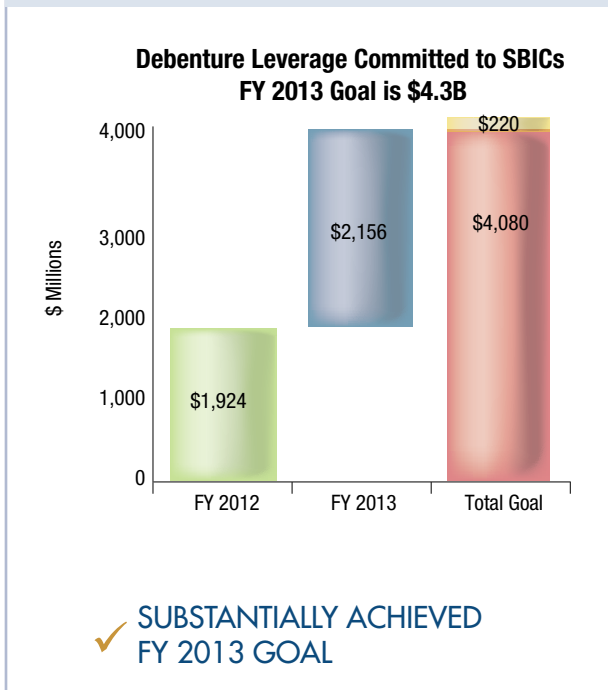


Priority Goal #3: Process Disaster Assistance applications efficiently. By September 30, 2013, increase the use of the Disaster Assistance electronic loan application (ELA) by 50 percent. In FY 2011, 26 percent of applications were received through the use of the ELA, so the goal is to increase that to 39 percent. Increasing the number of paperless disaster loan applications will improve the delivery of the Disaster loan program. Response time to the disaster victim will be reduced by the time saved in not sending the application through the mail, and the integrity of the data used in the underwriting process will be improved as a result of not having to have staff input the data into the system. The SBA exceeded its FY 2013 target.



Priority Goal #4: Expand access to long-term capital.

From FY 2012 through September 30, 2013, commit at least \$4.3 billion of capital via the Small Business Investment Company program in order to facilitate access to capital for high growth companies and enhance job creation and retention by these companies. In FY 2013, the SBA licensed a record 31 SBIC funds and licensing times dropped over 53 percent from 14.6 months in FY 2009 to 6.8 months in FY 2013. This helped the SBIC program execute a record of more than \$2.1 billion in commitments to its funds in 2013. The SBA missed the overall FY 2012/2013 target by \$220 million.



DID YOU KNOW

Fortune 500 IT companies **Symantec Corporation** and **QUALCOMM, Inc.** are members of SBA's Small Business Innovation Research program Hall of Fame. Both received SBA Small Business Innovation Research grant funding to propel their companies' success.

Summary of Key SBA Programs

The following table presents key SBA FY 2013 performance data from **Strategic Goal 1 - Growing businesses and creating jobs**. Although the SBA has three Strategic Goals, 82 percent of all SBA program costs are in Strategic Goal 1. Therefore, only Strategic Goal 1 performance indicators are presented here. The presentation of the performance indicators is by Strategic Objective, which follows SBA's FY 2011-2016 Strategic Plan. Detailed performance information on all SBA programs will be presented, and all variances explained, in the FY 2015 Congressional Budget Justification and FY 2013 Annual Performance Report.

Strategic Objective 1.1 – Expand Access to capital through SBA's extensive lending network.

Capital

Program	Performance Indicator	Type of Indicator	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2013 Target	FY 2013 Variance
7(a) and 504	Lending Supported (\$ Billions) ⁽¹⁾	Output	\$24.6	\$17.8	\$22.4	\$30.5	\$30.3	\$29.6	\$22.4	32% G
7(a), 504, Microloan, and SBG	Jobs Supported ⁽²⁾ (#)	Outcome	713,574	514,035	583,737	700,736	609,437	621,869	654,000	-5% Y

(1) Lending Supported includes gross approvals in the 7(a) loan program, gross approvals in the 504 loan program, and third party loans that are made by commercial lenders as part of the 504 funding package.

(2) Job Supported numbers are self-reported by the borrower and appear in the SBA loan application form. A filter was applied to reduce outliers and jobs associated with cancelled loans.

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

Contracting

Program	Performance Indicator ⁽³⁾	Type	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2012 Target	FY 2012 Variance
Prime Contracting	Percent of Federal Contract Dollars Awarded to Small Businesses (%)	Outcome	21.5%	21.9%	22.7%	21.7%	22.3%	23.0%	-3% Y

(3) FY 2013 contracting numbers will continue to be collected and certified through the third quarter of FY 2014. Therefore, FY 2012 numbers are reported per OMB Circular A-11.

Strategic Objective 1.3 - Strengthen SBA's entrepreneurial education, counseling and training resources to help create new businesses and support the needs of existing businesses by successfully focusing on core program resources and ensuring these resources are aligned with the needs of both Main Street and high-growth small businesses.

Counseling and Training

Program	Performance Indicator	Type	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2013 Target	FY 2013 Variance
SBDC, WBC, and SCORE	Training Clients (#)	Output	677,051	683,355	752,588	689,114	739,616	663,525	695,000	-5% Y
	Counseling Clients (#)	Outcome	401,874	436,425	404,739	364,344	399,620	348,519	N/T*	N/A

N/T - Not Targeted - This indicator was introduced in FY 2013 and therefore was not goaled. It is presented for the historical perspective and to complete the picture for the Office of Entrepreneurial Development performance activity. It will be goaled in FY 2014.

Strategic Objective 1.4 - Ensure that SBA's disaster assistance resources for businesses, non-profit organizations, homeowners, and renters can be deployed quickly, effectively and efficiently in order to preserve jobs and help return small businesses to operation.

Disaster Assistance

Program	Performance Indicator	Type	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2013 Target	FY 2013 Variance
Disaster	Customer Satisfaction Rate for Approvals (%)	Outcome	65%	72%	74%	80%	80%	81%	71%	14%

Strategic Objective 1.5 – Strengthen SBA's relevance to high-growth entrepreneurs and small businesses to more effectively drive innovation and job creation through both the Agency's existing programs and new initiatives.

International Trade

Program	Performance Indicator	Type	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2013 Target	FY 2013 Variance
International Trade	SME Exporters Assisted by USG Finance Programs (#)	Output	3,167	1,393	1,326	1,346	1,283	1,388	1,349	3%

Investment and Innovation

Program	Performance Indicator	Type	FY 2008 Actual	FY 2009 Actual	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	FY 2013 Actual	FY 2013 Target	FY 2013 Variance
SBIC	SBA Debenture Leverage Committed to SBICs (\$ in Millions)	Output	\$1,029	\$788	\$1,165	\$1,827	\$1,924	\$2,156	\$2,400	-10%



The Actual result meets or exceeds target.



The Actual result is within 10% or less of the target.



The Actual result is less than 90% of the target.



Cybersecurity for Small Businesses is a new SBA free online course to help business owners safeguard their information from computer attacks and determine their readiness against security breaches.

See: <http://www.sba.gov/tools/sba-learning-center/training/cybersecurity-small-businesses>.

Operational Portfolio Analysis

The Small Business Administration is the taxpayers' custodian of a small business loan portfolio of \$106.8 billion. During FY 2013, the portfolio grew by \$4.2 billion, or 4 percent; since existing loans are continually being paid off, this growth means that there was a significant increase in dollars loaned in FY 2013. Nearly two-thirds of the FY 2013 growth in new loans to small businesses came from the Agency's three loan guaranty programs, 7(a), 504 and SBIC debentures, which work with private financial institutions to provide credit to small businesses. During the period FY 2009 through FY 2013, nearly all of the portfolio's cumulative \$18.6 billion growth came from these three SBA programs. As a result, the share of these three programs grew from 90 percent of the portfolio in FY 2009 to 93 percent in FY 2013 (see **Chart I**).

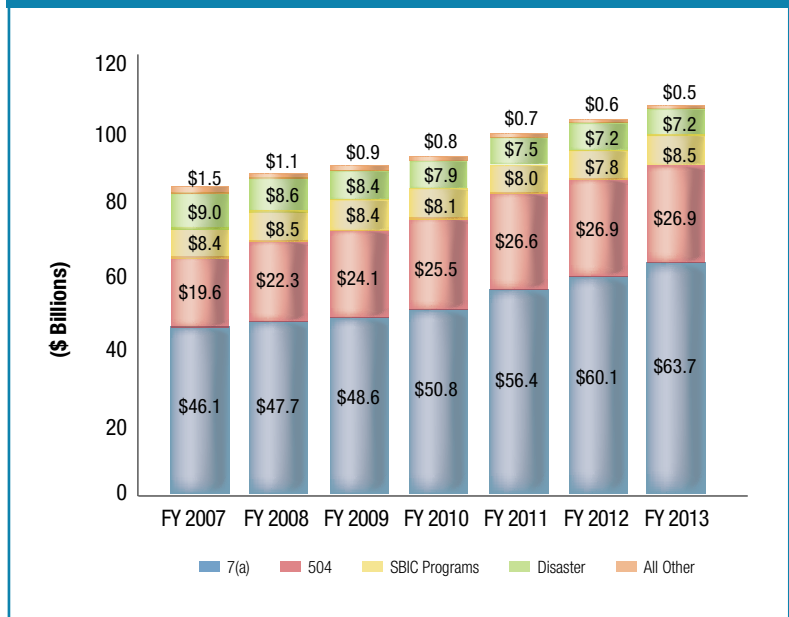
New Guarantied Loans

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

Continuous Growth in the Economy – Real Gross Domestic Production (RGDP) in the United States grew at an average rate of 2.4 percent during 2010-2012. The first three quarters of 2013 experienced a slight moderation in RGDP growth, posting an average growth rate of 1.8 percent. Although much of the weakness centered in the first quarter of the year, economic activity continued to increase steadily, with the third quarter posting a 2.8 percent growth. This rise in RGDP increased revenues at small firms, which in turn increased their demand for credit.

Increase in Business Financial Stability – Corporate profits, reaching record highs in FY 2013, are the primary factor determining a business's overall financial strength, including its ability to incur more debt. Data indicate that gains in corporate profits have been broadly distributed across firms of all sizes, including small firms. The broadly distributed increases in corporate profits allowed existing firms to borrow more.

CHART I MAKEUP OF SBA'S OUTSTANDING LOAN PORTFOLIO



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

New Direct Loans

The growth in SBA's gross lending approvals for the Disaster Assistance program, grew \$2.2 billion or 291 percent. The large growth in disaster loans during FY 2013 can be primarily attributed to loans extended to individuals and businesses impacted by Superstorm Sandy. A detailed review of the portfolio also indicates that the high volume of loans made in FY 2006 (\$11.7 billion), which included Hurricanes Katrina, Rita and Wilma, represents more

than 38 percent of the number of active disaster loans for all of the following years combined. The SBA will continue to make disaster loans an important tool for homeowners, businesses and renters who may fall victim to a disaster.

Portfolio Performance – Delinquencies

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

Modest economic growth and strong profit performance 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. Delinquency rates for the Agency's major loan programs followed this national downward trend. Thus, delinquency rates for the 7(a) program declined from the 3.9 percent recorded during January 2009 to 1.1 percent recorded during August 2013. Delinquency rates for

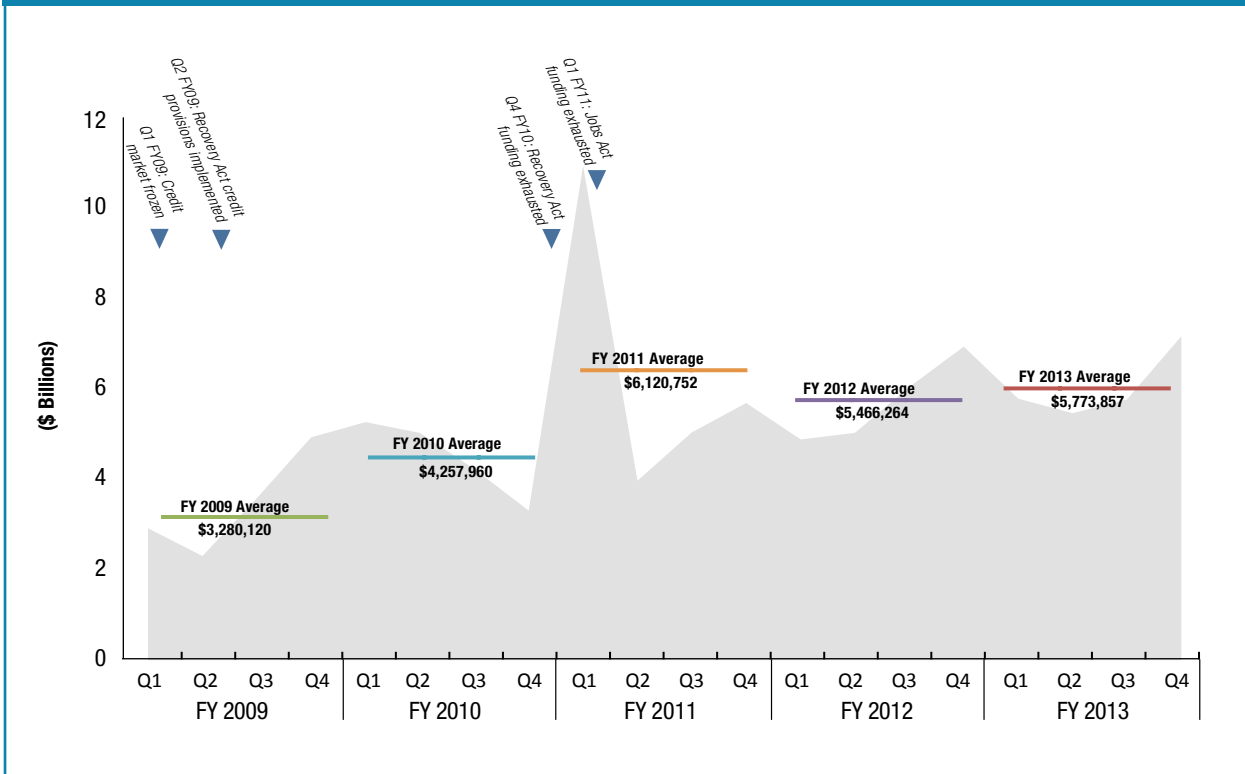
the 504 program likewise declined from the 5 percent recorded during February 2010 to 1.4 percent recorded during August 2013.

Portfolio Performance – Charge-Offs

As of the end of FY 2013, the charge-off rates for most SBA primary loan programs, both guaranty and direct, are trending downward. A reduction in the rate of defaulted loans across all loan vehicles is a major positive factor when assessing a diverse portfolio. The charge-off rates for the major loan programs are profiled here:

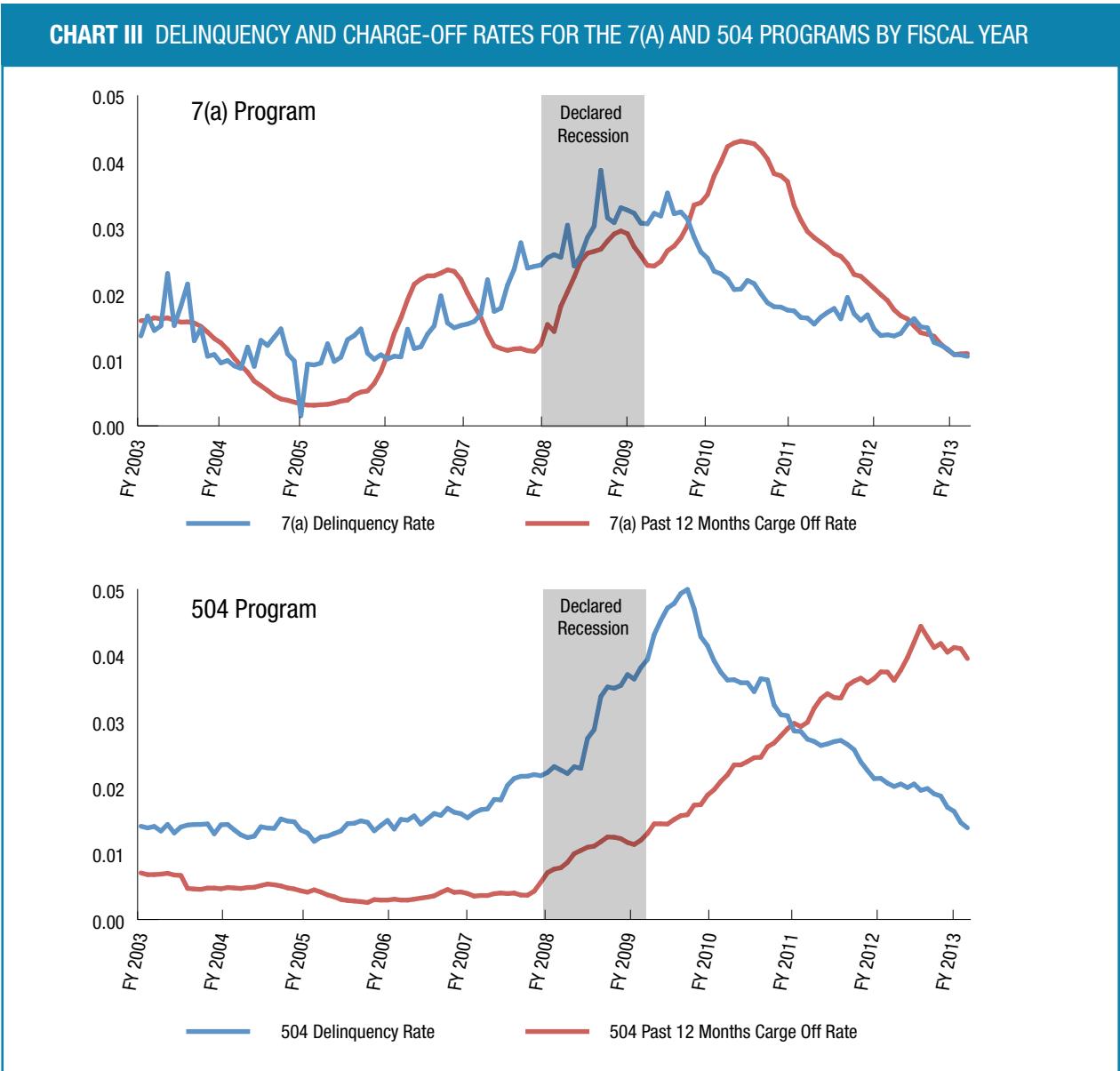
Charge-off rates for the 7(a) and Disaster loan programs experienced continuous declines from their 2009-2010 highs while the charge-off rate for the SBIC Debenture program experienced a less pronounced downward trend. The charge-off rate for the 504 program experienced a continuous rise from early 2008 to the end of 2012. This is not surprising since the 504 program is an economic development program with a commercial real estate focus. As such, recovery rates of defaulted 504 loans are significantly impacted by the pricing trend in this sector. However, the latest data for FY 2013 indicates that the 504 charge-off rates have started to decline. A contrib-

CHART II QUARTERLY GROSS 7(A) AND 504 LOAN APPROVALS



uting factor to the decline is that real estate prices have been on the rise since the latter part of 2009, and as of August 2013 commercial real estate prices had recovered 80 percent from the peak low levels recorded during 2007. The charge-off rate for the SBIC Participating Securities program experienced a steady rise during the period from 2007-2012. Data for FY 2013 indicates that this upward trend has also begun to reverse.

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



ANALYSIS AND HIGHLIGHTS OF FINANCIAL STATEMENTS AND RESULTS

Highlights of Financial Results (September 2013)

(Dollars in Thousands)

As of September 30,	2013	2012	% Change
CONDENSED BALANCE SHEET DATA			
Fund Balance with Treasury	\$ 6,198,604	\$ 6,273,663	-1.20%
Credit Program Receivables and Related Foreclosed Property, Net	7,534,448	7,654,295	-1.57%
All Other Assets	113,118	86,897	30.17%
Total Assets	\$ 13,846,170	\$ 14,014,855	-1.20%
Debt	8,088,099	7,919,801	2.13%
Downward Reestimate Payable to Treasury	1,116,192	1,689,133	-33.92%
Liability for Loan Guaranties	2,987,263	3,725,951	-19.83%
All Other Liabilities	270,762	305,696	-11.43%
Total Liabilities	12,462,316	13,640,581	-8.64%
Unexpended Appropriations	1,753,736	1,281,279	36.87%
Cumulative Results of Operations	(369,882)	(907,005)	59.22%
Total Net Position	1,383,854	374,274	269.74%
Total Liabilities and Net Position	\$ 13,846,170	\$ 14,014,855	-1.20%

For the years ended September 30,	2013	2012	% Change
STATEMENT OF NET COST BY STRATEGIC GOAL			
Goal 1: Growing Businesses and Creating Jobs			
Loan Subsidy Cost Including Reestimates	\$ (378,654)	\$ 350,577	-208.01%
All Other Costs Net of Revenue	806,728	828,869	-2.67%
Goal 2: Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses	-	1,959	-100.00%
Goal 3: Serving as the Voice for Small Business	12,832	14,369	-10.70%
Costs Not Assigned	83,180	79,031	5.25%
Net Cost of Operations	\$ 524,086	\$ 1,274,805	-58.89%

CONDENSED STATEMENT OF NET POSITION			
Beginning Cumulative Results of Operations	\$ (907,005)	\$ (1,846,208)	50.87%
Total Financing Sources	1,061,209	2,214,008	-52.07%
Less: Net Cost of Operations	(524,086)	1,274,805	-58.89%
Ending Cumulative Results of Operations	\$ (369,882)	\$ (907,005)	59.22%
Beginning Unexpended Appropriations	\$ 1,281,279	\$ 1,537,185	-16.65%
Total Budgetary Financing Sources	472,457	(255,906)	284.62%
Ending Unexpended Appropriations	\$ 1,753,736	\$ 1,281,279	36.87%
Ending Net Position	\$ 1,383,854	\$ 374,274	269.74%

CONDENSED STATEMENT OF BUDGETARY RESOURCES			
Unobligated Balance Brought Forward	\$ 5,632,368	\$ 7,384,285	-23.72%
Other Budgetary Resources, Net	(473,129)	(1,938,161)	47.01%
Appropriations (discretionary and mandatory)	2,649,756	3,592,151	-26.23%
Borrowing Authority (discretionary and mandatory)	1,520,370	1,129,367	34.62%
Spending Authority from Offsetting Collections	4,730,229	4,232,520	24.85%
Total Budgetary Resources	\$ 14,059,594	\$ 14,400,162	-2.37%
Obligations Incurred, Budgetary	\$ 2,882,329	\$ 4,130,864	-30.22%
Obligations Incurred, Nonbudgetary	5,743,279	4,636,930	23.86%
Unobligated Balances, Available and Unavailable	5,433,986	5,632,368	-3.52%
Total Status of Budgetary Resources	\$ 14,059,594	\$ 14,400,162	-2.37%

Analysis of Financial Results

The SBA prepares its financial statements as a critical aspect of ensuring the accountability and stewardship for the public resources entrusted to it. The financial statements are prepared in accordance with guidance issued by the Office of Management and Budget pursuant to the Chief Financial Officers Act of 1990. While these statements have been prepared from SBA's books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB, they are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. One implication of this is that the liabilities presented herein cannot be liquidated without the enactment of appropriations, and ongoing operations are subject to the enactment of future appropriations.

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

Background

The SBA is a major federal credit agency of the U.S. government. The SBA has roughly 3,776 employees including Disaster FTE employees. As a result only \$1.1 billion of SBA's \$14.1 billion budgetary resources in FY 2013 were for salaries and expenses, with the rest being to support SBA's credit programs. Budgetary resources when apportioned by the Office of Management and Budget are available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority and unobligated balances of budget authority provided in previous

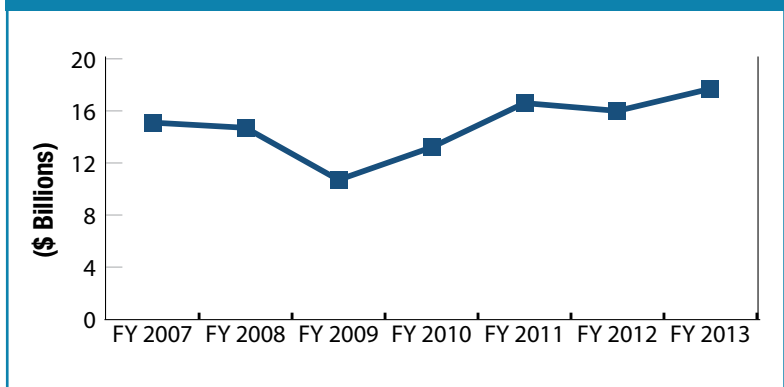
years. The loan financing funds are nonbudgetary accounts that record all the cash flow activity resulting from post 1991 direct loans and loan guaranties. This activity in the financing account is reported separately in the Budget of the United States Government and is excluded from the budget surplus/deficit totals.

The portion of the outstanding principal guaranteed by the SBA as of September 30, 2013 was \$79.1 billion, an increase of 6.3 percent from the \$74.4 billion guaranteed at September 30, 2012 (see Note 6C in the financial statements). As shown in **Chart I**, new guaranties disbursed by SBA participating banks during FY 2013 were \$17.7 billion, a 10.7 percent increase compared to FY 2012. The increase was largely from disbursements on loan approvals made under the Small Business Jobs Act in the previous year that were disbursed in FY 2013. The increase in FY 2013 disbursements caused the 6.3 percent increase in outstanding guaranteed principal from the previous year.

Credit program receivables for the SBA are comprised of business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guaranty programs which are offset by an allowance for subsidy. An allowance for the subsidy cost of the gross loan receivable is recorded as a contra asset and the net asset is reported on the Balance Sheet. The subsidy allowance is determined by modeling the projected future cash inflows and outflows of SBA credit programs using discounted cash flow methodology. Loan losses, the costs of loan servicing and loan interest rates are factors that affect the subsidy allowance.

SBA credit program receivables were valued at \$7.5 billion in FY 2013 which was a decrease of just \$120 million from FY 2012. The biggest change in the credit

CHART I GUARANTIED LOANS DISBURSED



program receivables was a decrease in defaulted guaranteed business loans of \$.2 billion. The amount of defaulted guaranteed loans decreased as collections and charge-offs exceeded new guaranty purchases, partially offset by a lower subsidy allowance amount. This net decrease is attributable to an improved economy in FY 2013.

As reflected in **Chart II**, guaranteed loan purchases decreased \$.5 billion in FY 2013. This is still a high level compared the FY 2007 level, but the decrease this year reflects the continuing recovery after the economic recession. The decrease in purchases this year did contribute to a slight decrease in the outstanding guaranteed business loans receivable after including recoveries, expenses and charge-offs in the loans purchased portfolio.

SBA's assets and liabilities consist primarily of Fund Balances with Treasury, credit program receivables, liabilities for loan guaranties, and debt with Treasury. SBA's loans and guaranties are financed by a combination of subsidy appropriations, fees charged to lenders and borrowers, and borrowings from the Treasury. Congress provides appropriations to cover the estimated long-term costs of SBA's disaster loans. While SBA's guaranteed business loan program costs are largely financed through fees, Recovery and Jobs Act loans were augmented by appropriations. Borrowings are repaid to the Treasury as loans are repaid to the SBA.

Financial Position

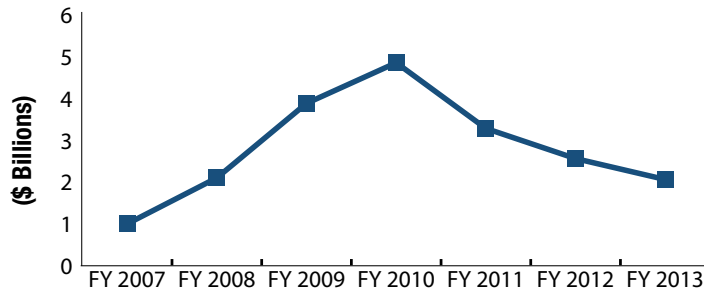
Assets

The SBA had total assets of \$13.8 billion at the end of FY 2013, down 1.2 percent from FY 2012. Total assets decreased primarily due to a \$120 million decrease in the Credit Program Receivables and Related Foreclosed Property. This decrease was due to the amount of defaulted guaranteed loans decreasing as the result of collections and charge-offs exceeding new guaranty purchases.

Liabilities

The SBA had total liabilities of \$12.5 billion at the end of FY 2013, down 8.6 percent from FY 2012. Liabilities consist primarily of the Liability for Loan Guaranties, Downward Reestimate Payable to Treasury, and Debt with

CHART II PURCHASES OF GUARANTIED LOANS



Treasury. The Liability for Loan Guaranties is defined as the estimate of the net present value of the future amount the SBA will pay, net of fee collections, to liquidate expected purchases of guaranteed loans under its guaranteed loan programs. The Liability for Loan Guaranties decreased \$.7 billion due to the year-end downward reestimate of future costs for SBA's guaranty portfolio. The downward reestimate reflects the improvement in SBA's portfolio and the economic recovery.

The Downward Reestimate Payable to Treasury decreased \$.6 billion due to the smaller year-end accrual of the downward reestimates for the 7(a) Recovery Act and 7(a) Jobs Act cohorts in FY 2013. More accurate FY 2013 cash flow projections and smaller changes to purchase projections for future years contributed to the smaller downward reestimate for FY 2013 compared to FY 2012.

Debt with Treasury increased \$.2 billion to fund the increase in Disaster loan disbursements for Superstorm Sandy. Note 9 to the financial statements provides additional detail on SBA debt with Treasury.

Net Position

Cumulative Results of Operations is the accumulative difference between expenditures and financing sources since the inception of the Agency. This negative balance decreased \$.5 billion because unfunded upward subsidy reestimates at year-end for the 504, and SBIC programs were less this year than last year. Upward subsidy reestimates determined at year-end are funded in the following year when they are received. **Unexpended appropriations** increased \$.5 billion this year primarily because the appropriations used were less than the appropriations received in FY 2013 for disaster and administrative activ-

ity. 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 credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guaranteed loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives appropriations annually to fund its credit programs. When loans are disbursed, the SBA records subsidy expense. In accordance with the Federal Credit Reform Act, the subsidy costs are reestimated annually. Reestimates update original loan program cost estimates to reflect actual experience and changes in forecasts of future cash flows. 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 upward reestimated costs for the SBIC and 504 guaranteed business programs decreased in FY 2013 resulting in a net downward reestimate, and there was a decrease in the net downward reestimate in the 7(a) guaranty program that affected Strategic Goal 1 costs. Those subsidy reestimates were the largest components of the change (net decrease) in the Agency's net cost. **Chart III** reflects the decreases in the subsidy reestimates for the Guaranteed Business and Direct Disaster loan programs in FY 2013.

There was a significant downward reestimate in the 7(a) programs. This downward reestimate of \$0.5 billion was due mostly to lower than average purchases during FY 2013 that decreased the overall purchase curve, in turn decreasing purchase projections in future years and contributing to the downward reestimate for FY 2013.

The 504, 504 Recovery Act, and 504 Jobs Act programs had a downward reestimate of \$0.3 billion due to better than projected FY 2013 loan performance. Purchases in the 504 Recovery Act program represented only 43 percent of the purchases projected for FY 2013 by last year's reestimate model. Further detail on subsidy reestimates can be found in Note 6I to

the financial statements in the Financial Reporting section of this report.

The SBIC Participating Securities and Debenture programs had an upward reestimate of \$0.1 billion in FY 2013 that was due mostly to worse than projected loan performance. Additionally, loan performance contributed to a projected increase in purchases and decreased projections of recoveries, reimbursement of prioritized payments and annual fees for the remaining years within most of the cohorts.

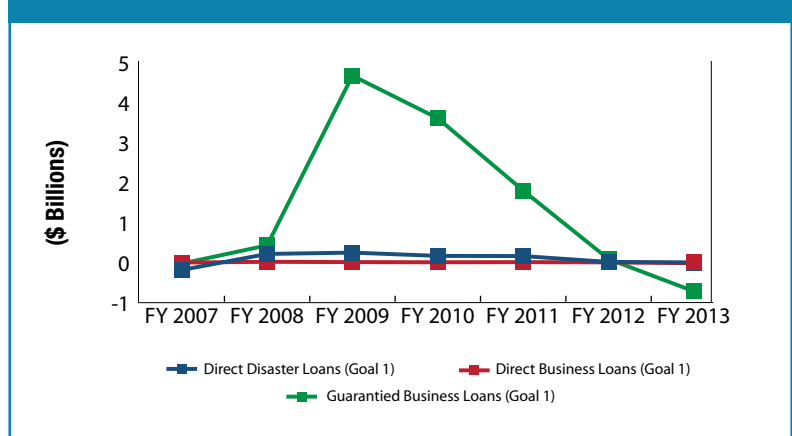
Budgetary Resources

Total Budgetary Resources of \$14.1 billion decreased \$0.3 billion in FY 2013. This decrease is the net result of previous year unused appropriations available this year and the other factors in the Highlights table and discussed here. Other Budgetary Resources, Net increased by \$1.5 billion in FY 2013. This increase is attributable to a smaller repayment of borrowings from prior year balances in FY 2013.

Appropriations (discretionary and mandatory) decreased \$0.9 billion in FY 2013. As shown in Chart IV the decrease was the net of the decrease in the amount of appropriations needed to fund SBA's upward credit subsidy reestimates, offset in part by increased FY 2013 Disaster appropriations for the cost of Superstorm Sandy loans.

Borrowing Authority increased \$0.4 billion in FY 2013. Disaster borrowing authority initially granted to the SBA was \$3.6 billion, but the SBA returned \$2.2 billion at year-end FY 2013 as it was not needed to fund future credit program operations.

CHART III CREDIT PROGRAM SUBSIDY REESTIMATES



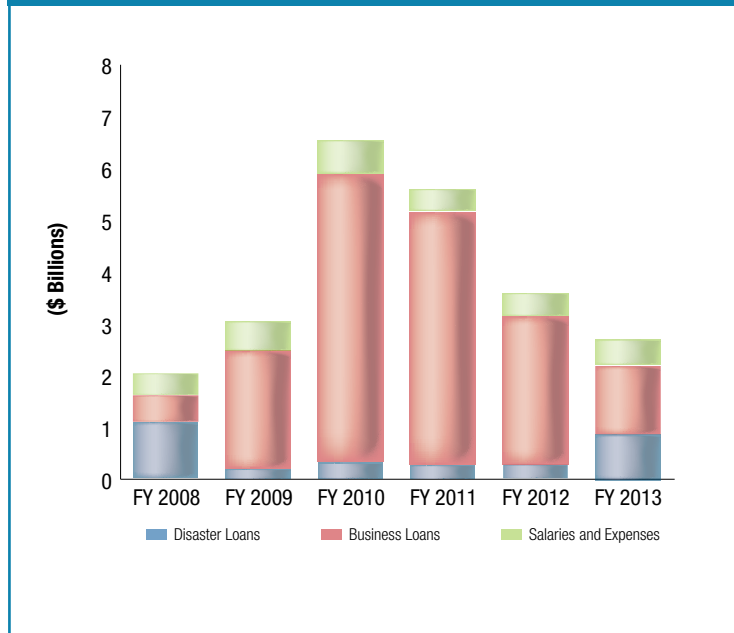
Spending Authority from Offsetting Collections increased \$0.5 billion in FY 2013. Collections needed to repay borrowings decreased in FY 2013, increasing the ending balance. This was partially offset by the decrease in FY 2013 collections received for reduced year-end subsidy reestimates this year.

Status of Budgetary Resources

The Total Status of Budgetary Resources of \$14.1 billion decreased \$0.3 billion in FY 2013. Budgetary obligations decreased by \$1.2 billion because subsidy reestimates decreased in FY 2013 for the guaranteed business programs. Nonbudgetary obligations increased \$1.1 billion due to the increase in obligations in the disaster financing fund due to Superstorm Sandy.

Unobligated balances at September 30, 2013 and 2012 were \$5.4 billion and \$5.6 billion which include \$4.0 billion and \$2.9 billion of unavailable unobligated balances. These balances were unavailable because they were unapportioned by OMB. The SBA accumulates the majority of unobligated balances in its nonbudgetary financing accounts (\$4.1 billion in FY 2013 and \$4.8 billion in FY 2012) from reestimates that are used primarily to pay default claims in future years.

CHART IV APPROPRIATIONS



In FY 2013 the SBA guaranteed bid and final bonds representing **\$6.2 billion in contract value** for America's small businesses.

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, demonstrates responsible stewardship over assets and resources, ensures high quality, is a sign of responsible leadership, ensures the effective 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 year, the SBA conducts an assessment of internal control as required by the Federal Managers' Financial Integrity Act of 1982. The FMFIA also requires that the assessment results be reported to the President and the Congress in a statement of assurance. The SBA Administrator provides the statement of assurance based on the self-assessment of program managers, internal control reviews, and audits and reviews done by the Government Accountability Office and SBA's Office of the Inspector General.

In support of internal control assessments, the SBA's Office of Internal Controls (OIC) oversees the requirements of the Office of Management and Budget's revised Circular No. A-123, Appendix A, Internal Control Over Financial Reporting. During FY 2013, the OIC conducted SBA's ninth annual assessment per OMB Circular No. A-123, Appendix A. The SBA's Senior Assessment Team (SAT), chaired by the Chief Financial Officer and comprised of SBA managers from the major programs and support offices directed this effort. Key business processes impacting financial operations and the financial statements were reviewed by OIC. Based on the evaluation of 11 business processes, the OIC identified a number of deficiencies in the internal control over financial reporting, including

several in SBA's key business processes. Additional reviews by SAT members covered some business processes that had no material impact on the financial statements, but did present some potential for risk or exposure to the Agency. The SAT evaluated the review findings and determined that none reached the level of material weakness.

Sequestration began March 1, 2013, requiring the SBA to make across-the-board budget cuts to each of its statutory appropriation accounts for the remaining seven months of the fiscal year. SBA management developed strategies to minimize the impact of the additional risks imposed by the cuts and created or maintained sound controls as needed to facilitate the execution of its mission.

Last year's review of internal controls in the procurement function revealed that while considerable improvement was made, more time and resources were required to resolve all outstanding issues. The Agency took steps to make further improvements in FY 2013 and the impact will be assessed in the FY 2014 review of procurement internal controls.

This year, the SBA continued to have a significant deficiency in information technology security controls, including access controls and cyber-security. To address these deficiencies, the SBA implemented software and hardware improvements and entered into an interagency agreement to more rapidly and thoroughly address cyber-security threats. The Agency has plans in place to take additional corrective action to further improve in these areas, with a focus on improving identity management and access controls in FY 2014 and FY 2015.

Financial Management Systems Strategy

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

As demonstrated throughout this Agency Financial Report, the SBA seeks to comply with all federal financial management system requirements and there have been no deficiencies identified under FFMIA.

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

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

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

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

SUCCESS STORY: Rebuilding Communities

Amplify Gymnastics, LLC, Joplin Missouri

Kip Johnson, Paul Comstedt and Derek Hammeke, owners of Amplify Gymnastics, are the recipients of the SBA 2013 *Phoenix Award for Outstanding Small Business Disaster Recovery*. The award recognizes individuals who display selflessness, ingenuity and tenacity in the aftermath of a disaster, while contributing to the rebuilding of their communities.

It was May 22, 2011, a few days before the grand opening of Amplify Gymnastics. Co-owner Kip Johnson, his father and uncle stopped by the gym to complete some last minute touches. Instead of painting, they narrowly escaped death when a catastrophic tornado packing 250 mph winds whipped through Joplin. More than 20 percent of the city was destroyed, and 160 people were killed. The two ton truck the men used as a makeshift storm shelter was tossed 20 feet from where it was parked. All that was left of the gym after the tornado hit was a concrete slab. Kip and his partners, Paul Comstedt and Derek Hammeke, were faced with the daunting task of rebuilding the gym they had envisioned as a place where local kids could get training for their bodies and mentoring for their lives.

The trio decided to move forward and got an SBA disaster loan for \$256,100. The loan covered rebuilding costs and operating expenses. In February 2012, Amplify held its grand opening with an enrollment of more than 200 young athletes. Within a few months, 300 more had joined the gym, surpassing Amplify's five-year goal. The gym's initial staff of 10 grew to 23, and the partners are planning an expansion.

Paul, Derek and Kip's dream to help Joplin's youth build memories of positive relationships and solid life lessons has inspired many.



Management Assurances:

FMFIA and FFMIA Assurance Statement for FY 2013

The Small Business Administration continued to strengthen internal controls over its programs and operations during FY 2013. 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.

A recent example of SBA's commitment to internal control objectives occurred during the lapse of appropriations on October 1, 2013. In response to this event, the SBA conducted an orderly shutdown of operations of all its offices with the primary exception of Disaster Assistance. When the federal government passed appropriations and re-opened on Thursday, October 17, 2013, the SBA restarted operations and successfully completed the closing of the FY 2013 financial records without sacrificing internal control practices.

SBA management is responsible for establishing and maintaining effective internal controls and financial management systems that meet the objective of the Federal Managers Financial Integrity Act (FMFIA). The SBA conducted its assessment of internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular No. A-123, Management's Responsibility for Internal Controls. Agency managers have issued assertions to me as to the status of their FY 2013 internal controls in their areas of responsibility. These assertions are supported by internal testing, checklists and other management reviews. Although a few Agency managers reported some operating deficiencies, these were not of a material nature. Based on the results of these evaluations, I can provide reasonable assurance that internal controls over operations and compliance with applicable laws and regulations, as of September 30, 2013, were operating effectively and no material weaknesses were identified in the design or operation of those internal controls. Further, the Agency's financial management systems conform to the principles, standards, and related requirements prescribed by Section 4 of FMFIA.

The SBA conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular No. A-123. Based on the results of this evaluation, I can provide reasonable assurance that internal control over financial reporting was operating effectively and no material weaknesses were identified in the design or operation of internal control over financial reporting for FY 2013.

SBA's independent auditor issued an unmodified opinion on the Agency's FY 2013 financial statements for the ninth year in a row. However, the auditor identified one instance of non-compliance with applicable laws and regulations as of September 30, 2013. Specifically, due to ongoing issues with the Agency's legacy mainframe loan information system, not all co-borrowers and guarantors on charged-off 7(a), 504 and disaster loans were referred to the Department of Treasury for debt collection as required by the Debt Collection Improvement Act (DCIA).

The SBA has a DCIA Compliance Team made up of representatives from the Office of Capital Access, the Office of the Chief Financial Officer, and the Office of the Chief Information Officer, who work together to identify and resolve problems pertaining to the implementation of the DCIA. As a result of their efforts, the SBA has implemented improvements to support the ongoing referral of defaulted loans, including referrals of co-borrowers and guarantors, to Treasury. In FY 2013, the team conducted data analysis and instigated system corrections to resolve issues with loans rejected by Treasury's system in previous years. Despite these improvements, the underlying system issues will likely continue to be a challenge for the Agency until the transition from the legacy mainframe to a web-based system is complete.

The Federal Financial Management Improvement Act (FFMIA) requires federal agencies to implement and maintain financial management systems that are in substantial compliance with federal financial management systems requirements, federal accounting standards, and the United States Standard General Ledger. Based on the FFMIA criteria, I can provide reasonable assurance SBA's financial management systems substantially comply with FFMIA for FY 2013.



Jeanne A. Hult
Acting Administrator
December 16, 2013

**DID
YOU
KNOW**

The SBA approved more than **32,000 disaster loans totaling \$2.4 billion** for victims of Superstorm Sandy. The 2012 storm was one of the costliest hurricanes in U.S. history.


Improper Payments Summary

The Improper Payments Information Act of 2002 (IPIA), its amendments, and OMB Circular No. A-123, Appendix C, Management's Responsibility for Internal Control: Requirements for Effective Measurement and Remediation of Improper Payment, require agencies to review all programs and activities, identify those that are susceptible to significant erroneous payments, and determine an annual estimated amount of erroneous payments made in those programs. Three of SBA's four major credit programs, which were identified in the former section 57 of OMB Circular A-11, are subject to improper payment reporting: the 7(a) loan program, the Certified Development Company (504) loan program, and the Disaster loan program. The SBA includes loan guaranty approvals in its Improper Payment program reporting for the 7(a) and 504 CDC loan programs as well as disbursements related to goods and services. A fourth major credit program, the Small Business Investment Company program, retained approval from OMB for relief from reporting due to the low occurrence of improper payments as determined by several years of review and the low probability for improper payments.

The SBA places a significant priority on the detection and remediation of improper payment occurrence. The Agency's disbursement activities related to goods and services, 7(a) loan guaranty approvals and purchases, 504 CDC guaranty approvals, and Disaster direct loan programs now have staff that monitor and review for improper payments and are charged with implementing improvements that will continue to reduce the Agency's improper payment rates. The Agency's primary concern in its improper payment reporting stems from administrative and documentation errors. The SBA continues to enhance and implement internal controls to reduce the risk for improper payments.

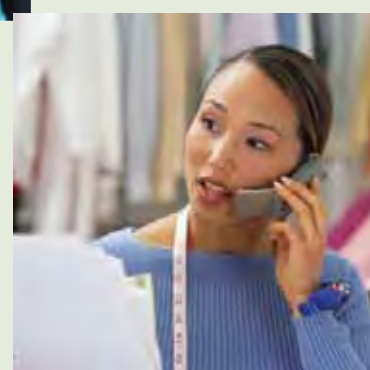
In FY 2013 the SBA finalized its plan to identify a comprehensive, meaningful approach to implementing OMB's Do Not Pay solution to reduce improper payments. As the SBA implements the phases of its plan, it continues to find ways to reduce the risk of improper payments. The Do Not Pay solution, specifically the enhanced data analytics services, complements the Agency's approach to establishing a sound program to prevent improper payments.

DID
YOU
KNOW



From FY 2009 to FY 2012 the federal government awarded **\$376.2 billion in contracting dollars** to small businesses. This was a \$48 billion increase from the previous 3-year period, even as the federal government has reduced contract spending.

Financial Reporting



SUCCESS STORY: Jewelry Designer for the First Lady

Creative Jewelry by Bridgeja,
New Orleans, Louisiana



Creative Jewelry by Bridgeja LLC was established in 2008 by **Bridgeja Baker**, a young New Orleans entrepreneur. Unlike most successful start-ups, however, this entrepreneur was only eleven years old! Before she even began high school, Bridgeja was designing jewelry for men, women, and children and quickly saw the opportunities for growth. She attracted the attention of national chain stores and expanded to necklaces, earrings, bracelets, cufflinks, lapel and tie pins, bookmarks and eyeglass holders, all of which are available through her website.

Bridgeja designed a three piece pearl set for First Lady Michelle Obama and bookmarks for the President and their two daughters. She received a letter of thanks from the First Lady's Deputy Chief of Staff telling her she is now a "jewelry designer for the First Lady." Bridgeja's success has allowed her to hire two part-time employees and one seasonal worker.

Bridgeja is committed to giving back to her community. Each year she donates a percentage of her sales to causes and organizations close to her heart, such as Children's Hospital and the Louisiana SPCA. She also wants to pass on what she has learned by conducting seminars on entrepreneurship for teens as well as classes and workshops on jewelry creation and running a business. As a recipient of SBA's SCORE counseling and services, she has now become a mentor herself.

This year, Bridgeja Baker was named SBA's *2013 Louisiana Young Entrepreneur of the Year*. Bridgeja "would like to encourage other young people to start preparing for their financial futures early."

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

December 16, 2013

I am pleased to submit the U.S. Small Business Administration's (SBA) Agency Financial Report for FY 2013. For the seventh straight year the SBA has won the CEAR (Certificate of Excellence in Accountability Reporting) award.

An independent audit has earned the SBA an unmodified and clean opinion with no material weaknesses. However, our auditor identified one instance of non-compliance with applicable laws and regulations as of September 30, 2013. Due to ongoing system issues with the Agency's legacy mainframe information system, not all co-borrowers and guarantors and disaster charged-off loans were referred to the Treasury for cross-servicing collection of debt as required by the Debt Collection Improvement Act. Improvements have been implemented to support the referral of loans and the SBA will make system adjustments as necessary to confirm the completeness and accuracy of referrals to Treasury.

In the beginning of FY 2013, Budget and Acquisition managers met with each program office and developed Advanced Acquisition Strategies to outline upcoming awards and budgetary needs. These sessions have been particularly important for managers to navigate Continuing Resolution budgets that segment their annual allocations. SBA's strategic planning cycle has matured significantly throughout this collaborative process and communication with requesting program offices has been greatly improved. The FY 2013 budget sequestration reductions have caused the SBA to examine every aspect of its spending to do more with less and create efficiencies where possible. OCFO is committed to driving the agency towards excellence in financial management by synchronizing budget, acquisition and performance information to provide decision makers with the information they need to be effective.

In FY 2013, the SBA experienced its third highest volume ever of small business lending, supporting nearly \$30 billion in lending to over 47,000 small businesses. This level of lending supported is significant because it was achieved without the additional incentives provided by the Small Business Jobs Act of 2010.

In addition to its normal operations, the CFO's office continued to execute on two important process changes that began in FY 2012 to improve Agency operations: the first is the President's Do Not Pay initiative which is part of a comprehensive solution to reducing improper payments. The SBA has continued to utilize the Department of Treasury's Do Not Pay portal to assess pre-award and pre-payment eligibility. In FY 2013, the SBA instituted an eligibility review process of monthly disbursement transactions against the Excluded Parties List and Death Master File. The SBA has not encountered an ineligible match through this process since reporting began.

The second improvement is SBA's implementation of the Prime Contractor Quick Pay initiative to ensure the timely payment of invoices to prime contractors, which has resulted in significant process improvements. To decrease the waiting time for internal invoice approvals, the accounting division developed a system of automatic email reminders sent to Agency staff when their invoices become idle. I am proud to say that these process improvements by our Denver Finance Center reduced SBA's cumulative FY 2013 interest penalty payments to less than one thousand dollars. The SBA spent 97 percent less in annual invoice interest penalties in FY 2013 as compared to the prior fiscal year, primarily as a result of Quick Pay's success.

SBA's efforts to assist entrepreneurs and small business owners are especially critical as the U.S. economy continues to recover and grow. Throughout America's history, small businesses have played the leading role in job creation. In fact, more than half of working Americans own or work for a small business and small businesses are responsible for two out of every three net new private sector jobs created over the past decade. The SBA plays a critical role in strengthening America's economy by providing tools to help grow businesses and create jobs. At the same time, the federal government is entering a period of renewed focus on how to spend the taxpayers' money most effectively and efficiently.

By integrating the budget and acquisition process under the OCFO, managers are able to better plan and leverage the financial management expertise of various stakeholders. Throughout 2013, a realigned Acquisition Division has made considerable progress toward standardizing and improving SBA's procurement process. As of October 1, the SBA met its overall FY 2013 small business contracting goal – at 67 percent, the highest percentage goal in the government for small business contracts – as well as all socio-economic sub-goals.

The SBA also continued its efforts to reduce agency-wide spending on non-disaster travel in FY 2013 to comply with the President's Campaign to Cut Waste. Financial managers set definitive spending caps for each non-disaster office and made a concerted effort in FY 2013 to reduce travel across the board. Travel plan forecasts were collected from program managers to identify the proposed type and cost of trips throughout the year. As a result, SBA's non-disaster travel spending was effectively reduced by 21 percent below the prior fiscal year's total.

Finally, I want to recognize the independent Audit and Financial Management Advisory Committee who, since late FY 2004, has advised us in the financial reporting process and audit cycle, provided oversight of financial management activities, and made recommendations pertaining to our financial statement footnotes and the AFR prior to publication. I thank them for their support and dedication to continued improvement.

Sincerely,

A handwritten signature in black ink, consisting of a stylized initial 'J' followed by a horizontal line extending to the right.

Jonathan I. Carver,
Associate Administrator for Performance Management
and Chief Financial Officer

AUDIT AND FINANCIAL MANAGEMENT ADVISORY COMMITTEE'S REPORT

The Audit and Financial Management Advisory Committee (the Committee) assists the Administrator in overseeing the U.S. Small Business Administration's (SBA's) financial operations. As part of that responsibility, the Committee meets with Agency management, the Agency's Inspector General, and its external auditors to review and discuss SBA's external financial audit coverage, the effectiveness of SBA's internal controls over its financial operations, and its compliance with certain laws and regulations that could materially impact SBA's financial statements. SBA's external auditors are responsible for expressing an opinion on the conformity of SBA's audited financial statements with the U.S. generally accepted accounting principles. The Committee reviews the findings of the Inspector General and external auditors, and SBA's responses to those findings, to ensure that SBA's plan for corrective action includes appropriate and timely follow-up measures. In addition, the Committee reviews the draft Agency Financial Report (AFR), including its financial statements, and provides comments to management who has primary responsibility for the AFR. The Committee met four times during the year with respect to these responsibilities on FY 2013 financial management and reporting. Two of the meetings were conducted via teleconference. During these sessions, the Committee met with the Inspector General and external auditors without SBA management being present and discussed with the external auditors the matters that are required to be discussed by generally accepted auditing standards. Nothing came to our attention as a result of these discussions to indicate changes were needed to the financial statements and notes thereto that are included in the FY 2013 AFR.



Edward J. Mazur
Chairman
Audit and Financial Management Advisory Committee

**DID
YOU
KNOW**

In FY 2012 - FY 2013, the SBA supported **\$317 million** in actual and projected export sales through grants made to states under the STEP (State, Trade and Export Promotion) program.

INSPECTOR GENERAL'S AUDIT REPORT




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

TRANSMITTAL MEMORANDUM
 Report No. 14-04

DATE: December 16, 2013

TO: Jonathan I. Carver
 Chief Financial Officer

FROM: Robert A. Westbrook 
 Deputy Inspector General

SUBJECT: *Independent Auditors' Report on the SBA's FY 2013 Financial Statements*

We contracted with the independent public accounting firm, KPMG LLP (KPMG), to audit the U.S. Small Business Administration's consolidated financial statements as of September 30, 2013, and for the years then ended. The contract required that the audits be conducted in accordance with *Generally Accepted Government Auditing Standards*; the Office of Management and Budget Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, and the U.S. Government Accountability Office's *Financial Audit Manual and Federal Information System Controls Audit Manual*. This audit is an annual requirement of the Chief Financial Officers Act of 1990.

The results of KPMG's audits are presented in the attached report. The report includes an opinion on SBA's financial statements, internal control over financial reporting, and compliance and other matters that have a direct and material effect on the financial statements. The independent auditor issued an unmodified opinion on SBA's fiscal year 2013 consolidated financial statements. In summary, KPMG reported that:

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

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

We reviewed a copy of KPMG's report and related documentation, and made necessary inquiries of their respective representatives. Our review was not intended to enable us to

express, and we do not express, an opinion on the SBA's financial statements, KPMG's conclusions about the effectiveness of internal control, or its conclusions about SBA's compliance with laws and regulations. However, our review disclosed no instances where KPMG did not comply, in all material respects, with *Generally Accepted Government Auditing Standards*.

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

We appreciate the cooperation and assistance of the SBA and KPMG. Should you or your staff have any questions, please contact me at (202) 205-6587 or Jeffrey R. Brindle, Director, Information Technology and Financial Management Group at (202) 205-7490.

Attachment

INDEPENDENT AUDITORS' REPORT ON FY 2013 FINANCIAL STATEMENTS



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

Independent Auditors' Report

The Inspector General,
 U.S. Small Business Administration:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Small Business Administration (SBA), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of net cost, and changes in net position, and the combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



Small Business Administration
 December 16, 2013
 Page 2 of 4

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Small Business Administration as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Message from the Administrator, Other Information, and the information on pages 31 to 35 of the *Agency Financial Report*, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the 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 the SBA's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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



Small Business Administration
 December 16, 2013
 Page 3 of 4

the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02, and which are described below.

The Debt Collection Improvement Act of 1996 (DCIA). The DCIA assigns the U.S. Department of Treasury (Treasury) the responsibility for collecting delinquent debts, Government-wide. The DCIA requires federal agencies to transfer their nontax debt over 180 days delinquent to Treasury. During our testwork over loan charge-offs, we noted the SBA did not refer obligors (eligible principal borrowers, co-borrowers, and/or guarantors) to the Treasury for offset or cross-servicing at the time of charge-off, as required by DCIA. Similar instances of noncompliance with the DCIA were reported in prior years. These deficiencies were primarily the result of inadequate information technology controls. We recommend the Associate Administrator, Office of Capital Access:

1. Conduct training to educate loan center staff on the proper steps to refer obligors to Treasury and correct errors after the initial referral.
2. Reinforce the importance of retaining identifying information for all obligors.
3. Implement robust, quarterly monitoring reviews to identify and correct all charged-off loans where the automatic referral did not occur.

For additional discussion of the information technology aspects of this finding, see Exhibit I.

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



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Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

SBA's Response to Findings

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

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

December 16, 2013

U.S. Small Business Administration

Significant Deficiency

Improvement Needed in Information Technology Security Controls

During our Fiscal Year (FY) 2012 financial statement audit, we identified information technology (IT) control findings and issued 19 recommendations for corrective actions. During the FY 2013 financial statement audit, we found that the U.S. Small Business Administration (SBA) implemented corrective actions on some of the findings noted; however, a number of conditions persisted in FY 2013 that reduced SBA's ability to effectively manage its information system risk. As a result, collectively, these conditions 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 2013, and issued additional recommendations for the new control weaknesses identified. In the sections below, we distinguish between recurring conditions and related recommendations, and those that were newly identified in FY 2013. We have omitted some technical details from the conditions and recommendations due to the sensitivity of the information. These details were communicated to management through Notices of Findings and Recommendations (NFRs).

We have summarized the IT control deficiencies that we noted during the FY 2013 audit below, and have organized them by the following general IT control objectives: logical and physical access controls, application change management, system configuration management, and contingency planning.

Logical and Physical Access Controls

An integral part of the effectiveness of an organization's security program management efforts should be to ensure that logical and physical 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 the prior year persisted in FY 2013:

- User accounts to the network and some financial systems were not disabled or removed promptly upon personnel termination.
- User accounts to the network and some financial systems were not recertified in accordance with SBA policy.
- User accounts to one financial system and SBA's network were not properly authorized.
- A process for consistently and effectively reviewing audit logs for the network and financial systems was not implemented.
- A security incident response standard operating procedure had not been finalized.
- Responsibilities for approving, administering, and reviewing physical access to the Head Quarters (HQ) data center had not been defined.
- Numerous high- and medium-risk security vulnerabilities were noted in the network and infrastructure supporting certain financial systems.
- Port-based network security had not been implemented across SBA program offices.

Exhibit I

U.S. Small Business Administration
Significant Deficiency

In addition to the matters above, we noted the following additional control weaknesses during our FY 2013 audit:

- Remote access to SBA information systems was not configured and provisioned in accordance with SBA policy.
- Network administrative rights were not properly restricted and security settings were not enforced across all parts of the network.

Recommendations – Logical and Physical Access Controls:

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

We recommend that the Chief Information Officer (CIO) coordinate with SBA program offices to¹:

4. Improve SBA's administration of logical system access by taking the following actions:
 - Implement an effective off-boarding process and verify periodically that controls to remove logical access for separated employees from SBA systems are implemented and operating as designed;
 - Establish a process for the identification and removal of separated contractors in order to help ensure that access is timely removed upon contractor separation; and
 - Remove access to the general support systems and major applications (including development and test environments) timely when terminated employees and contractors are identified.
5. Implement procedures to ensure that user access, including user accounts and associated roles, is reviewed on a periodic basis consistent with the nature and risk of the system, and any necessary account modifications be performed when identified.
6. Implement and monitor procedures to ensure that access is appropriately granted to employees and contractors, consistent with the conditions on their access forms after all approvals have been obtained.
7. Enforce a network access security baseline(s) across the network, consistent with SBA security policy, Office of Management and Budget directives, and United States Government Configuration Baseline requirements.
8. Improve SBA's information system logging and auditing program, by taking the following actions:
 - Review and rationalize current audit and logging activities and capabilities to determine their effectiveness in addressing risks to systems and data, and their ability to implement effective and sustainable continuous monitoring;
 - Implement and enforce consistent and effective creation of audit records, capturing of relevant auditable events, auditing (i.e., manual or automated review of audit records) for specified

¹ The recommendations listed in this exhibit were sequenced after the recommendations presented in the *Independent Auditors' Report*, to assist users of this report in tracking the number of recommendations presented.

U.S. Small Business Administration

Significant Deficiency

events, and automated alerting on specified events across SBA's infrastructure using a risk-based approach; and

- Develop an agency-wide plan and schedule for implementation of the above recommendations.
- 9. Finalize, implement, and monitor its entity-wide Incident Response Policy or Standard Operating Procedure.
- 10. Review the list of individuals with HQ data center access permissions periodically, to ensure that only authorized personnel retain access to the HQ data center.
- 11. Implement port-based network access controls across SBA's network.
- 12. Address the vulnerabilities noted during the FY 2013 audit, to be in compliance with SBA policy and SBA Vulnerability Assessment Team (VAT) Internal Operating Procedures, Version 1.4. In addition, implement procedures to ensure the consistent identification, tracking, and resolution of security vulnerabilities across SBA's workstations, servers, databases, network devices, and other security relevant appliances.

To address the newly identified logical and physical access control weakness, we are issuing the following recommendations.

We recommend that the CIO coordinate with SBA program offices to:

- 13. Grant elevated network privileges per business needs only and enforce the concept of least privilege or implement mitigating controls to ensure that activities performed using privileged network accounts (including service accounts) are properly monitored.
- 14. Improve SBA's remote access program, by taking the following actions:
 - Incorporate security requirements into the Teleworking SOP, to be consistent with NIST 800-46 Rev 1;
 - Ensure employees acknowledge compliance with security requirements prior to establishing a remote connection to SBA's network when Teleworking or otherwise connecting remotely to SBA systems; and
 - Monitor compliance with the revised SOP 90.47.3 and the updated Teleworking SOP.

Application Change Management

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

- The change management process for some financial applications did not sufficiently reduce the risk of an unauthorized change being made to the production environment. Specifically, the SBA did not review or compare system code to ensure only authorized changes had been made, and the audit log review process was not designed to detect unauthorized changes to application software.
- Detective controls to mitigate the risk of a known segregation of duties issue did not operate for the full fiscal year.

Exhibit I

U.S. Small Business Administration

Significant Deficiency

- Required software changes for one financial subsystem were not implemented due to the ongoing code migration project which impacted SBA's compliance with the *Debt Collection Improvement Act of 1996* (DCIA) in that system. This issue was reported as a noncompliance matter in the Compliance and Other Matters section of our audit report.

Recommendations – Application Change Management:

In our prior year report, we issued the following recommendation to address issues with respect to SBA's compliance with the DCIA. We are reissuing that recommendation to address the condition identified above:

15. We recommend that the Associate Administrator, Office of Capital Access (OCA), in coordination with the CIO, design and implement a combination of preventative and detective controls to address the issues and related risks in the condition above, and ensure an auditable trail of software changes is maintained to prevent and detect unauthorized changes to production programs.

In addition, we are issuing the following recommendations to address the additional application change management conditions identified in FY 2013:

16. We recommend that the Chief Financial Officer (CFO) continues to perform the mitigating controls implemented during FY 2013 to ensure that the risks associated with privileged access remain mitigated.
17. We recommend that the Associate Administrator, OCA, in conjunction with the CIO continues to review system protocols to determine if any other coding problems exist that may cause untimely referral of loans, and address outstanding system protocol issues from prior years.

System Configuration Management

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

Our audit noted that the following prior year control deficiency persisted in FY 2013:

- Numerous high- and medium-risk configuration management vulnerabilities were noted in the network and infrastructure supporting certain financial systems.

We also identified the following new control weakness as a result of our FY 2013 audit procedures:

- The SBA did not perform periodic, authenticated vulnerability scans for all financial systems.

Recommendations – System Configuration Management:

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

18. The CIO coordinate with SBA program offices to address the existing configuration management vulnerabilities noted during our assessment to be in compliance with SBA policy and SBA Vulnerability Assessment Team (VAT) Internal Operating Procedures, Version 1.4. In addition, implement procedures to ensure the consistent implementation and monitoring of SBA approved

U.S. Small Business Administration
Significant Deficiency

security configuration baselines across SBA's workstations, servers, databases, network devices, and other security relevant appliances.

In addition, we recommend that:

19. The CFO and the Associate Administrator, Office of Disaster Assistance, implement scans of financial systems in its production environment using privileged access authorization.

Contingency Planning

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

Our audit noted that the following prior year control deficiencies persisted in FY 2013:

- HQ backup tapes necessary to restore system operations were not rotated off-site in accordance with SBA policy.
- An alternate processing site for some financial systems and related support infrastructure had not been established.

Recommendations – Contingency Planning:

We recommend that the CIO:

20. Designs and implements procedures and controls to ensure HQ backup tapes are rotated on a periodic basis in accordance with SBA policies and plans.
21. Designs and implements procedures, resources, and controls to ensure the timely recovery of resources and systems hosted by SBA HQ.



CFO Response to Draft Audit Report on FY 2013 Financial Statements

DATE: December 16, 2013

TO: Robert A. Westbrook, Deputy Inspector

FROM: Jonathan I. Carver, Chief Financial Officer

SUBJECT: Draft Audit Report on FY 2013 Financial Statements

The Small Business Administration has received the draft Independent Auditors' Report from KPMG that includes the auditor's 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 from the independent auditor with no material weaknesses. We believe these results accurately reflect the quality of the Agency's financial statements and our improved accounting, budgeting and reporting processes. As you know, the SBA has worked hard in past years to address the findings from our independent auditor. Our core financial reporting data and processes have further improved, and we are proud that the results of our efforts have been confirmed by the independent auditor.

The audit report includes a continuing significant deficiency in SBA's information technology controls. The SBA will continue to work on improvements in IT security. The SBA will track, monitor, and aggressively mitigate vulnerabilities in all Agency systems. Furthermore, the SBA will clarify and strengthen detailed procedures required to ensure security access controls are in place to protect SBA data from unauthorized modification, disclosure, and loss.

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

We appreciate all of your efforts and those of your colleagues in the Office of the Inspector General as well as those of KPMG. The independent audit process continues to provide us with new insights and valuable recommendations that will further enhance SBA's financial management practices. We continue to be 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.

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 **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.

U. S. Small Business Administration
Consolidated Balance Sheet
as of September 30, 2013 and 2012

(Dollars in Thousands)

	2013	2012
ASSETS		
Intragovernmental Assets		
Fund Balance with Treasury (Note 2)	\$ 6,198,604	\$ 6,273,663
Advances (Note 1)	16,523	6,871
Total Intragovernmental Assets	6,215,127	6,280,534
Assets - Public and Other		
Cash (Note 3)	3,976	5,485
Accounts Receivable, Net (Note 5)	84,097	72,423
Credit Program Receivables and Related Foreclosed Property, Net (Note 6)	7,534,448	7,654,295
General Property and Equipment, Net (Note 7)	6,173	2,118
Advances (Note 1)	2,349	-
Total Assets - Public and Other	7,631,043	7,734,321
Total Assets	\$ 13,846,170	\$ 14,014,855
LIABILITIES		
Intragovernmental Liabilities		
Interest Payable	\$ 832	\$ 4,928
Debt (Note 9)	8,088,099	7,919,801
Net Assets of Liquidating Funds Due to Treasury (Note 10)	41,698	52,200
Downward Reestimate Payable to Treasury (Note 1, Note 13)	1,116,192	1,689,133
Other (Note 8, Note 11)	9,652	12,678
Total Intragovernmental Liabilities	9,256,473	9,678,740
Other Liabilities - Public		
Accounts Payable (Note 1)	45,972	42,614
Accrued Grant Liability (Note 1)	73,000	94,000
Liability for Loan Guaranties (Note 6)	2,987,263	3,725,951
Federal Employees' Compensation Act Actuarial Liability (Note 1, Note 8)	33,703	31,591
Surety Bond Guarantee Program Future Claims (Note 8)	31,029	22,606
Other (Note 8, Note 11)	34,876	45,079
Total Other Liabilities - Public	3,205,843	3,961,841
Total Liabilities	12,462,316	13,640,581
NET POSITION		
Unexpended Appropriations (Note 1)	1,753,736	1,281,279
Cumulative Results of Operations (Note 1)	(369,882)	(907,005)
Total Net Position	1,383,854	374,274
Total Liabilities and Net Position	\$ 13,846,170	\$ 14,014,855

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, 2013 and 2012

(Dollars in Thousands)

	2013	2012
STRATEGIC GOAL 1:		
Growing Businesses and Creating Jobs		
Gross Cost	\$ 1,042,669	\$ 1,876,569
Less: Earned Revenue	614,595	697,123
Net Cost of Strategic Goal 1	428,074	1,179,446
STRATEGIC GOAL 2:		
Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses		
Gross Cost	-	1,959
Total Program Cost of Strategic Goal 2	-	1,959
STRATEGIC GOAL 3:		
Serving as the Voice for Small Business		
Gross Cost	12,832	14,369
Total Program Cost of Strategic Goal 3	12,832	14,369
COST NOT ASSIGNED TO STRATEGIC GOALS		
Gross Cost	83,180	79,031
Total Program Cost Not Assigned to Strategic Goals	83,180	79,031
Net Cost of Operations	\$ 524,086	\$ 1,274,805

Note 12, Note 14

The accompanying notes are an integral part of these statements.

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SBA's free **Business Technology Simplified** online course series helps small business owners learn the benefits of using modern technology to help run their businesses.

Take a look at: www.sba.gov/tools/sba-learning-center/training/business-technology-simplified.

U. S. Small Business Administration
Consolidated Statement of Changes in Net Position

For the years ended September 30, 2013 and 2012

(Dollars in Thousands)

	<u>2013</u>	<u>2012</u>
Beginning Cumulative Results of Operations	\$ (907,005)	\$ (1,846,208)
Budgetary Financing Sources		
Appropriations Used	2,169,146	3,840,682
Donations of Cash and Cash Equivalents	20	17
Other Financing Sources		
Imputed Financing from Costs Absorbed by Others	19,955	20,453
Other - Cancelled Authority	-	(252)
Other - Current Year Liquidating Equity Activity	(3,992)	(1,207)
Other - Non-entity Activity	(1,123,920)	(1,645,685)
Total Financing Sources	1,061,209	2,214,008
Less: Net Cost of Operations	524,086	1,274,805
Ending Cumulative Results of Operations	\$ (369,882)	\$ (907,005)
Beginning Unexpended Appropriations	\$ 1,281,279	\$ 1,537,185
Budgetary Financing Sources		
Appropriations Received	2,745,037	3,592,151
Rescissions	(95,281)	-
Adjustment - Cancelled Authority	(5,194)	(7,028)
Other Adjustments	(2,959)	(347)
Appropriations Used	(2,169,146)	(3,840,682)
Total Budgetary Financing Sources	472,457	(255,906)
Ending Unexpended Appropriations	\$ 1,753,736	\$ 1,281,279
Ending Net Position	\$ 1,383,854	\$ 374,274

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, 2013 and 2012

(Dollars in Thousands)

	September 30, 2013		
	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES			
Unobligated Balance Brought Forward, October 1	\$ 862,901	\$ 4,769,467	\$ 5,632,368
Recoveries of Prior Year Obligations	63,684	81,655	145,339
Other Changes in Unobligated Balance	(22,648)	(595,820)	(618,468)
Unobligated Balance from Prior Year Budget Authority, net	903,937	4,255,302	5,159,239
Appropriations (discretionary and mandatory)	2,649,756	-	2,649,756
Borrowing Authority (discretionary and mandatory)	-	1,520,370	1,520,370
Spending Authority from Offsetting Collections	625,835	4,104,394	4,730,229
Total Budgetary Resources	\$ 4,179,528	\$ 9,880,066	\$ 14,059,594
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred	\$ 2,882,329	\$ 5,743,279	\$ 8,625,608
Apportioned	594,338	854,066	1,448,404
Unapportioned	702,861	3,282,721	3,985,582
Total Unobligated Balance, end of year	1,297,199	4,136,787	5,433,986
Total Status of Budgetary Resources	\$ 4,179,528	\$ 9,880,066	\$ 14,059,594
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid Obligations, Brought Forward, October 1	\$ 619,996	\$ 278,173	\$ 898,169
Obligations Incurred	2,882,329	5,743,279	8,625,608
Gross Outlays	(2,798,690)	(5,238,267)	(8,036,957)
Recoveries of Prior Year Unpaid Obligations	(63,684)	(81,655)	(145,339)
Unpaid Obligations, end of year	639,951	701,530	1,341,481
Uncollected Payments:			
Uncollected Payments, Federal Sources, brought forward, October 1	-	(176,681)	(176,681)
Change in Uncollected Payments, Federal Sources	-	(119,838)	(119,838)
Uncollected Payments, Federal Sources, end of year	-	(296,519)	(296,519)
Memorandum (non-add) entries:			
Obligated Balance, start of year	\$ 619,996	\$ 101,492	\$ 721,488
Obligated Balance, end of year	\$ 639,951	\$ 405,011	\$ 1,044,962
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget Authority, gross (discretionary and mandatory)	\$ 3,275,591	\$ 5,624,764	\$ 8,900,355
Actual Offsetting Collections (discretionary and mandatory)	(625,895)	(4,540,597)	(5,166,492)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	-	(119,838)	(119,838)
Budget Authority, net (discretionary and mandatory)	\$ 2,649,696	\$ 964,329	\$ 3,614,025
Gross Outlays (discretionary and mandatory)	\$ 2,798,690	\$ 5,238,267	\$ 8,036,957
Actual Offsetting Collections (discretionary and mandatory)	(625,895)	(4,540,597)	(5,166,492)
Net Outlays (discretionary and mandatory)	2,172,795	697,670	2,870,465
Less: Distributed Offsetting Receipts	(118)	(1,696,861)	(1,696,979)
Agency Outlays, net (discretionary and mandatory)	\$ 2,172,677	\$ (999,191)	\$ 1,173,486

Note 15

The accompanying notes are an integral part of these statements.

U. S. Small Business Administration
Combined Statement of Budgetary Resources

For the years ended September 30, 2013 and 2012

(Dollars in Thousands)

	September 30, 2012		
	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES			
Unobligated Balance Brought Forward, October 1	\$ 969,277	\$ 6,415,008	\$ 7,384,285
Recoveries of Prior Year Obligations	89,736	234,613	324,349
Other Changes in Unobligated Balance	(20,608)	(2,241,902)	(2,262,510)
Unobligated Balance from Prior Year Budget Authority, net	1,038,405	4,407,719	5,446,124
Appropriations (discretionary and mandatory)	3,592,151	-	3,592,151
Borrowing Authority (discretionary and mandatory)	-	1,129,367	1,129,367
Spending Authority from Offsetting Collections	363,209	3,869,311	4,232,520
Total Budgetary Resources	\$ 4,993,765	\$ 9,406,397	\$ 14,400,162
STATUS OF BUDGETARY RESOURCES			
Obligations Incurred	\$ 4,130,864	\$ 4,636,930	\$ 8,767,794
Apportioned	221,119	2,491,404	2,712,523
Unapportioned	641,782	2,278,063	2,919,845
Total Unobligated Balance, end of year	862,901	4,769,467	5,632,368
Total Status of Budgetary Resources	\$ 4,993,765	\$ 9,406,397	\$ 14,400,162
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid Obligations, Brought Forward, October 1	\$ 747,111	\$ 584,678	\$ 1,331,789
Obligations Incurred	4,130,864	4,636,930	8,767,794
Gross Outlays	(4,168,243)	(4,708,822)	(8,877,065)
Recoveries of Prior Year Unpaid Obligations	(89,736)	(234,613)	(324,349)
Unpaid Obligations, end of year	619,996	278,173	898,169
Uncollected Payments:			
Uncollected Payments, Federal Sources, brought forward, October 1	-	(246,756)	(246,756)
Change in Uncollected Payments, Federal Sources	-	70,075	70,075
Uncollected Payments, Federal Sources, end of year	-	(176,681)	(176,681)
Memorandum (non-add) entries:			
Obligated Balance, start of year	\$ 747,111	\$ 337,922	\$ 1,085,033
Obligated Balance, end of year	\$ 619,996	\$ 101,492	\$ 721,488
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget Authority, gross (discretionary and mandatory)	\$ 3,955,361	\$ 4,998,678	\$ 8,954,039
Actual Offsetting Collections (discretionary and mandatory)	(363,722)	(6,016,599)	(6,380,321)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	-	70,075	70,075
Budget Authority, net (discretionary and mandatory)	\$ 3,591,639	\$ (947,846)	\$ 2,643,793
Gross Outlays (discretionary and mandatory)	\$ 4,168,243	\$ 4,708,822	\$ 8,877,065
Actual Offsetting Collections (discretionary and mandatory)	(363,722)	(6,016,599)	(6,380,321)
Net Outlays (discretionary and mandatory)	3,804,521	(1,307,777)	2,496,744
Less: Distributed Offsetting Receipts	(51)	(868,316)	(868,367)
Agency Outlays, net (discretionary and mandatory)	\$ 3,804,470	\$ (2,176,093)	\$ 1,628,377

Note 15

The accompanying notes are an integral part of these statements.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Accounting and Presentation

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

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

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

Use of Estimates

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

Budgets and Budgetary Accounting for Loan Programs

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

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

Accounts Payable

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

Accrued Grant Liability

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

Advances

The SBA has both intragovernmental advances and advances to the public. Intragovernmental advances are to the National Business Center of the Department of the Interior for contracting assistance on work not yet performed. Advances to the public represent prepaid grants to states for Hurricane Sandy relief.

Contingencies

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

Cumulative Results of Operations

The deficit in 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.

Employee Benefits

Leave

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

Employee Health and Life Insurance Benefits

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

Employee Pension Benefits

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

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

Imputed Financing Costs

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

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

Federal Employees' Compensation Act

The Federal Employees' Compensation Act provides income and medical cost protection to covered federal civilian employees injured on the job and to beneficiaries of employees whose deaths are attributable to job-related injury or disease. The FECA program is administered by the Department of Labor. Labor pays valid claims as they occur, which are billed to the SBA annually and funded and paid approximately 15 months later. Labor also calculates an estimated actuarial liability for future benefits based upon historical experience and other economic variables.

Projected annual benefit payments are then discounted to present value using the forecasted interest rates for 10-year Treasury notes and bonds published by the OMB in its economic assumptions for the federal budget. The SBA recognizes a current unfunded cost for the actual claims paid and the change in the FECA actuarial liability each year.

NOTE 2 FUND BALANCE WITH TREASURY

The Department of the Treasury processes cash receipts and disbursements on SBA's behalf to pay liabilities and finance loan program costs. Cash receipts are deposited into SBA's account at the Treasury. SBA's fund balances with the Treasury are available to make expenditures to liquidate allowable obligations, except for the Non-entity Fund Balance which is not available to the SBA to obligate or expend. Separate records are maintained for SBA's program, financing, liquidating 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,	2013	2012
Appropriated Funds	\$ 1,835,332	\$ 1,398,400
Financing Funds	4,261,451	4,790,763
Liquidating Funds	28,338	22,896
Revolving Fund	73,343	61,457
Trust Fund	136	142
Total Entity Fund Balance with Treasury	6,198,600	6,273,658
Non-entity Fund Balance	4	5
Total Fund Balance with Treasury	\$ 6,198,604	\$ 6,273,663
Status of Fund Balance with Treasury		
Unobligated Balance Available	\$ 1,448,404	\$ 2,712,523
Unobligated Balance Unavailable	3,985,582	2,919,845
Obligated Balance Not Yet Disbursed	1,044,962	721,488
Borrowing Authority Not Converted to Funds	(280,348)	(80,198)
Nonbudgetary	4	5
Total Fund Balance with Treasury	\$ 6,198,604	\$ 6,273,663

Unobligated balances become available when apportioned by the OMB 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 \$3.9 million and \$5.5 million at September 30, 2013 and 2012.

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

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

The Master Reserve Fund is a fiduciary activity administered by SBA's fiscal agent, Colson Inc., a unit in 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) guaranteed loans that are purchased by secondary market investors. The 7(a) secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 7(a) secondary market investors. There was \$20.5 billion and \$19.2 billion of outstanding SBA guaranteed 7(a) loan principal in the secondary market at September 30, 2013 and 2012.

The Master Reserve Account is also an SBA fiduciary activity. The MRA is now administered for the SBA by Wells Fargo after it assumed the responsibility from a previous agent in March 2013. 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 the 504 borrowers and retains the payments until a semi-annual debenture payment is due to the secondary market investors. The 504 secondary market program includes SBA's guaranty of timely payment, as well as a default guaranty, to 504 secondary market investors. There was \$28.1 billion and \$26.2 billion of SBA guaranteed 504 debentures outstanding in the secondary market at September 30, 2013 and 2012.

The composition of the combined 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,	2013	2012
Short Term Securities		
Money Market Funds	\$ 714,419	\$ 8,357
Repurchase Agreements	567,511	1,015,810
Total Short Term Securities	1,281,930	1,024,167
Long Term Securities		
Treasury Notes Including Interest	2,087,658	1,958,378
Total Long Term Securities	2,087,658	1,958,378
Net Assets	\$ 3,369,588	\$ 2,982,545

Master Reserve Fund and Master Reserve Account (continued)

*(Dollars in Thousands)***RECONCILIATION OF FIDUCIARY ASSETS****FOR THE YEARS ENDING SEPTEMBER 30,**

	2013	2012
Beginning Net Assets	\$ 2,982,545	\$ 2,777,147
Receipts		
Earned Income	41,960	44,062
Contributions	11,524,209	7,968,441
Net Realized Gain (Loss)	(1,366)	1,347
Total Receipts	11,564,803	8,013,850
Less Disbursements		
Payments to Investors	11,177,760	7,808,452
Total Disbursements	11,177,760	7,808,452
Ending Net Assets	\$ 3,369,588	\$ 2,982,545

NOTE 5 ACCOUNTS RECEIVABLE

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

(Dollars in Thousands)

AS OF SEPTEMBER 30,	2013	2012
Public		
Guaranty Fees Receivable	\$ 78,355	\$ 66,184
Refunds	77	271
Other	5,670	5,971
Total Public	84,102	72,426
Allowance For Loss	(5)	(3)
Net Public	\$ 84,097	\$ 72,423

NOTE 6 CREDIT PROGRAM RECEIVABLES AND LIABILITY FOR LOAN GUARANTIES

A. Loan Program Descriptions and Cost Determinations

Loan Program Descriptions

The SBA administers guaranteed and direct loan programs that help small businesses obtain financing, and a direct loan program that assists homeowners, renters and businesses to recover from disasters.

Major Direct Loan and Loan Guaranty Programs

Program group	Program type	Program
Disaster	Direct	Disaster Assistance Loans
Business	Guaranteed	7(a) Loan Guaranty
Business	Guaranteed	504 Certified Development Company
Business	Guaranteed	504 First Mortgage Loan Pooling
Business	Guaranteed	504 CDC - Debt Refinancing
Business	Guaranteed	Small Business Investment Company Debentures
Business	Direct	7(m) Microloan

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

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

The Section 504 Certified Development Company program guarantees 100 percent of the principal and interest payments on debentures issued by development companies that make small business loans secured primarily by real estate. The 504 First Mortgage Loan Pooling program was authorized by the American Recovery and Reinvestment Act of 2009 to provide liquidity to banks through the sale in the secondary market of SBA guaranteed pools of bank loans related to the 504 CDC program so that the banks can make additional loans to small businesses. The 504 CDC - Debt Refinancing program that was authorized by the Small Business Jobs Act of 2010 supported small businesses ability to restructure their collateralized debt.

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

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

Credit Program Receivables and Liability for Loan Guaranties

The Federal Credit Reform Act of 1990 governs direct loans made after FY 1991. FCRA 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. FCRA also governs loan guaranties made after FY 1991. A liability for outstanding guaranties is included on SBA's Balance Sheet. The liability is determined by calculating the

net present value of expected future cash flows for outstanding guaranties in a manner similar to that used to determine the subsidy allowance for direct loans. 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 made prior to FCRA are recorded at cost with an allowance for uncollectible amounts calculated using historical loss experience. For loan guaranties made prior to FCRA, a liability for expected future losses on outstanding guaranties is established based on historical experience. Guarantied loans purchased upon borrower default are established as loan receivables with an allowance for losses based on historical loss experience.

The SBA advances payments semiannually to honor SBA's timely payment requirement of principal and interest due for debentures in SBA's Section 504 Certified Development Company and Small Business Investment Company programs. The advances are liquidated by receipt of the payments due from borrowers in these programs. To the extent that borrower payments may not repay advances, balances that remain collectible are reported as credit program receivables.

Subsidy Funding under Federal Credit Reform

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

Interest Receivable

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

Foreclosed Property

Foreclosed property is comprised of real and business-related and personal property acquired through foreclosure on direct loans and defaulted loan guaranties. Properties acquired as a result of defaulted loans committed after FY 1991 are shown at recoverable value which is adjusted to the present value of expected future cash flows for financial statement presentation through the allowance for subsidy. Other foreclosed property is shown at the appraised value. At September 30, 2013, SBA's foreclosed property was \$47.3 million related to 84 loans. The properties had been held for an average of 868 days. At September 30, 2012, foreclosed property was \$45.6 million related to 78 loans. The properties had been held for an average of 725 days.

Valuation Methodology for Post-1991 Direct Loans and Loan Guaranties

The value of direct and guarantied loans committed after FY 1991 is based on the net present value of their expected future cash flows. The SBA estimates future cash flows for guarantied and direct loans using economic and financial credit subsidy models. The SBA has developed a customized credit subsidy model for each of its major loan guaranty and direct loan programs.

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

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

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

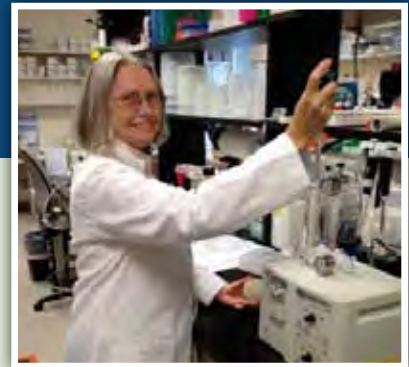
- Contractual terms of the loan or guaranty such as loan amount, interest rate, maturity and grace period
- Borrower characteristics
- Loan origination methods
- Economic indicators such as gross domestic product growth and unemployment rate
- Loan performance assumptions, for example: conditional purchase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

Valuation Methodology for Pre-1992 Direct Loans and Loan Guaranties

The SBA values pre-credit reform direct and defaulted guaranteed 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 guaranteed 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.

SUCCESS STORY: Woman-Owned Bio Tech Firm Exports Globally

ImmunoReagents, Inc.,
Raleigh, North Carolina



Dr. Ann Black started a one-woman biotech manufacturing facility in an 800 square foot lab at North Carolina State University. She was chief cook and bottle washer; she did everything. ImmunoReagents, Inc. opened in 2005 and started with four products. It now offers more than 2,000 products to a research and diagnostic marketplace that extends to 22 countries in Europe and Asia. During 2012, the company experienced a 240 percent increase in export sales growth.

Dr. Black has a doctorate in cell biology and anatomy and has worked in antibody production and purification for more than 30 years. However, she realized she would need some help to sell her products globally. The firm took advantage of different SBA programs to grow the business and enhance their export efforts. She contacted the SBA Women's Business Center in Durham and received help with business planning. She worked with a counselor at the North Carolina Small Business and Technology Development Center where she worked to create an export strategy, evaluate pricing and logistics. This helped ImmunoReagents become more efficient when shipping internationally. Dr. Black used an SBA State Trade and Export Promotion (STEP) grant to attend two international biotech conferences, including BioSpain, in Bilbao. She made valuable connections and increased her distribution capacity. The North Carolina Department of Commerce helped her to find which countries might be appropriate markets and answered questions about foreign distributors. "Our export success is a direct result of working the excellent export resources from the federal government and the State of North Carolina," said Dr. Black.

In 2013, Dr. Black was selected as the SBA *North Carolina Exporter of the Year*.

B. Credit Program Receivables and Related Foreclosed Property, Net

(Dollars in Thousands)

AS OF SEPTEMBER 30, 2013	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	\$ 8,958	\$ 162,725	\$ 171,683
Interest Receivable	2,040	757	2,797
Foreclosed Property	3,108	–	3,108
Allowance	(7,036)	(17,831)	(24,867)
Total Direct Business Loans	7,070	145,651	152,721
Direct Disaster Loans			
Disaster Loans Receivable	5,226	7,171,812	7,177,038
Interest Receivable	223	34,581	34,804
Foreclosed Property	–	1,690	1,690
Allowance	(852)	(1,345,560)	(1,346,412)
Total Direct Disaster Loans	4,597	5,862,523	5,867,120
Defaulted Guaranteed Business Loans & Other Loans Receivable			
Defaulted Guaranteed Business Loans	9,264	7,674,923	7,684,187
Other Loans Receivable (see note below)	–	326,765	326,765
Interest Receivable	580	115,425	116,005
Foreclosed Property	2,012	40,501	42,513
Allowance	(10,555)	(6,644,308)	(6,654,863)
Total Defaulted Guaranteed Business Loans & Other Loans Receivable	1,301	1,513,306	1,514,607
Total Credit Program Receivables & Related Foreclosed Property, Net			\$ 7,534,448
AS OF SEPTEMBER 30, 2012			
	Pre-1992 Loans	Post-1991 Loans	Total
Direct Business Loans			
Business Loans Receivable	\$ 9,402	\$ 142,536	\$ 151,938
Interest Receivable	1,936	945	2,881
Foreclosed Property	3,107	–	3,107
Allowance	(1,188)	(34,197)	(35,385)
Total Direct Business Loans	13,257	109,284	122,541
Direct Disaster Loans			
Disaster Loans Receivable	6,634	7,174,910	7,181,544
Interest Receivable	45	34,733	34,778
Foreclosed Property	–	1,498	1,498
Allowance	(966)	(1,403,968)	(1,404,934)
Total Direct Disaster Loans	5,713	5,807,173	5,812,886
Defaulted Guaranteed Business Loans & Other Loans Receivable			
Defaulted Guaranteed Business Loans	26,529	8,079,439	8,105,968
Other Loans Receivable (see note below)	–	443,904	443,904
Interest Receivable	747	87,968	88,715
Foreclosed Property	3,244	37,737	40,981
Allowance	(20,227)	(6,940,473)	(6,960,700)
Total Defaulted Guaranteed Business Loans & Other Loans Receivable	10,293	1,708,575	1,718,868
Total Credit Program Receivables & Related Foreclosed Property, Net			\$ 7,654,295

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

C. Loans Disbursed and Outstanding Loan Obligations

(Dollars in Thousands)

DIRECT LOANS

New Loans Disbursed During the Year Ending September 30,	2013	2012
Business Direct Loan Program	\$ 42,305	\$ 40,316
Disaster Loan Program	813,711	481,741
Total Direct Loans Disbursed	\$ 856,016	\$ \$522,057

Outstanding Loan Obligations as of September 30,	2013	2012
Business Direct Loan Program	\$ 54,568	\$ 56,240
Disaster Loan Program	605,591	181,145
Total Direct Loan Obligations	\$ 660,159	\$ \$237,385

GUARANTIED LOANS

New Loans Disbursed During the Year Ending September 30,	2013	2012
Total Principal Disbursed at Face Value	\$ 21,660,417	\$ 19,533,852
Total Principal Disbursed Guaranteed by the SBA	17,703,965	15,993,888

Outstanding Loan Obligations as of September 30,	2013	2012
Business Guaranteed Loan Programs	\$ 14,370,509	\$ 13,988,806

Loans Outstanding as of September 30,	2013	2012
Total Principal Outstanding at Face Value	\$ 93,107,751	\$ 87,433,714
Total Principal Outstanding Guaranteed by the SBA	79,064,486	74,371,378

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

D. Subsidy Cost Allowance Balances

(Dollars in Thousands)

For the Years Ending September 30,	2013	2012
Post-1991 Business Direct and Purchased Guaranteed Loans		
Beginning Balance of Allowance Account	\$ 6,974,670	\$ 6,719,794
Current Year's Subsidy (see 6G for breakdown by component)	8,310	6,700
Loans Written Off	(2,001,738)	(2,173,585)
Subsidy Amortization	(1,446)	(2,223)
Allowance Related to Guaranteed Loans Purchased This Year	1,538,325	2,337,586
Miscellaneous Recoveries and Costs	167,295	88,300
Balance of Subsidy Allowance Account before Reestimates	6,685,416	6,976,572
Technical Assumptions/Default Reestimates	(23,277)	(1,902)
Ending Balance of Allowance Account	\$ 6,662,139	\$ 6,974,670
Post-1991 Disaster Direct Loans		
Beginning Balance of Allowance Account	\$ 1,403,968	\$ 1,486,011
Current Year's Subsidy (see 6G for breakdown by component)	90,673	58,307
Loans Written Off	(179,963)	(169,471)
Subsidy Amortization	(20,364)	(26,784)
Miscellaneous Recoveries and Costs	53,314	47,303
Balance of Subsidy Allowance Account before Reestimates	1,347,628	1,395,366
Technical Assumptions/Default Reestimates	(2,068)	8,602
Ending Balance of Allowance Account	\$ 1,345,560	\$ 1,403,968

E. Liability for Loan Guaranties

(Dollars in Thousands)

For the Years Ending September 30,	2013	2012
Pre-1992 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	\$ 109	\$ 306
Adjustment to Expected Losses, Guaranties Outstanding	(64)	(197)
Ending Balance of Liability for Loan Guaranties	45	109
Post-1991 Business Loan Guaranties		
Beginning Balance of Liability for Loan Guaranties	3,725,842	4,741,136
Current Year's Subsidy (see 6G for breakdown by component)	275,742	197,559
Fees	1,055,469	822,503
Interest Accumulation Factor	186,436	189,787
Claim Payments to Lenders	(2,116,250)	(2,567,534)
Adjustment Due to Reestimate & Guarantied Loan Purchases	577,925	229,948
Miscellaneous Recoveries and Costs	10,088	31,132
Balance of Liability for Loan Guaranties before Reestimates	3,715,252	3,644,531
Technical Assumptions/Default Reestimates	(728,034)	81,311
Ending Balance of Liability for Loan Guaranties	2,987,218	3,725,842
Total Ending Balance of Liability for Loan Guaranties	\$ 2,987,263	\$ 3,725,951

F. FY 2013 Subsidy Rates by Program and Component

LOAN PROGRAM	Total Subsidy	Financing	Default	Other	Fee
Guaranty					
7(a)	1.64%	0.00%	6.01%	0.00%	-4.37%
504 CDC	2.02%	0.00%	10.13%	0.78%	-8.89%
SBIC Debentures	0.00%	0.00%	7.38%	0.13%	-7.51%
Direct					
Disaster	11.11%	3.28%	13.54%	-5.71%	0.00%
Microloan	15.71%	5.18%	1.92%	8.61%	0.00%

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

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Since 2008, businesses participating in SBA's Emerging Leaders program have accessed **\$26 million** in new financing, obtained **\$450 million** in government contracts, and over **60 percent** of the businesses have increased their revenue.

G. Subsidy Expense by Component

(Dollars in Thousands)

For the Years Ending September 30,	2013	2012
Business Loan Guaranties		
Interest	\$ (44)	\$ 16
Defaults	1,493,312	835,394
Fees	(1,250,050)	(649,395)
Other	32,524	11,544
Subsidy Expense Before Reestimates and Loan Modifications	275,742	197,559
Reestimates	(728,034)	81,311
Total Guaranteed Business Loan Subsidy Expense	\$ (452,292)	\$ 278,870
Business Direct Loans		
Interest	\$ 5,130	\$ 3,440
Defaults	1,024	896
Other	2,156	2,364
Subsidy Expense Before Reestimates	8,310	6,700
Reestimates	(23,277)	(1,902)
Total Business Direct Loan Subsidy Expense	\$ (14,967)	\$ 4,798
Disaster Direct Loans		
Interest	\$ 28,438	\$ 29,503
Defaults	108,852	57,430
Other	(46,617)	(28,626)
Subsidy Expense Before Reestimates	90,673	58,307
Reestimates	(2,068)	8,602
Total Disaster Direct Loan Subsidy Expense	\$ 88,605	\$ 66,909

H. Administrative Expense

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

(Dollars in Thousands)

For the Years Ending September 30,	2013	2012
Disaster Direct Loan Programs	\$ 273,718	\$ 189,704
Business Loan Programs	142,044	148,078
Total Administrative Expense	\$ 415,762	\$ 337,782

I. Credit Program Subsidy Reestimates

Reestimates are performed annually, on a cohort-by-cohort basis. The purpose of reestimates is to update original program cost estimates to reflect actual cash flow experience as well as changes in forecasts of future cash flows. Forecasts of future cash flows are updated based on additional information about historical program performance, revised expectations for future economic conditions, and enhancements to cash flow projection methods. Financial statement reestimates were performed using a full year of performance data for FY 2013 for SBA's large loan programs and with nine months of actual and three months of projected performance data for the Secondary Market Guaranty and the small loan programs.

BUSINESS GUARANTIED LOAN PROGRAMS

Net subsidy reestimates of business guarantied loan programs for the years ending September 30, 2013 and 2012 are as follows:

(Dollars in Thousands)

Guarantied Loan Program Subsidy Reestimates	2013	2012
7(a)	\$ (391,029)	\$ (8,131)
7(a) - Recovery Act	(44,930)	(402,448)
7(a) - Jobs Act	(78,740)	(241,334)
Dealer Floor Plan	(937)	(871)
504 CDC	(128,079)	357,707
504 CDC - Recovery Act	(112,787)	(24,712)
504 CDC - Jobs Act	(29,298)	22,684
504 CDC - Debt Refinancing	(1,308)	32,352
504 First Mortgage Loan Pooling - Recovery Act	(4,924)	2,309
SBIC Debentures	31,577	(70,163)
SBIC Participating Securities	48,388	444,090
Secondary Market Guaranty Program	7,980	(12,376)
ARC - Recovery Act	(22,434)	(28,625)
All Other Guaranty Loan Programs	(1,513)	10,829
Total Guarantied Loan Program Subsidy Reestimates	\$ (728,034)	\$ 81,311

The 7(a) Loan Guaranty program, SBA's flagship and largest program had a net downward reestimate in FY 2013 of \$391.0 million. Cohorts 2010 through 2012 performed significantly better than projected in FY 2013, while loans in cohorts 2002 through 2006 performed slightly worse than projected. Additionally, FY 2013 loan performance contributed to updated model assumptions, which resulted in decreased purchase projections. The remainder of the reestimate was due to decreased loss projections for the 2013 cohort as compared to the original loss projections.

The 7(a) Recovery Act program had a net downward reestimate in FY 2013 of \$44.9 million. A significant portion of the reestimate is due to better than projected FY 2013 loan performance. Purchases in the 7(a) Recovery Act program during FY 2013 were less than projected. Additionally, FY 2013 loan performance contributed to updated model assumptions, which resulted in slightly decreased purchase projections for all 7(a) Recovery Act program cohorts.

The 7(a) Jobs Act cohort had a net downward reestimate in FY 2013 of \$78.7 million. A significant portion of the reestimate is due to notably better than projected FY 2013 loan performance. Actual purchases in the 7(a) Jobs Act cohort during FY 2013 were less than half of the purchases projected for FY 2013.

The Dealer Floor Plan program had a net downward reestimate of \$0.9 million, due to better than projected performance during FY 2013.

The 504 Certified Development Company program had a net downward reestimate of \$128.1 million. The reestimate is primarily due to better than projected FY 2013 loan performance across all cohorts except for the 2005 cohort. Although some cohorts, most notably 2002 through 2006, had higher than expected purchases, these unexpected losses were offset by higher than expected recoveries in all but the 2005 cohort. The remainder of the reestimate was due to decreased loss projections for the 2013 cohort as compared to the original loss projections.

The 504 Recovery Act program had a net downward reestimate of \$112.8 million. The reestimate is due to better than projected FY 2013 loan performance. Actual purchases in the 504 Recovery Act program were less than half of the purchases projected for FY 2013.

The 504 Jobs Act program had a net downward reestimate of \$29.3 million. The reestimate is due to better than projected FY 2013 loan performance. Actual purchases in the 504 Jobs Act program were less than a quarter of the purchases projected for FY 2013.

The 504 Debt Refinancing program had a net downward reestimate of \$1.3 million. For all cohorts of the 504 Debt Refinancing program, actual purchases in FY 2013 were lower than projected.

The Section 504 First Mortgage Loan Pooling program had a net downward reestimate of \$4.9 million. For all cohorts of the Section 504 First Mortgage Loan Pooling program, actual purchases in FY 2013 were lower than projected.

The SBIC Debentures program had a net upward reestimate of \$31.6 million. In general, the upward reestimate was due to worse than projected loan performance in FY 2013, especially in the 2002 and 2008-2009 cohorts. Actual purchases for these cohorts were larger and actual recoveries were lower in FY 2013 than projected. The 2003 and 2012 cohorts had better than projected loan performance in FY 2013. In addition, the 2003 cohort's actual recoveries and the 2012 cohort's actual fee inflows were higher in FY 2013 than projected. Overall, the factors contributing to an upward reestimate were larger than those contributing to a downward reestimate, resulting in a net upward reestimate.

The SBIC Participating Securities program had a net upward reestimate of \$48.4 million. For the 2003 cohort, actual purchases in FY 2013 were larger than projected. For the 2004 cohort, actual profit participation inflows and actual reimbursement of prioritized payment inflows were lower than projected. Additionally, FY 2013 loan performance contributed to updated model assumptions, which resulted in increased projections of purchases and decreased projections of reimbursement of prioritized payment inflows for the 2004 cohort.

The Secondary Market Guaranty program had a net upward reestimate of \$8.0 million. This upward reestimate was due to a decrease in the projected interest income earned by Treasury securities invested in by the Master Reserve Fund.

The America's Recovery Capital program had a net downward reestimate of \$22.4 million. The majority of this reestimate is due to better than projected loan performance in FY 2013. The remainder of the reestimate is mostly due to lower purchase projections, as a result of recent actual loan performance.

BUSINESS DIRECT LOAN PROGRAMS

Net subsidy reestimates for business direct loan programs follows:

(Dollars in Thousands)

Business Direct Loan Program Subsidy Reestimates	2013	2012
7(m) Microloan	\$ (17,653)	\$ (2,350)
7(m) Microloan - Recovery Act	(4,719)	806
Intermediary Lending Pilot Program	(1,148)	-
SBIC Preferred Stock	289	(101)
All Other Direct Loan Programs	(46)	(257)
Total Direct Loan Program Subsidy Reestimates	\$ (23,277)	\$ (1,902)

The 7(m) Direct Microloan program had a net downward reestimate of \$17.7 million. The reestimate was largely due to updated methodologies for assumption curves which allow for more accurate projections of future cash flows. These methodology changes resulted in increased projections of repayment cash flows for most cohorts.

The 7(m) Direct Microloan Recovery Act program had a downward reestimate of \$4.7 million. The reestimate was largely due to updated methodologies for assumption curves which allow for more accurate projections of future cash flows. These methodology changes resulted in increased projections of repayment cash flows for the two Recovery Act cohorts.

The Intermediary Lending Pilot program had a net downward reestimate of \$1.1 million. The reestimate was largely due to updated methodologies for assumption curves which allow for more accurate projections of future cash flows. These methodology changes resulted in increased projections of repayment cash flows for the 2011 cohort.

DISASTER DIRECT LOAN PROGRAM

Net subsidy reestimates for the disaster direct loan programs follows:

(Dollars in Thousands)

Disaster Direct Loan Program Subsidy Reestimates	2013	2012
Disaster	\$ (2,068)	\$ 8,602
Total Disaster Direct Loan Program Subsidy Reestimates	\$ (2,068)	\$ 8,602

The Disaster Assistance program had a net downward reestimate of \$2.1 million. Most post-2000 cohorts experienced downward reestimates due to better than expected FY 2013 loan performance. The 2012 cohort experienced the largest downward reestimate due to updated present value discount factors applied to projected cash flows. The 2013 cohort experienced the largest upward reestimate due to the actual average borrower's interest rate being lower than the original projected average borrower's interest rate.

NOTE 7 GENERAL PROPERTY AND EQUIPMENT, NET

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

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. Other leasehold improvement expenditures 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 or equipment 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.

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The SBA partners with 16 organizations that serve as **Veterans Business Outreach Centers** to provide entrepreneurial development services such as business training, counseling and mentoring to veterans.

For information, go to: www.sba.gov/content/veterans-business-outreach-centers.

Assets meeting the capitalization thresholds at September 30, 2013 and 2012 are detailed below.

(Dollars in Thousands)

	2013	2012
Equipment	\$ 2,675	\$ 2,602
Accumulated Depreciation	(2,183)	(1,875)
Net	492	727
Leasehold Improvements	1,811	1,811
Amortization of Leasehold Improvements	(702)	(551)
Net	1,109	1,260
Software in Development	4,572	131
Software in Use	30,546	30,546
Amortization of Software in Use	(30,546)	(30,546)
Net	4,572	131
Total General Property and Equipment, Net	\$ 6,173	\$ 2,118

NOTE 8 LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided. These unfunded liabilities at September 30, 2013 and 2012 consisted of:

(Dollars in Thousands)

	2013	2012
Intragovernmental Liabilities - Other		
Employment Taxes Payable	\$ 1,496	\$ 1,815
Federal Employees' Compensation Act Payable	5,854	5,808
Total Intragovernmental Liabilities - Other	7,350	7,623
Federal Employees' Compensation Act Actuarial Liability	33,703	31,591
Surety Bond Guarantee Program Future Claims	31,029	22,606
Other Liabilities		
Prior Liens on Real Estate Payable	59	59
Accrued Unfunded Annual Leave	26,871	25,758
Total Other Liabilities	26,930	25,817
Total Liabilities Not Covered by Budgetary Resources	\$ 99,012	\$ 87,637

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

NOTE 9 DEBT

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

Borrowings payable to the Federal Financing Bank are the result of its financing of SBA Section 503 Debentures issued prior to 1988.

All debt is intragovernmental and covered by budgetary resources. Debt transactions for the periods ending September 30, 2013 and 2012 and resulting balances are:

INTRAGOVERNMENTAL DEBT

(Dollars in Thousands)

Department of Treasury	2013	2012
Beginning Balance	\$ 7,919,741	\$ 11,189,686
New Borrowing	1,320,219	1,049,171
Repayments	(1,151,861)	(4,319,116)
Ending Balance	\$ 8,088,099	\$ 7,919,741
Federal Financing Bank	2013	2012
Beginning Balance	\$ 60	\$ 593
Repayments	(58)	(518)
Change in Interest Payable	(2)	(15)
Ending Balance	\$ -	\$ 60
Total Debt	\$ 8,088,099	\$ 7,919,801

NOTE 10 NET ASSETS OF LIQUIDATING FUNDS DUE TO TREASURY

Net Assets of Liquidating Funds Due to Treasury is the residual of the book value of assets less liabilities in the Liquidating Funds for loans made prior to FY 1992. Subsequent to the issuance of its audited financial statements each year, the SBA returns to the Treasury the portion of this balance that is considered to be the unobligated balance for budgetary reporting at fiscal year-end.

(Dollars in Thousands)

As of September 30,	2013	2012
Pollution Control Equipment Guaranty Fund	\$ 1,119	\$ 2,125
Disaster Loan Fund	8,148	9,748
Business Loan and Investment Fund	32,431	40,327
Total Due Treasury	\$ 41,698	\$ 52,200

NOTE 11 OTHER LIABILITIESOther liabilities at September 30th were:*(Dollars in Thousands)*

	2013	2012
OTHER LIABILITIES - INTRAGOVERNMENTAL		
Entity		
Current		
Employment Taxes Payable	\$ 1,817	\$ 4,380
Advances from Other Agencies	478	721
Total Current	2,295	5,101
Non-current		
Employment Taxes Payable	1,496	1,815
Federal Employees' Compensation Act Payable	5,854	5,808
Payable to Federal Financing Bank	-	(53)
Total Non-current	7,350	7,570
Total Entity	9,645	12,671
Non-entity		
Current		
Payable to Treasury	7	7
Total Other Liabilities - Intragovernmental	\$ 9,652	\$ 12,678
OTHER LIABILITIES - PUBLIC		
Entity		
Current		
Accrued Funded Payroll and Benefits	\$ 7,753	\$ 19,017
Accrued Unfunded Annual Leave	26,871	25,758
Suspense Accounts	189	241
Total Current	34,813	45,016
Non-current		
Prior Liens on Real Estate Payable	59	59
Total Non-current	59	59
Total Entity	34,872	45,075
Non-entity		
Current		
Non-entity Current Payable	4	4
Total Other Liabilities - Public	\$ 34,876	\$ 45,079

NOTE 12 LEASES

The SBA leases all of its facilities from the General Services Administration. The SBA enters into an Occupancy Agreement with GSA for each facility. GSA, in turn, leases commercial facilities or provides space in federal buildings. Agreements for space in federal buildings can be vacated with 120 to 180 days notice. However, the SBA anticipates continuing the same or similar facilities leases in the future. These leases with GSA are operating leases and are expensed in the Statement of Net Cost when incurred. FY 2013 and 2012 facilities lease costs were \$44.7 million and \$47.2 million. Future lease payments assume a 3 percent inflation factor from the following years' projected totals as estimated by GSA, as well as continued costs during the next 5 years as leases expire and new leases are added. Payments after 5 years reflect only current leases that will still be in effect then, projected to the end of each lease term.

FUTURE FACILITIES OPERATING LEASE PAYMENTS*(Dollars in Thousands)*

Fiscal Year	Lease Payments
2014	\$ 45,105
2015	46,458
2016	47,852
2017	49,288
2018	50,766
After 2018	49,502
Total	\$ 288,971

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 with the exception of one deposit fund. 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,	2013	2012
Entity		
Financing Fund Payable	\$ (1,116,192)	\$ (1,689,133)
Non-entity		
Miscellaneous Receipts Fund Receivable	1,116,192	1,689,133
Downward Reestimate Payable to Treasury	(1,116,192)	(1,689,133)
Balance Sheet Reported Payable	\$ (1,116,192)	\$ (1,689,133)

NOTE 14 CONSOLIDATED STATEMENT OF NET COST

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

Operating Cost

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

Earned Revenue

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

Reporting by Strategic Goal

The SBA reports costs consistent with its three strategic goals. Strategic Goal 2 costs are totally reallocated to Strategic Goals 1 and 3 in FY 2013 as Strategic Goal 2 net costs are overhead support to program activities in Strategic Goals 1 and 3. FY 2012 costs in Strategic Goal 2 were to support Business USA, a federal data base of small business data, and there were no Business USA net costs in FY 2013. Costs Not Assigned to Strategic Goals on the Statement of Net Cost includes costs of congressionally mandated grant programs and the Office of the Inspector General. Congressionally mandated programs are community enhancement projects that do not necessarily involve small business. The Office of the Inspector General mission and funding is independent of the SBA's.

Intragovernmental Gross Cost is incurred by the SBA in exchange transactions with other federal agencies, and Gross Cost with the Public is incurred in exchange transactions with the Public. Intragovernmental Earned Revenue is earned by the SBA in exchange transactions with other federal agencies, and Earned Revenue from the Public is earned in exchange transactions with the public.

The 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.

INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE*(Dollars in Thousands)*

For the years ended September 30,	2013	2012
STRATEGIC GOAL 1:		
Growing Businesses and Creating Jobs		
Intragovernmental Gross Cost	\$ 532,376	\$ 596,821
Gross Cost with the Public	510,293	1,279,748
Total Strategic Goal 1 Gross Cost	1,042,669	1,876,569
Intragovernmental Earned Revenue	166,677	257,952
Earned Revenue from the Public	447,918	439,171
Total Strategic Goal 1 Earned Revenue	614,595	697,123
STRATEGIC GOAL 2:		
Building an SBA that Meets the Needs of Today's and Tomorrow's Small Businesses		
Intragovernmental Gross Cost	\$ -	\$ 366
Gross Cost with the Public	-	1,593
Total Strategic Goal 2 Gross Cost	-	1,959
STRATEGIC GOAL 3:		
Serving as the Voice for Small Business		
Intragovernmental Gross Cost	\$ 2,613	\$ 2,687
Gross Cost with the Public	10,219	11,682
Total Strategic Goal 3 Gross Cost	12,832	14,369
COST NOT ASSIGNED TO STRATEGIC GOALS		
Intragovernmental Gross Cost	\$ 16,938	\$ 14,778
Gross Cost with the Public	66,242	64,253
Total Gross Cost Not Assigned to Strategic Goals	83,180	79,031
Net Cost of Operations	\$ 524,086	\$ 1,274,805

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, 2013 and 2012. SBA's total budgetary resources were \$4.2 billion and \$5.0 billion for the years ended September 30, 2013 and 2012. Additionally, \$9.9 billion and \$9.4 billion of nonbudgetary resources including borrowing authority and collections of loan principal, interest and fees in financing funds were reported for the years ended September 30, 2013 and 2012.

OMB Circular A-136 required a change in format for the Combined Statement of Budgetary Resources to better align with the SF133 Report on Budget Execution and Budgetary Resources. The FY 2012 balances have been reclassified for comparability as required by Circular A-136.

Permanent Indefinite Appropriations

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

Financing Funds are used to account for credit program obligations made subsequent to FY 1991. Liquidating Funds are used to account for credit program obligations made prior to FY 1992.

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

Borrowing Authority and Terms of Borrowing

The SBA is authorized to borrow from the Treasury's Bureau of the Fiscal Service when funds needed to disburse direct loans and purchase guaranteed loans exceed subsidy costs and collections in the nonbudgetary loan financing funds. In FY 2013 and FY 2012, the SBA received \$1.5 billion and \$1.1 billion of borrowing authority from the OMB. At the end of FY 2013, the SBA had \$0.3 billion in borrowing authority carried over to fund direct loans and default claims to be disbursed in the future. At the end of FY 2012, the SBA had \$0.1 billion in available borrowing authority. The SBA pays interest to the Treasury based on Treasury's cost of funds. The rate at which interest is paid to the Treasury on the amounts borrowed (or received from the Treasury on uninvested cash balances) in a loan financing fund for a particular cohort is a disbursement-weighted average discount rate for cohorts prior to FY 2001 and a single effective rate for cohorts beginning with FY 2001. The SBA calculates and repays borrowings not needed for working capital at midyear for prior year cohorts. The SBA uses the loan principal, interest and fees collected from the borrowers in its loan financing funds to repay its Treasury borrowings. The repayment maturity dates for the borrowing from the Treasury are based on the loan maturities used in the subsidy calculation. The maturities range from 16 years for Direct Business loans, 25 years for Guaranteed Business loans and 30 years for Disaster loans.

Apportionment Categories of Obligations Incurred

During FY 2013 and FY 2012, the SBA incurred \$8.6 billion and \$8.8 billion of direct and reimbursable obligations of which \$0.6 billion and \$0.7 billion was apportioned in category A; \$8.0 billion and \$8.1 billion was apportioned in category B. Category A apportionments are restricted by quarter and program; category B apportionments are restricted by purpose and program.

Unobligated Balances

Unobligated balances at September 30, 2013 and 2012 are \$5.4 billion and \$5.6 billion which include \$4.0 billion and \$2.9 billion of unavailable unobligated balances. These balances are unavailable primarily because they are unapportioned by the OMB. The SBA accumulates the majority of these unobligated balances in its nonbudgetary financing accounts during the fiscal year (\$4.1 billion in FY 2013 and \$4.8 billion in FY 2012) from reestimates that are used primarily to pay default claims in the following fiscal year. In addition, unobligated balances are accumulated in budgetary accounts from appropriations (\$1.3 billion in FY 2013 and \$0.9 billion in FY 2012) that are used to finance SBA's ongoing program operations.

Undelivered Orders

Undelivered orders for the periods ended September 30, 2013 and 2012 were \$1.2 billion and \$0.7 billion.

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

There was no material difference between the FY 2012 Statement of Budgetary Resources and the President's FY 2014 budget submission. The President's Budget with actual numbers for FY 2015 has not yet been published. The SBA expects no material differences between the President's Budget "actual" column and the FY 2013 reported results when the budget becomes available in February 2014.

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,	2013	2012
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated		
Obligations Incurred	\$ 8,625,608	\$ 8,767,794
Less: Spending Authority from Offsetting Collections and Recoveries	5,431,669	6,634,592
Obligations Net of Offsetting Collections and Recoveries	3,193,939	2,133,202
Less: Offsetting Receipts	1,696,979	868,367
Net Obligations	1,496,960	1,264,835
Other Resources		
Imputed Financing	19,955	20,453
Other Financing Sources	(1,127,912)	(1,647,144)
Net Other Resources Used to Finance Activities	(1,107,957)	(1,626,691)
Total Resources Used to Finance Activities	389,003	(361,856)
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	(371,232)	325,086
Resources that Fund Expenses Recognized in Prior Periods	(882,703)	(1,817,256)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations		
Credit Program Collections	4,540,597	6,016,599
Offsetting Receipts	1,696,979	868,367
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(5,224,054)	(4,651,674)
Other - Current Year Liquidating Equity Activity	3,992	1,207
Other Resources that Do Not Affect Net Cost of Operations	(27)	257
Total Resources that Do Not Finance Net Cost of Operations	(236,448)	742,586
Total Resources Used to Finance the Net Cost of Operations	152,555	380,730
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD		
Components Requiring or Generating Resources in Future Periods		
Change in Annual Leave Liability	1,113	(1,139)
Upward Reestimates of Credit Subsidy Expense	362,329	882,560
Change in Revenue Receivable from Public	(316)	(306)
Provision for Losses on Estimated Guaranties	8,423	2,221
Change in Unfunded Employee Benefits	2,112	961
Total Components Requiring or Generating Resources in Future Periods	373,661	884,297
Components Not Requiring or Generating Resources		
Depreciation or Amortization	459	632
Change in Bad Debt Expense - Pre-1992 Loans	(2,582)	8,517
Other (Income) Expenses Not Requiring Budgetary Resources	(7)	629
Total Components Not Requiring or Generating Resources	(2,130)	9,778
Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	371,531	894,075
Net Cost of Operations	\$ 524,086	\$ 1,274,805

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

The following table details these differences:

(Dollars in Thousands)

As of September 30,	2013	2012
Current Year Liabilities Not Covered By Budgetary Resources	\$ 99,012	\$ 87,637
Less: Prior Year	<u>87,637</u>	<u>86,148</u>
Change in Liabilities Not Covered By Budgetary Resources	11,375	1,489
Upward Reestimates of Credit Subsidy Expense	362,329	882,560
Change in Revenue Receivable from Public	(316)	(306)
All Other	<u>273</u>	<u>554</u>
Components (of Net Cost) Generating Resources in Future Periods (Per Reconciliation Above)	<u>\$ 373,661</u>	<u>\$ 884,297</u>

NOTE 17 SIGNIFICANT EVENT

Partial Government Shutdown

The SBA was affected by the partial government shutdown from October 1 through October 16, 2013. SBA's Disaster program plays a vital role in the aftermath of disasters and is funded entirely by no-year, continuing appropriations. Therefore, it was not subject to the lapse in appropriations. However, the rest of the Agency discontinued operations, including SBA's business loan making operations in its 7(a), 504, SBIC and Microloan programs. During the lapse in appropriations, the only personnel who worked were those funded by programs with continuing resources and a minimal number of people to ensure continued operation of activities critical to the protection of government assets and preservation of the financial system.

Although the shutdown disrupted SBA's operations in the first quarter of FY 2014 and also delayed the production of this report, the SBA does not expect the partial government shutdown to have a detrimental effect on SBA's financial position in future years. Once the lapse in appropriations ended, the SBA followed an orderly process to restart its programs and administrative activities and resume normal operations. The SBA will continue to fulfill its mission to serve the nation's small businesses.

REQUIRED SUPPLEMENTARY INFORMATION

Combining Statement of Budgetary Resources

For the year ended September 30, 2013 (unaudited) - See accompanying Auditors' Report

(Dollars in Thousands)

	BLIF		DLF		SBGRF	PCECGF
	Budgetary	Nonbudgetary Financing	Budgetary	Nonbudgetary Financing	Budgetary	Budgetary
BUDGETARY RESOURCES						
Unobligated Balance Brought Forward, October 1	\$ 227,224	\$ 4,719,453	\$ 447,753	\$ 50,014	\$ 61,427	\$ 2,063
Recoveries of Prior Year Obligations	27,387	2,583	9,045	79,072	43	–
Other Changes in Unobligated Balance	(11,377)	(564,320)	(4,036)	(31,500)	–	(2,063)
Unobligated Balance from Prior Year Budget Authority, net	243,234	4,157,716	452,762	97,586	61,470	–
Appropriations (discretionary and mandatory)	1,316,336	–	889,602	–	–	1,000
Borrowing Authority (discretionary and mandatory)	–	48,895	–	1,471,475	–	–
Spending Authority from Offsetting Collections	19,259	3,505,534	1,854	598,860	16,556	119
Total Budgetary Resources	\$ 1,578,829	\$ 7,712,145	\$ 1,344,218	\$ 2,167,921	\$ 78,026	\$ 1,119
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred	\$ 1,380,654	\$ 4,092,033	\$ 610,379	\$ 1,651,246	\$ 4,683	\$ –
Apportioned	17,416	613,959	311,584	240,107	16,858	413
Unapportioned	180,759	3,006,153	422,255	276,568	56,485	706
Total Unobligated Balance, end of year	198,175	3,620,112	733,839	516,675	73,343	1,119
Total Status of Budgetary Resources	\$ 1,578,829	\$ 7,712,145	\$ 1,344,218	\$ 2,167,921	\$ 78,026	\$ 1,119
CHANGE IN OBLIGATED BALANCES						
Unpaid Obligations:						
Unpaid Obligations, Brought Forward, October 1	\$ 160,921	\$ 95,852	\$ 20,879	\$ 182,321	\$ 30	\$ –
Obligations Incurred	1,380,654	4,092,033	610,379	1,651,246	4,683	–
Gross Outlays	(1,281,827)	(4,091,355)	(554,659)	(1,146,912)	(4,670)	–
Recoveries of Prior Year Unpaid Obligations	(27,387)	(2,583)	(9,045)	(79,072)	(43)	–
Unpaid Obligations, end of year	232,361	93,947	67,554	607,583	–	–
Uncollected Payments:						
Uncollected Payments, Federal sources brought forward, October 1	–	(155,822)	–	(20,859)	–	–
Change in Uncollected Payments, Federal Sources	–	(73,080)	–	(46,758)	–	–
Uncollected Payments, Federal Sources, end of year	–	(228,902)	–	(67,617)	–	–
Memorandum (non-add) entries:						
Obligated Balance, start of year	\$ 160,921	\$ (59,970)	\$ 20,879	\$ 161,462	\$ 30	\$ –
Obligated Balance, end of year	\$ 232,361	\$ (134,955)	\$ 67,554	\$ 539,966	\$ –	\$ –
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget Authority, gross (discretionary and mandatory)	\$ 1,335,595	\$ 3,554,429	\$ 891,456	\$ 2,070,335	\$ 16,556	\$ 1,119
Actual Offsetting Collections (discretionary and mandatory)	(19,319)	(3,437,116)	(1,854)	(1,103,481)	(16,556)	(119)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	(73,081)	–	(46,757)	–	–
Budget Authority, net (discretionary and mandatory)	\$ 1,316,276	\$ 44,232	\$ 889,602	\$ 920,097	\$ –	\$ 1,000
Gross Outlays (discretionary and mandatory)	\$ 1,281,827	\$ 4,091,355	\$ 554,659	\$ 1,146,912	\$ 4,670	\$ –
Actual Offsetting Collections (discretionary and mandatory)	(19,319)	(3,437,116)	(1,854)	(1,103,481)	(16,556)	(119)
Net Outlays (discretionary and mandatory)	1,262,508	654,239	552,805	43,431	(11,886)	(119)
Less: Distributed Offsetting Receipts	–	(1,669,508)	–	(27,353)	–	–
Agency Outlays, net (discretionary and mandatory)	\$ 1,262,508	\$ (1,015,269)	\$ 552,805	\$ 16,078	\$ (11,886)	\$ (119)

REQUIRED SUPPLEMENTARY INFORMATION

Combining Statement of Budgetary Resources

For the year ended September 30, 2013

(Dollars in Thousands)

	SE	OIG	ADVOCACY	BATF	TOTAL	TOTAL	
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Nonbudgetary Financing	Total
BUDGETARY RESOURCES							
Unobligated Balance Brought Forward, October 1	\$ 115,878	\$ 7,735	\$ 680	\$ 141	\$ 862,901	\$ 4,769,467	\$ 5,632,368
Recoveries of Prior Year Obligations	26,548	489	166	6	63,684	81,655	145,339
Other Changes in Unobligated Balance	(4,969)	(203)	–	–	(22,648)	(595,820)	(618,468)
Unobligated Balance from Prior Year Budget Authority, net	137,457	8,021	846	147	903,937	4,255,302	5,159,239
Appropriations (discretionary and mandatory)	414,518	19,657	8,643	–	2,649,756	–	2,649,756
Borrowing Authority (discretionary and mandatory)	–	–	–	–	–	1,520,370	1,520,370
Spending Authority from Offsetting Collections	587,013	1,009	2	23	625,835	4,104,394	4,730,229
Total Budgetary Resources	\$ 1,138,988	\$ 28,687	\$ 9,491	\$ 170	\$ 4,179,528	\$ 9,880,066	\$ 14,059,594
STATUS OF BUDGETARY RESOURCES							
Obligations Incurred	\$ 858,248	\$ 19,514	\$ 8,812	\$ 39	\$ 2,882,329	\$ 5,743,279	\$ 8,625,608
Apportioned	238,903	8,377	679	108	594,338	854,066	1,448,404
Unapportioned	41,837	796	–	23	702,861	3,282,721	3,985,582
Total Unobligated Balance, end of year	280,740	9,173	679	131	1,297,199	4,136,787	5,433,996
Total Status of Budgetary Resources	\$ 1,138,988	\$ 28,687	\$ 9,491	\$ 170	\$ 4,179,528	\$ 9,880,066	\$ 14,059,594
CHANGE IN OBLIGATED BALANCES							
Unpaid Obligations:							
Unpaid Obligations, Brought Forward, October 1	\$ 434,479	\$ 2,363	\$ 1,323	\$ 1	\$ 619,996	\$ 278,173	\$ 898,169
Obligations Incurred	858,248	19,514	8,812	39	2,882,329	5,743,279	8,625,608
Gross Outlays	(928,622)	(19,787)	(9,096)	(29)	(2,798,690)	(5,238,267)	(8,036,957)
Recoveries of Prior Year Unpaid Obligations	(26,548)	(489)	(166)	(6)	(63,684)	(81,655)	(145,339)
Unpaid Obligations, end of year	337,557	1,601	873	5	639,951	701,530	1,341,481
Uncollected Payments:							
Uncollected Payments, Federal sources brought forward, October 1	–	–	–	–	–	(176,681)	(176,681)
Change in Uncollected Payments, Federal Sources	–	–	–	–	–	(119,838)	(119,838)
Uncollected Payments, Federal Sources, end of year	–	–	–	–	–	(296,519)	(296,519)
Memorandum (non-add) entries:							
Obligated Balance, start of year	\$ 434,479	\$ 2,363	\$ 1,323	\$ 1	\$ 619,996	\$ 101,492	\$ 721,488
Obligated Balance, end of year	\$ 337,557	\$ 1,601	\$ 873	\$ 5	\$ 639,951	\$ 405,011	\$ 1,044,962
BUDGET AUTHORITY AND OUTLAYS, NET							
Budget Authority, gross (discretionary and mandatory)	\$ 1,001,531	\$ 20,666	\$ 8,645	\$ 23	\$ 3,275,591	\$ 5,624,764	\$ 8,900,355
Actual Offsetting Collections (discretionary and mandatory)	(587,013)	(1,009)	(2)	(23)	(625,895)	(4,540,597)	(5,166,492)
Change in Uncollected Customer Payments from Federal Sources (discretionary and mandatory)	–	–	–	–	–	(119,838)	(119,838)
Budget Authority, net (discretionary and mandatory)	\$ 414,518	\$ 19,657	\$ 8,643	\$ –	\$ 2,649,696	\$ 964,329	\$ 3,614,025
Gross Outlays (discretionary and mandatory)	\$ 928,622	\$ 19,787	\$ 9,096	\$ 29	\$ 2,798,690	\$ 5,238,267	\$ 8,036,957
Actual Offsetting Collections (discretionary and mandatory)	(587,013)	(1,009)	(2)	(23)	(625,895)	(4,540,597)	(5,166,492)
Net Outlays (discretionary and mandatory)	341,609	18,778	9,094	6	2,172,795	697,670	2,870,465
Less: Distributed Offsetting Receipts	(118)	–	–	–	(118)	(1,696,861)	(1,696,979)
Agency Outlays, net (discretionary and mandatory)	\$ 341,491	\$ 18,778	\$ 9,094	\$ 6	\$ 2,172,677	\$ (999,191)	\$ 1,173,486

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

(unaudited) - See accompanying Auditors' Report

Stewardship Investments in Human Capital

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 service delivery points. SBDCs deliver professional counseling and training in key management areas to small business clients throughout the U.S.

SCORE is a nonprofit association comprised of over 12,000 volunteer business counselors that serve entrepreneurs with in-person mentoring and local training workshops. SCORE adapts its structure and services to meet the needs of specific small businesses.

Women's Business Centers provide counseling and training through educational centers across the nation. They provide services on a variety of topics including how to write a business plan and specialized programs to meet specific customer needs.

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.

All Other Training and Assistance Programs includes small business training provided by a counselor from a resource partner, district office, or SBA sponsor who delivers a structured program of knowledge, information or experience on a business-related subject. The training may be for an individual or a class. Training is also available online on a number of subjects of interest to the small business person. Other programs not separately detailed include PRIME Technical Assistance and the 7(j) program resources.

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

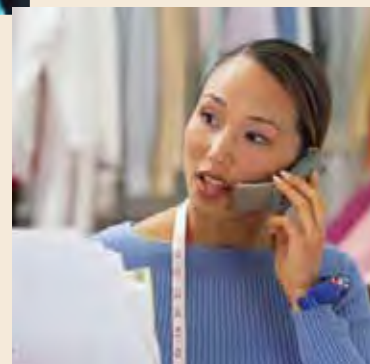
Significant Human Capital investments occur within the following programs:

For the five years ended September 30, 2013

(Dollars in Thousands)

	2013	2012	2011	2010	2009
Small Business Development Centers	\$ 93,981	\$ 152,835	\$ 123,097	\$ 130,046	\$ 116,909
SCORE	10,986	9,331	14,094	11,134	9,899
Women's Business Centers	21,141	25,006	13,080	16,924	21,504
Microloan Technical Assistance	16,617	22,487	30,485	23,426	11,606
All Other Training and Assistance Programs	56,222	41,054	36,609	57,631	49,750
Total	\$ 198,947	\$ 250,713	\$ 217,365	\$ 239,161	\$ 209,668

Other Information



SUCCESS STORY: Blending Tradition with Gourmet is Good for Family Business

Giovanni Food Company,
Syracuse, New York

Giovanni Food Company has been making delicious pasta sauces since 1934 when the DeMent family opened their first Italian-style restaurant. In the 1950s, the DeMents expanded into manufacturing other tomato-based product lines. Second-generation owner Jack DeMent led the company through its early growth and navigated the certification process to make spaghetti sauce for the U.S. Department of Agriculture's Food for Kids and Needy Families program.



When Jack's son **Louis "Lou" DeMent** joined the family business in 1997, the company's sales were largely dependent on USDA contracts. Lou turned his marketing efforts to private label customers and sales quadrupled, from under \$2 million to more than \$8 million. The unexpected death of Lou's father in April 2007 thrust the 34-year old into a leadership position. Lou used SBA guaranteed loans under both the 504 and 7(a) loan programs to purchase a larger manufacturing plant and its food processing equipment, increasing capacity to three modern production lines.

Giovanni Food Company has been successful by sticking with its traditional family recipe while developing gourmet and organic brands in order to accommodate evolving customer preferences. Today, Giovanni products can be found on grocery and specialty store shelves across the continental U.S. and under private label in Puerto Rico, Israel, Australia, Yemen, and Chile. Revenues have increased from \$13.9 million in 2009 to more than \$23 million in 2012, and the number of employees has grown from 37 to 68.

For these extraordinary accomplishments, Lou DeMent was selected the SBA *2013 New York Small Business Person of the Year*.

U. S. Small Business Administration
Schedule of Spending

For the year ended September 30, 2013 (unaudited)

(Dollars in Thousands)

	<u>Budgetary</u>	<u>Nonbudgetary Financing</u>	<u>Total</u>
What Money is Available to Spend?			
Total Resources	\$ 4,179,528	\$ 9,880,066	\$ 14,059,594
Less Amount Available but Not Agreed to be Spent	594,338	854,066	1,448,404
Less Amount Not Available to be Spent	702,861	3,282,721	3,985,582
Total Amounts Agreed to be Spent	\$ 2,882,329	\$ 5,743,279	\$ 8,625,608
How was the Money Spent?			
	<u>Budgetary</u>	<u>Nonbudgetary Financing</u>	<u>Total</u>
Salary & Benefits	\$ 482,517	\$ —	\$ 482,517
Grants	172,650	—	172,650
Rents	46,046	—	46,046
Contracts	92,711	—	92,711
Travel	34,068	—	34,068
Other Administrative Expenses	47,706	—	47,706
Telecommunications	10,915	—	10,915
Surety Bonds Defaults	4,682	—	4,682
Business Loans	50,049	55,348	105,397
Business Loan Guarantees	1,330,606	4,036,685	5,367,291
Disaster Lending	610,379	1,651,246	2,261,625
Total Amounts Agreed to be Spent	\$ 2,882,329	\$ 5,743,279	\$ 8,625,608
Who did the Money go to?			
	<u>Budgetary</u>	<u>Nonbudgetary Financing</u>	<u>Total</u>
Other Federal Agencies	573,660	2,059,960	2,633,620
Public Individuals and Organizations	2,308,669	3,683,319	5,991,988
Total Amounts Agreed to be Spent	\$ 2,882,329	\$ 5,743,279	\$ 8,625,608

The Schedule of Spending was developed to bridge the gap between budgetary accounting reports, such as the Statement of Budgetary Resources, and the public's desire for a transparent view of how federal money was spent. The SOS allows the reader to review SBA's spending in more understandable terms and also provides the public with a high level view of who benefited from federal funds.

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

OIG REPORT ON THE MOST SERIOUS MANAGEMENT
AND PERFORMANCE CHALLENGES

U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL



Report No. 14-01

***Report on the Most Serious Management and
Performance Challenges
Facing the Small Business Administration
In Fiscal Year 2014***

October 31, 2013

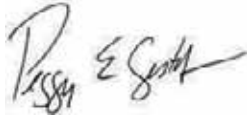


**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416**

October 31, 2013

MEMORANDUM

TO: Jeanne Hult
Acting Administrator

FROM: Peggy E. Gustafson 
Inspector General

SUBJECT: Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2014

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General's (OIG) Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration (SBA) in Fiscal Year (FY) 2014.

This report represents our current assessment of Agency programs and/or activities that pose significant risks, including those that are particularly vulnerable to fraud, waste, error, mismanagement, or inefficiencies. The Challenges are not presented in order of priority, as we believe that all are critical management or performance issues.

Our report is based on specific OIG, Government Accountability Office (GAO), and other reports, as well as our general knowledge of SBA's programs and operations. Our analysis generally considers those accomplishments that the SBA reported as of September 30, 2013.

Within each Management Challenge, there are a series of "recommended actions" to resolve the Challenge. Each recommended action is assigned a color "status" score. The scores are as follows: Green for "Implemented," Yellow for "Substantial Progress," Orange for "Limited Progress," and Red for "No Progress." An arrow in the color box indicates that the color score went up or down from the prior year. If a recommended action was added since last year's report, no color score has been assigned and the recommended action has been designated as "New."

As part of the OIG's continuing evaluation of the Management Challenges, certain Challenges have been updated or revised. In addition, actions that were scored Green last year, which remained Green this year, have been moved up to the "history bar" above the recommended actions. The history bar highlights any progress that the Agency has made on a Challenge over the past 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. The following table provides a summary of the Most Serious Management and Performance Challenges Facing the SBA in FY 2014.

Table 1. Summary of the Most Serious Management and Performance Challenges Facing the SBA in FY 2014.

Number	Challenge	Green	Yellow	Orange	Red	Up #	Down#
1	Small Business Contracting		2			2	
2	IT Security	1	2	1	1	1	1
3	Human Capital	1	3			3	
4	Loan Guaranty Purchase		1				
5	Lender Oversight	4		2		2	
6	8(a) Business Development Program		1	1	1		
7	Loan Agent Fraud		1				
8	Loan Management and Accounting System		1	3		3	
9	Improper Payments– 7(a) Program	1	5			4	
10	Improper Payments-Disaster Loan Program		1				
11	Acquisition Management			5			
	TOTAL	7	17	12	2	15	1

We would like to thank the SBA's management and staff for their cooperation in providing us with information needed to prepare this report. We look forward to continuing to work with the SBA's leadership team in addressing the Agency's Management Challenges.

Contents

- Challenge 1. Procurement flaws allow large firms to obtain small business awards and agencies to count contracts performed by large firms towards their small business goals
 - Challenge 2. Weaknesses in information systems security controls pose significant risks to the Agency
 - Challenge 3. Effective human capital strategies are needed to enable the SBA to carry out its mission successfully and become a high-performing organization
 - Challenge 4. The SBA needs to implement a quality control program in its loan centers
 - Challenge 5. The SBA needs to further strengthen its oversight of lending participants
 - Challenge 6. The Section 8(a) Business Development program needs to be modified so more firms receive business development assistance, standards for determining economic disadvantage are justifiable, and the SBA ensures that firms follow 8(a) regulations when completing contracts
 - Challenge 7. Effective tracking and enforcement would reduce financial losses from loan agent fraud
 - Challenge 8. The SBA needs to modernize its Loan Accounting System and migrate it off the mainframe
 - Challenge 9. The SBA needs to accurately report, significantly reduce, and strengthen efforts to recover, improper payments in the 7(a) loan program
 - Challenge 10. The SBA Needs to Significantly Reduce Improper Payments in the Disaster Loan Program
 - Challenge 11: The SBA Needs to Effectively Manage the Acquisition Program
- Appendix: Relevant Reports

Challenge 1. Procurement flaws allow large firms to obtain small business awards and agencies to count contracts performed by large firms towards their small business goals.

Fiscal Year Issued: 2005

The Small Business Act established a government-wide goal that 23 percent of the total value of all prime contract awards for each fiscal year (FY) be to small businesses. As the advocate for small business, the SBA should strive to ensure that only small firms obtain and perform small business awards. Further, the SBA should ensure that procuring agencies accurately report contracts awarded to small businesses when representing its progress in meeting small business contracting goals.

Previous OIG audits and other governmental studies have shown widespread misreporting by procuring agencies since many contract awards that were reported as having gone to small firms have actually been performed by larger companies. While some contractors may misrepresent or erroneously calculate their size, most of the incorrect reporting results from errors made by government contracting personnel, including misapplication of small business contracting rules. In addition, contracting officers do not always review the on-line certifications that contractors enter into a governmental database prior to awarding contracts. The SBA needs to ensure that contracting personnel are adequately trained on small business procurement and are reviewing this database prior to awarding contracts.

The SBA also needs to address a loophole within General Services Administration (GSA) Multiple Awards Schedule (MAS) contracts, which contain numerous industrial codes. Currently, a company awarded such a contract can identify itself as small on individual task orders awarded under that contract even though it does not meet the size criteria for the applicable task. Thus, agencies may obtain small business credit for using a firm classified as small, when the firm is not small for specific orders under the MAS contract.

The SBA made considerable progress on this challenge. By the end of FY 2013, the SBA revised and approved its Standard Operating Procedure to ensure consistency in conducting its surveillance reviews to assess Federal agencies' management of their small business programs and compliance with regulations and applicable procedures. The SBA also revised its regulations requiring firms to meet size standards for each specific order on multiple award contracts. Additionally, the SBA will submit this final rule on the proper classification of orders to the Federal Acquisition Regulation (FAR) Council to implement in the FAR.

<i>Actions Accomplished (Green Status) During Past Four Fiscal Years</i>	09-0	10-0	11-1	12-1
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<i>Recommended Actions for Fiscal Year 2014</i>	<i>Status at End of FY 2013</i>
1. Revise the surveillance review process to ensure that they are conducted in a thorough and consistent manner	Yellow ↑
2. Issue regulations that require firms to meet the size standard for each specific order they receive under a GSA schedule and Government-wide Acquisition Contract (GWAC) and show that the regulations are being followed. (Previously action 3)	Yellow ↑

Green -	Implemented	Yellow -	Substantial Progress	Orange -	Limited Progress	Red -	No Progress
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Challenge 2. Weaknesses in information systems security controls pose significant risks to the Agency.

Fiscal Year Issued: 1999

The SBA's computer security program operates in a dynamic and highly decentralized environment and requires management attention and resources as weaknesses are continually identified. The SBA improved its Plan of Actions and Milestones (POA&M) in FY 2013. However, the SBA needs to address long-standing security weaknesses identified in 29 open audit recommendations. These recommendations are in the following areas:

- The SBA's System Software controls have six open recommendations averaging 682 days past their original target corrective action date. These recommendations highlight significant security vulnerabilities including the need for establishing baseline configurations of SBA's IT platforms, establishing an effective configuration management program and timely patching of operating systems, devices, and database management systems.
- The SBA's Segregation of Duty controls have seven open recommendations averaging 555 days past their original target corrective action date. These recommendations include restricting access to system software, and an effective review of system and application logs.
- The SBA's IT Security Management program has eleven recommendations averaging 414 days past their original target corrective action date. Many of these vulnerabilities are statutory requirements which if remediated would improve SBA's IT Security oversight as well as improve SBA's compliance with FISMA guidance.

To show improvement in the above areas, SBA's Office of Chief Information Officer, in conjunction with SBA's Program Offices, will need to implement tools and capabilities to provide effective oversight and continuous monitoring of computer security controls.

<i>Actions Accomplished (Green Status) During Past Four Fiscal Years</i>	09-0	10-0	11-1	12-0
<i>Recommended Actions for Fiscal Year 2014</i>	<i>Status at End of FY 2013</i>			
1. Access controls are in place and operating effectively, and contractors are not granted system access until they have obtained the required background investigations and/or security clearances.	Yellow			
2. System software controls are in place and operating effectively.	Red ↓			
3. Segregation of duty controls are in place and operating effectively.	Orange			
4. The POA&M accurately reports all computer security weaknesses and corrective actions.	Green ↑			
5. The IT security management program is effective to address information security in systems that support the operations and assets of the organization.	Yellow			

Green -	Implemented	Yellow -	Substantial Progress	Orange -	Limited Progress	Red -	No Progress
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Challenge 3. *Effective human capital strategies are needed to enable the SBA to carry out its mission successfully and become a high-performing organization.*

Fiscal Year Issued: 2001 Revised: 2007

The SBA has experienced downsizing, high turnover, reorganizations, and realignments over the last several years which seriously impacted the level and scope of services that the Office of Human Capital Management (OHCM) provided to the Agency. In October 2011, the U.S. Office of Personnel Management (OPM) completed a review that identified weaknesses in the SBA’s human capital policies and practices highlighting the serious human capital challenges facing the Agency. In late FY 2011, OHCM was restructured and the Office of Human Resource Solutions (OHRS) was established. In 2012, the Agency began reshaping by recruiting new employees with the newly identified competency sets and shifting full-time equivalent resources to meet the new priorities.

In FY 2013, OHRS took several positive steps to address and mitigate this management challenge as reflected in the improved ratings below. For example, in May 2013, OHRS closed the 70 recommendations resulting from OPM’s FY 2011 review. It also completed an assessment of the core competencies and has begun developing trainings focused on those competencies. Further, the agency established several initiatives designed to recruit and develop future leaders. The SBA also issued its Leadership Succession Plan for FYs 2013—2016.

In FY 2013, the SBA successfully implemented a process to ensure OHRS adds value to its customers, primarily through the quarterly surveying of employees about OHRS’ delivery of needed strategic support and services. Some of OHRS’ achievements were also recognized through nominations for agency awards. Substantial progress was also made in FY 2013 to update Human Capital Standard Operating Procedures.

In response to the human capital challenges identified by the Federal Employee Viewpoint Survey (EVS), OHRS established the “SBA Way” initiative to increase employee engagement and foster collaboration across the Agency, launched the Talent Management System to expand and more effectively deliver training, and the Work Life Wellness program with a special emphasis on telework.

<i>Actions Accomplished (Green Status) During Past Four Fiscal Years</i>	09-0	10-0	11-0	12-0
<i>Recommended Actions for Fiscal Year 2014</i>	<i>Status at the End of FY 2013</i>			
1. Ensure the Agency has an effective, comprehensive workforce and succession plan that align talent needs and capabilities with SBA’s FY 2011-2016 Strategic Plan. The SBA’s workforce and succession planning goals should reflect the need to recruit and retain the appropriate talent, and should establish appropriate metrics to gauge SBA’s success at having the right people, in the right jobs, at the right time.	Yellow ↑			
2. Ensure the OHRS is structured and equipped so as to add value by delivering needed strategic support and services such as continuity planning, talent management, organizational development, and strategic consulting to implement the Agency’s human capital plan and its mission.	Green ↑			
3. Ensure that Human Capital Management Standard Operating Procedures are updated and appropriately structured to support the Agency’s long-term goals and objectives and government-wide Human Capital Management initiatives.	Yellow ↑			
4. Take steps to correct problems identified in the 2010 EVS. Demonstrate improvement by increasing overall scores/Agency rankings in the 2011 EVS.	Yellow			

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

Challenge 4. *The SBA needs to implement a quality control program in its loan centers.*

Fiscal Year Issued: 2007

The initial focus of this challenge was on improving deficiencies identified in the SBA's loan liquidation and guaranty purchase processes. Over the last decade, the agency has made significant progress to improve these processes at its loan centers, but a deficiency continues to exist in the area of quality control.

The Office of Financial Program Operations (OFPO) has made significant progress in developing a Quality Control (QC) program for all of its loan centers to verify and document compliance with the loan process, from origination to close-out, and to identify where material deficiencies may exist so that remedial action can be taken. A QC project guide has been developed and agreed upon by relevant parties within the Office of Capital Access. The QC program will assess the overall quality of the centers' deliverables to provide confidence to its stakeholders. The SBA assigned a QC manager to oversee the development of the program and established QC specialist positions for each center. Furthermore, the SBA (1) developed and documented Quality Program Manuals and review checklists for each center, (2) assessed center functions by risk to prioritize required QC reviews, (3) refined feedback, training and reporting processes, and (4) developed new systems to improve the tracking of quality control deficiencies and corrective actions.

While the SBA has made substantial progress in its development of a quality control program, additional work remains before the SBA can demonstrate that all elements of the QC program are being completed and that the program is effective at identifying and correcting material deficiencies. For example, a audit of the SBA's FY 2011 improper payment rate in the 7(a) loan guaranty purchase program determined that improper payment reviews executed by the QC review teams did not detect a high number of material improper payments. Further, an ongoing OIG evaluation of the quality control program determined that centers were not performing required reviews and that corrective actions were not being tracked as required. In order to demonstrate that the QC program has been fully implemented, the SBA will need to provide results showing that required QC reviews are being completed and other evidence showing the reviews are effective at identifying and correcting material deficiencies. The SBA made progress during FY 2013 to improve these identified deficiencies.

<i>Actions Accomplished (Green Status) During Past Four Fiscal Years</i>	09-0	10-1	11--0	12-0
<i>Recommended Actions for Fiscal Year 2014</i>	<i>Status at End of FY 2013</i>			
1. Implement a Quality Assurance Program for all SBA loan centers.	Yellow			

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

Challenge 5. The SBA needs to further strengthen its oversight of lending participants.

Fiscal Year Issued: 2001

Since its inception in 1953, the SBA has loaned or guaranteed billions of dollars to finance and spur investment in small businesses. In FY 2011, approximately 66 percent of loan dollars guaranteed by the SBA were made using delegated authorities with limited oversight. Prior OIG and Government Accountability Office reports disclosed weaknesses in the SBA’s oversight of its lending participants. In a September 2012 [audit report](#), the OIG found that during Agency onsite reviews, the SBA did not always recognize the significance of lender weaknesses and determine the risks they posed to the Agency. Additionally, the SBA did not link the risks associated with the weaknesses to the lenders’ corresponding risk ratings and assessments of operations. Further, the SBA did not require lenders to correct performance problems that could have exposed the Agency to unacceptable levels of financial risk. The risks inherent in delegated lending require an effective oversight program to (1) monitor compliance with SBA policies and procedures, and (2) take corrective actions when a material noncompliance is detected.

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

In FY 2013, the SBA also began improving its corrective action process. However, in order to fully resolve this management challenge, the SBA must implement and demonstrate the effectiveness of the process for monitoring and verifying lenders’ implementation of corrective actions.

<i>Actions Accomplished (Green Status) During Past Four Fiscal Years</i>	09	10	11	12
7a Program	0	0	0	1
504 Program	0	0	0	1

<i>Recommended Actions for Fiscal Year 2014</i>	<i>Status at End of FY 2013—7a</i>	<i>Status at End of FY 2013—504</i>
1. Expand the scope of lender oversight and improve the process for reviewing lenders and Certified Development Companies.	Green ↑	Green ↑
2. Implement guidance providing for effective supervision and enforcement.	Green	Green
3. Monitor and verify implementation of corrective actions to ensure effective resolution prior to close-out.	Orange	Orange

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

Challenge 6. The Section 8(a) Business Development program needs to be modified so more firms receive business development assistance, standards for determining economic disadvantage are justifiable, and the SBA ensures that firms follow 8(a) regulations when completing contracts.

Fiscal Year Issued: 2003

The SBA's 8(a) Business Development (BD) program was created to assist eligible small disadvantaged business concerns to compete in the American economy through business development. Previously, the Agency did not place adequate emphasis on business development to enhance the ability of 8(a) firms to compete, and did not adequately ensure that only 8(a) firms with economically disadvantaged owners in need of business development remained in the program. Companies that were "business successes" were allowed to remain in the program and continue to receive 8(a) contracts, causing fewer companies to receive most of the 8(a) contract dollars and many to receive none.

The SBA had made progress towards addressing issues that hinder the Agency's ability to deliver an effective 8(a) program. For example, the SBA expanded its ability to provide assistance to program participants through its resource partners —Small Business Development Centers, SCORE, and Procurement Technical Assistance Centers. Further, the SBA revised its regulations, effective March 2011, to ensure that companies that are "business successes" are graduated out of the program. However, the Agency has not yet completed updating its standard operating procedure for the Business Development program to reflect these regulatory changes. These revised regulations also establish additional standards to address the definition of "economic disadvantage," however; the Agency has not provided an economic analysis to justify these standards. In December 2011, the SBA also awarded a contract to develop and deploy a new Information Technology system by December 2012 to assist the SBA in monitoring 8(a) program participants. However, the new system has not been deployed and its delivery date and capabilities are undetermined at this time.

<i>Actions Accomplished (Green Status) During Past Four Fiscal Years</i>	09-0	10-0	11-0	12-0
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<i>Recommended Actions for Fiscal Year 2014</i>	<i>Status at End of FY 2013</i>
1. Develop and implement a plan, including SOP provisions, which ensures that the 8(a) BD program identifies and addresses the business development needs of program participants on an individualized basis.	Orange
2. Develop and implement Regulations and SOP provisions to ensure that participants are graduated once they reach the levels defined as business success.	Yellow
3. Establish objective and reasonable criteria that effectively measures "economic disadvantage" and implement the new criteria.	Red

Green -	Implemented	Yellow -	Substantial Progress	Orange -	Limited Progress	Red -	No Progress
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Challenge 7. Effective tracking and enforcement would reduce financial losses from loan agent fraud.

Fiscal Year Issued: 2000

For years, OIG investigations have revealed a pattern of fraud by loan packagers and other for-fee agents in the 7(a) loan guaranty program. These schemes have involved hundreds of millions of dollars, yet SBA’s oversight of loan agents has been limited, putting taxpayer dollars at risk. The Agency could reduce this risk through effective loan agent disclosure requirements, a database or equivalent means to track loan agent activity, updated regulations, new guidance for lenders, and a registration system.

Tracking Loan Agent Data. In response to this Management Challenge, the SBA has proposed various methods of tracking loan agent activity. The SBA eventually decided to capture the data by having lenders fax a loan agent disclosure form (Form 159) to the SBA’s Fiscal and Transfer Agent (FTA) and requiring the FTA to enter the data into a database accessible to the SBA. The Agency also began to link Form 159 information with its loan data. Although there are some data problems, quality is improving. Moreover, the new FTA contract is expected to emphasize data quality.

Updating Regulations. Critical features of any government enforcement program are effective regulations and procedures. The SBA regulations governing enforcement actions against loan agents were last revised in 1996 and are out of date. The SBA has advised that it is drafting new regulations.

Guidance Regarding Webpage. The Agency’s website now lists the names of loan agents and others that have been named in SBA enforcement actions. However, the Agency has not provided guidance to lenders to consult with this list in order to keep problematic loan agents from participating in the 7(a) program. The SBA has stated that the issue will be resolved with the issuance of an SOP update.

Registration System. Although the SBA has developed a loan agent tracking system, this system is hampered by loan agents not having been assigned unique identifiers. Thus, an agent suspended or revoked by the SBA can easily change his or her business name or even personal name, and lenders would not be able to verify the agent’s suspended or revoked status. Consequently, the SBA needs to develop a system to assign a unique identifier to loan agents that participate in the 7(a) program. According to the Agency, its Office of Credit Risk Management is exploring registration options. This could include using an identifying number assigned by outside organizations such as the National Mortgage Licensing System and requiring loan agents that are not part of this system to apply to the SBA for a registration number.

<i>Actions Accomplished (Green Status) During Past Four Fiscal Years</i>	09-0	10-0	11-0	12-1
Recommended Actions for Fiscal Year 2014	Status at End of FY 2013			
1. Develop an effective method of disclosing and tracking loan agent involvement in SBA business loan programs.	Yellow			
2. Update regulations (13 CFR Part 103) regarding loan agents to provide effective enforcement procedures.	New			
3. Issue guidance that lenders must (1) review SBA’s webpage list of loan agents that have been subject to an enforcement action and (2) refrain from doing business with any agent appearing on the list during the time that an agent is suspended or revoked from the 7(a) program.	New			
4. Implement a loan agent registration system, including the issuance of a unique identifying number for each agent.	New			

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

Challenge 8. The SBA needs to modernize its Loan Accounting System and migrate it off the mainframe.

Fiscal Year Issued: 2010

In November 2005, the SBA initiated the Loan Management and Accounting System (LMAS) project to update the agency's Loan Accounting System and migrate it off of the mainframe. An OIG report in 2005 noted that the system was close to the end of its expected useful life, relied on obsolete technology, contained major security vulnerabilities that could not be addressed until the system was moved to a new operating platform, and was costly to operate.

In 2013, the SBA continued its implementation of web-based user interface screens and has reduced processing individual transactions on the mainframe by 92 percent and moved these transactions to SBA's web-based IT infrastructure. The SBA also completed converting its COBOL computer code for its nightly accounting update cycle into COBOL code, which can be processed on a more modern platform. The SBA also has a Funds Control IIP, which is part of the LMAS effort.

Previous OIG and GAO reports on the LMAS identified concerns about SBA's management of the project and the project's noncompliance with the agency's System Development Methodology in key areas that impacted SBA's ability to control project costs and quality. The reports also addressed the lack of an enterprise-wide or project-level Quality Assurance (QA) functions to ensure that LMAS deliverables met the SBA's requirements and quality standards.

The SBA had hired a QA contractor in 2011; however, QA reports were not submitted to the LMAS Executive Steering Committee until FY 2013. In 2012, the SBA hired an Independent Verification and Validation (IV&V) entity to ensure that LMAS deliverables met SBA requirements and quality standards. However, the SBA did not fully stand-up its IV&V effort until 2013. In both QA and IV&V, improvement has been identified in both quantity and quality of deliverables to LMAS project managers, as well as reports to the LMAS Executive Steering Committee.

<i>Actions Accomplished (Green Status) During Past Four Fiscal Years</i>	N/A	10-0	11-0	12-0
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<i>Recommended Actions for Fiscal Year 2014</i>	<i>Status at End of FY 2013</i>
1. Migrate the Loan Accounting System to a new operating platform before the current mainframe contract expires in 2013.	Yellow
2. Modify the LMAS QA/IV&V contract and establish an effective QA process which provides senior management independent assurance that LMAS development activities and related project deliverables meet SBA quality standards.	Orange ↑
3. Establish a process for reviewing and accepting LMAS deliverables that complies with QA and Systems Development Methodology requirements. This includes hiring or fully staffing an IV&V entity to validate deliverable acceptance.	Orange ↑
4. Implement a QA process in LMAS in accordance with the SBA's Enterprise QA Plan.	Orange ↑

Green -	Implemented	Yellow -	Substantial Progress	Orange -	Limited Progress	Red -	No Progress
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Challenge 9. The SBA needs to accurately report, significantly reduce, and strengthen efforts to recover, improper payments in the 7(a) loan program.

Fiscal Year Issued: 2010

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

Further, recent OIG audits have identified 7(a) loans that were ineligible, lacked repayment ability, or not properly closed. In 2012, we reported that the limited reviews of lender underwriting performed during guaranty purchase reviews were contrary to SBA procedures, resulting in improper payments. We also reported that high-dollar early-defaulted loans were not reviewed with the scrutiny required to identify improper payments. In 2013, we reported that the SBA made \$4.6 million of improper payments on high-dollar early-defaulted 7(a) loans.

The Office of Capital Access (OCA) has taken actions to correct many of these deficiencies. The OCA has (1) formalized its improper payment sampling; (2) demonstrated that its review process is effective for 7(a) loan approvals; (3) formalized its process to review disputed cases; (4) formalized the recovery process and time standards for 7(a) purchases; and (5) developed appropriate corrective action plans for 7(a) loans. However, additional actions are needed. The OCA needs to establish repayment ability review requirements that are effective at identifying improper payments. Additionally, OCA needs to demonstrate that its process over disputed cases is ensuring adequate and timely resolution. Finally, OCA needs to demonstrate that it is adhering to recovery time standards and that corrective action plans for the 7(a) loan program are effective.

<i>Actions Accomplished (Green Status) During Past Four Fiscal Years</i>	09	10	11	12
7a Loan Approvals	N/A	N/A	0	0
7a Loan Purchases	N/A	N/A	0	0
<i>Recommended Actions for Fiscal Year 2014</i>	<i>Status at End of FY 2013— Approvals</i>		<i>Status at End of FY 2013— Purchases</i>	
1. Ensure that processes used to calculate the improper payment rates for 7(a) loan approvals and purchases are designed and implemented to effectively identify improper payments as defined by Office of Management and Budget (OMB) Circular A-123.	Green ↑		Yellow	
2. Reassign responsibility for final approval of disputed denial, repair, and improper payment decisions from the Office of Financial Assistance to the Office of Credit Risk Management to ensure an adequate and timely resolution of disputes.	N/A		Yellow	
3. Establish a process and time standards to expeditiously recover improper payments identified during Agency reviews and OIG audits.	N/A		Yellow ↑	
4. Demonstrate that corrective action plans are effective in reducing improper payments in the 7(a) loan program.	Yellow ↑		Yellow ↑	

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

Challenge 10. *The SBA Needs to Significantly Reduce Improper Payments in the Disaster Loan Program.*

Fiscal Year Issued: 2012

Previous OIG audits of the SBA's Disaster Loan program determined that the improper payment rates reported for this program were significantly understated. The SBA estimated that improper payments in the Disaster Loan program were about \$4.5 million, or 0.55 percent of loans approved in FY 2007, while the OIG reported that it was at least 46 percent, or approximately \$1.5 billion. The SBA's improper payment rates were understated because the Agency did not adequately review sampled loans, used flawed sampling methodologies, and did not accurately project review findings for the program.

Previously, Management Challenge 9 included both the Disaster Loan program and 7(a) program. There were three recommended actions applicable to the Disaster Assistance Program. Of the three recommended actions, one was implemented during FY 2010 and the two remaining actions were implemented during FY 2011. One recommended action was to develop and implement a corrective action plan to reduce improper payments. Although the Office of Disaster Assistance (ODA) implemented the recommended action, the Agency has not achieved its reduction targets since implementation. Specifically, the Agency missed its target goals of 16.7 percent for FY 2010, 20.0 percent for FY 2011, and 17.0 percent for FY 2012, instead reporting rates of 34.2 percent, 28.4 percent, and 17.9 percent, respectively.

At the end of FY 2011, a new recommended action was added requiring the SBA to demonstrate that the corrective action plan is effective in reducing improper payments in the Disaster Assistance Program.

The Agency has implemented an improved corrective action plan that specifically addresses root causes and provides specific remedies, such as targeted training and inclusion of improper payments in personal business commitment plans for employees. If properly implemented, we believe this course of action should effectively reduce the improper payment rate in future years. The Agency's internal improper payment assessment for FY 2013 indicated a rate of 18.4 percent. This rate is higher than the 17 percent target rate necessary to achieve a rating of Green. Therefore, the color status for FY 2013 is Yellow.

<i>Actions Accomplished (Green Status) During Past Four Fiscal Years</i>	N/A	N/A	NEW	12-0
<i>Recommended Actions for Fiscal Year 2014</i>	<i>Status at End of FY 2013</i>			
1. Demonstrate that corrective action plans are effective in reducing improper payments in the Disaster Loan program.	Yellow			

Green -

Implemented

Yellow -

Substantial Progress

Orange -

Limited Progress

Red -

No Progress

Challenge 11: *The SBA Needs to Effectively Manage the Acquisition Program.*

Fiscal Year Issued: 2013

In October 2010, the SBA realigned its acquisition program to address several significant deficiencies that included compliance with laws and regulations, application of funding principles, contractor oversight, high staff turnover, and measuring performance through validated metrics. Since that realignment, the SBA has taken steps to improve the acquisition process, such as providing training to acquisition personnel, conducting annual Advanced Acquisition Strategy planning, and using the Contract Review Board to inform acquisition decisions. While the SBA has made limited progress, continuing challenges exist, including: (1) poorly defined requirements (2) internal control deficiencies, (3) improper funding of contracts, (4) inadequate oversight and monitoring of contractor performance, (5) high improper payments rate for contracting activities, and (6) an incomplete acquisition standard operating procedure (SOP). For example, we identified instances where the SBA inadequately planned and defined its requirements for the procurement of IT products and services. In addition, while the SBA interfaced the contract management system, PRISM, with the financial system, JAAMS, users still continue to experience system operations issues – exposing an internal control deficiency. The SBA also ratified unauthorized commitments without determining whether unobligated funds were available when the unauthorized commitment occurred, putting the SBA at risk for Anti-Deficiency Act violations. Moreover, the SBA continued to inadequately monitor contract performance, which did not provide assurance that products and services were delivered according to contract requirements. We also determined that the information presented in the SBA’s *FY 2012 Agency Financial Report* was inaccurate and the reported improper payment rate for FY 2012 disbursements and contracting was incomplete. Furthermore, while the SBA updated its acquisition SOP, it does not include procedures to use modular contracting for major system acquisitions or define post award contract administration requirements, among other things.

Finally, while the SBA conducted an internal control review of its acquisition function consistent with OMB Circular A-123, Appendix A, the Agency has not completed the acquisition assessment required in OMB’s Memorandum for Chief Acquisition Officers: *Conducting Acquisition Assessments under OMB Circular A-123*, May 21, 2008. This memorandum requires the use of a template to help agencies conduct a comprehensive and standardized assessment. Use of the template further enables the SBA to leverage existing resources by implementing an integrated management approach to internal control that focuses equally on the financial, program, operational and administrative functional areas of the SBA, including acquisition.

<i>Actions Accomplished (Green Status) During Past Four Fiscal Years</i>	N/A	N/A	N/A	NEW
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<i>Recommended Actions for FY 2013</i>	Status at end of FY 2013
1. Complete an assessment of the Agency’s acquisition activities using the OMB’s <i>Guidelines for Assessing the Acquisition Function</i> .	Orange
2. Create and implement a comprehensive improvement plan — based on the results of the acquisition function assessment — that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the organizational alignment and leadership assessment area.	Orange
3. Create and implement a comprehensive improvement plan — based on the results of the acquisition function assessment — that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the acquisition policies and processes assessment area (i.e. acquisition management SOP).	Orange
4. Create and implement a comprehensive improvement plan — based on the results of the acquisition function assessment — that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the acquisition workforce assessment area.	Orange
5. Create and implement a comprehensive improvement plan — based on the results of the acquisition function assessment — that has measurable goals, objectives, prioritized actions and timeframes to address deficiencies identified in the knowledge management and information systems assessment area.	Orange

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

Appendix: Relevant Reports

Most of the SBA OIG Reports listed can be found at <http://www.sba.gov/office-of-inspector-general>.

Challenge 1:

- OIG, *SBA's Planning and Award of the Customer Relationship Management Contracts*, [ROM 10-16](#), issued June 29, 2010.
- *Interagency Task Force on Federal Contracting Opportunities for Small Businesses Report*, issued September 2010.
- SBA Advocacy, *Analysis of Type of Business Coding for the Top 1,000 Contractors Receiving Small Business Awards in FY 2002*, issued December, 2004.
- The Center for Public Integrity, *The Big Business of Small Business: Top defense contracting companies reap the benefits meant for small businesses*, issued September 29, 2004.
- The Center for Public Integrity, *The Pentagon's \$200 Million Shingle: Defense data shows billions in mistakes and mislabeled contracts*, issued September 29, 2004.
- OIG, *Audit of SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders*, [Report 4-16](#), issued March 17, 2004, pp. 8-9.
- GAO, *Contract Management: Reporting of Small Business Contract Awards Does Not Reflect Current Business Size*, GAO-03-704T, issued May 7, 2003.
- The Small Business Committee, U.S. House of Representatives Hearing, *Are Big Businesses Being Awarded Contracts Intended for Small Businesses?* Testimony of Mr. Fred C. Armendáriz, Associate Deputy Administrator, SBA, issued May 7, 2003.
- The Small Business Committee, U.S. House of Representatives Hearing, *Are Big Businesses Being Awarded Contracts Intended for Small Businesses?* Testimony of Mr. Felipe Mendoza, Associate Administrator, Office of Small Business Utilization, U.S. General Services Administration, issued May 7, 2003.
- OIG, *Review of Selected Small Business Procurements*, [Report 5-16](#), issued March 8, 2005.
- OIG, *SBA Small Business Procurement Awards Are Not Always Going to Small Businesses*, [Report 5-14](#), issued February 24, 2005.

Challenge 2:

- OIG, Briefing Report for the *FY 2012 Federal Information Security Management Act Review*, [Report 13-15](#), issued March 29, 2013.
- OIG, *Audit of SBA's FY 2012 Financial Statements*, [Report 13-04](#), issued November 14, 2012.
- OIG, *Weakness Identified During the FY 2011 Federal Information Security Management Act Review*, [Report 12-15](#), issued July 16, 2012.
- OIG, *Audit of SBA's FY 2010 Financial Statements*, [Report 12-02](#), issued November 14, 2011.
- OIG, *Weaknesses Identified During the FY 2010 Federal Information Security Management Act Review*, [Report 11-06](#), issued January, 28, 2011.
- OIG, *Audit of SBA's FY 2010 Financial Statements*, [Report 11-03](#), issued November 12, 2010.

Challenge 3:

- OPM, *2012 Federal Employee Viewpoint Survey*.
- OPM, *2011 Federal Employee Viewpoint Survey*.
- Partnership for Public Service, *Best Places to Work in the Federal Government 2011*.
- OPM, *2010 Federal Employee Viewpoint Survey*.
- Partnership for Public Service, *Best Places to Work in the Federal Government 2010*.
- Partnership for Public Service, *Best Places to Work in the Federal Government 2009*.
- OPM, *2008 Federal Human Capital Survey*.
- OIG, *The Colorado District Office's Servicing of 8(A) Business Development Program Participants*, [Report 10-15](#), issued September 30, 2010.

- OIG, *Adequacy of Procurement Staffing and Oversight of Contractors Supporting the Procurement Function*, [ROM 10-13](#), issued April 9, 2010.
- GAO, *Agency Should Assess Resources Devoted to Contracting and Improve Several Processes in the 8(a) Program*, GAO-09-16, issued November 2008.
- GAO, *Opportunities Exist to Build on Leadership's Efforts to Improve Agency Performance and Employee Morale*, GAO-08-995, issued September 2008.
- OIG, *Non-Native Managers Secured Millions of Dollars from 8(a) Firms Owned by Alaska Native Corporations through Unapproved Agreements that Jeopardize the Firms' Program Eligibility*, Report 8-14, issued August 7, 2008.
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In FY 2013, SBA small business development centers contributed to the creation of **161** companies that are new to exporting and supported **\$3 billion** in export sales.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

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

Summary of Financial Statement Audit

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

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements.					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	0	0	N/A	N/A	N/A	0
Conformance with Federal Financial Management Improvement Act (FFMIA)						
	Agency			Auditor		
1. System Requirements	No noncompliance noted			No noncompliance noted		
2. Accounting Standards	No noncompliance noted			No noncompliance noted		
3. USSGL at Transaction Level	No noncompliance noted			No noncompliance noted		

IMPROPER PAYMENTS

Improper Payments

As required by the Improper Payment Information Act of 2002 (IPIA), its amendments, and OMB Circular No. A-123, Appendix C, Management's Responsibility for Internal Control: Requirements for Effective Measurement and Remediation of Improper Payments, the SBA reviewed all programs and activities identified as susceptible to significant improper payments. Significant improper payments are defined as payments in any one program that either exceed 2.5 percent of program payments and \$10 million annually or exceed \$100 million regardless of the improper payment percentage of the total program payments.

Risk Assessment

OMB Circular No. A-123 requires risk assessments at least once every three years for programs not deemed risk susceptible or if a program was subjected to a significant change in legislation or funding level. During FY 2011, following the passage of the Improper Payments Elimination and Recovery Act of 2010 (amended the IPIA), the SBA conducted risk assessments of all programs and activities for susceptibility to improper payments. Since no significant changes occurred to any SBA program or activity during FY 2013, the SBA did not conduct any new risk assessments.

The SBA reviews four programs/activities for improper payments – three major credit programs 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 loan guaranty approvals, and
- Disaster direct loan disbursements.

SBA's major credit programs are reviewed for improper payments as required by the former Section 57 of OMB Circular No. A-11. A fourth major credit program, the Small Business Investment Company program, retains approval from OMB for relief from reporting due to the low occurrence of improper payments determined by several years' review and low probability for improper payments.

Disbursements for goods and services were identified as risk susceptible in FY 2011 and have been subject to improper payment review since FY 2012.

Statistical Sampling and Corrective Actions

To provide more clarity for the reader, this section is organized by program/activities and provides statistical sampling information coupled with corrective actions.

7(a) Loan Guaranty Purchases

Statistical Sampling

For 7(a) loan guaranty purchase reviews, the sample cases were chosen using Probability Proportional to Size (PPS) sampling with replacement methodology from all purchases approved during the 12-month period ending March 31, 2013. The purchase population was divided into two strata based on the following factors: (1) which servicing office processed the purchase, and (2) was the loan an early default, regardless of servicing office. The SBA determined the appropriate sample size to be 300 loans from the population. The sample included aggregate purchase outlays of \$165,102,565 and an absolute value of improper payments of \$401,972. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) guaranty purchase population was calculated at 1.15 percent.

The 7(a) loan guaranty purchase reviews examined if the lender complied materially with the 7(a) loan program 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 determined if the lender (1) originated the loan in a prudent and commercially reasonable manner, (2) misrepresented or failed to disclose a material fact to the SBA, and/or (3) put the SBA's financial interest at risk.

Corrective Action

The root cause for all 7(a) loan guaranty purchase improper payments were administrative and documentation errors. Improper payments generally arose when the purchase processor failed to identify material lender deficiencies in the handling of an SBA guaranteed loan. The primary reasons for errors in 7(a) purchases in FY 2013 included:

- ineligible loan structures;
- incorrect payment of interest to lender due to interest calculation using an incorrect rate; and
- reimbursement of lender expenses that were not fully justified.

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

- external training for lenders to avoid ineligible loan structures;
- internal training for purchase processors to detect ineligible loan structures, select the proper interest rate, and identify appropriate lender expenses; and
- recovery of lender expenses that were not fully justified.

Corrective actions are tracked at the loan level through a centralized database. The Quality Control Specialist in each loan center monitors errors from identification through completion of the corrective action. Headquarters management provides oversight to ensure milestones are met.

7(a) Loan Guaranty Approvals

Statistical Sampling

For 7(a) loan guaranty approval reviews, the sample cases were chosen using PPS sampling with replacement methodology from all loan guaranties approved during the 12-month period ending March 31, 2013. The loan sample consisted of delegated lender approved and non-delegated SBA approved loan guaranties. Loan guaranties approved by the SBA are processed in the Standard 7(a) Loan Guaranty Processing Center with locations in Sacramento, California and Hazard, Kentucky. Lender approved guaranties are submitted using E-Tran Origination, the SBA's electronic loan processing system, allowing delegated lenders to electronically submit Preferred Lender Program and SBAExpress loan approvals. The approval population was divided into two strata based on whether or not the loan was SBAExpress. The SBA determined the appropriate sample size to be 287 loans from the population. The sample included net guaranty approvals of \$291,147,356 and improper payments of \$16,263,287.

Using the Hansen-Hurwitz estimation method, the estimated improper payment rate was calculated as 4.65 percent.

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

Corrective Action

The root cause for all 7(a) loan guaranty approval improper payments were administrative and documentation errors. Approximately 70 percent of the improper payments identified were associated with delegated lender approved loans. The primary reasons for errors in 7(a) approvals in FY 2013 include:

- ineligible loan structures;
- improper use of loan proceeds (not in accordance with loan authorization); and
- improper determination of loan eligibility by lenders or SBA loan officers.

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

- external training for lenders to avoid ineligible loan structures, ensure proper use of loan proceeds, and accurately determine loan eligibility; and
- internal training for loan approvers to determine eligibility of loan and loan structures within SBA guidelines.

Corrective actions are tracked at the loan level through a centralized database. The Quality Control Specialist for 7(a) loan guaranty approvals monitors errors from identification through completion of the corrective action.

Headquarters management provides oversight to ensure milestones are met.

504 CDC Loan Guaranty Approvals

Statistical Sampling

For 504 CDC loan approval reviews, the sample cases were chosen using PPS sampling with replacement methodology from all loan guaranties approved during the 12-month period ending March 31, 2013. The loan guaranties were approved at SBA's Sacramento Loan Processing Center and closed at various SBA district offices, with servicing subsequently handled by the Fresno Commercial Loan Servicing Center and the Little Rock Commercial Loan Servicing Center. The approval population was not stratified. The SBA determined the appropriate total sample size to be 180 loans from the population. The sample included net approval outlays of \$257,870,000 and one improper payment of \$456,400. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate was calculated as 0.54 percent.

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

Corrective Action

The root cause for the 504 CDC loan guaranty approval improper payment was an administrative and documentation error. The only error identified stemmed from a lender-approved loan that the SBA determined to be ineligible during improper payment testing. The SBA and the lender agreed to cancel the loan as it had not been disbursed. The SBA provided guidance to the lender for the specific error to prevent future occurrences, which was documented in accordance with the center's 504 CDC loan guaranty approvals corrective action plan.

Disaster Direct Loan Program

Statistical Sampling

The Office of Disaster Assistance performs a Quality Assurance Review (QAR) of the approved disaster loan portfolio annually. A part of the QAR is to identify any deficiency that would result in an improper payment. The statistical software and methods used follow widely accepted practices. The review population consisted of disaster loan disbursements made during the 12-month period ending June 30, 2013 for 33,219 loans with total disbursements of \$659,046,000. A sample size of 500 was determined based on assumptions about the likely prevalence and severity of improper payments. The 500 sample disbursements were randomly selected for the QAR and yielded an improper payment rate of 18.4 percent. Based on the sample results, the estimated improper payments were \$121,056,000. The improper payment rate increased slightly, by 0.5 percent, from the FY 2012 rate.

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

Corrective Action

The root cause of improper payments for disaster direct loans were administrative and documentation errors. The processing and disbursement staff did not consistently follow the guidance provided in the SOP and policy memos. Specifically, errors arose when:

- loan officers failed to confirm the eligibility of non-real property included in business loan files; and
- loan officers failed to justify the economic injury eligibility determinations.

As a result, ODA implemented the following corrective actions:

- expanded training efforts to include one-on-one training with the individuals identified in the audits as either taking the action or approving the action that resulted in an improper payment;
- included the reduction of the improper payment rate as part of the Personal Business Commitment plans of all the processing and disbursement staff at the Processing and Disbursement Center (PDC) in Fort Worth, TX; and

- established a team at the PDC that reports directly to the center director for the express purpose of identifying and correcting potential improper payments.

ODA disputes that the stated improper payment rate truly reflects the potential that disaster loans are disbursed to disaster victims that are not eligible under the disaster loan program. The improper payments consisted of 92 disbursements out of the 500 disbursements reviewed. Of the 92 considered to be improper payments, 42 were for “paperwork” issues. The paperwork issues did not result in a disaster loan borrower receiving any loan funds that they were not eligible to receive or have any impact on SBA’s ability to collect on the disaster loans.

Disbursements for Goods and Services

Statistical Sampling

Disbursements for goods and services samples were chosen using PPS with replacement methodology for payments completed during the 12 months ending March 31, 2013. The total number of disbursements was 3,980 and the total dollar amount was \$121,360,983. The SBA determined the appropriate sample size to be 250 invoices with total outlays of \$53,028,411. Based upon the sample results, the estimated FY 2013 disbursements for goods and services improper payment rate was 11.6 percent for a total of \$14.1 million.

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

Corrective Action

The root cause of improper payments in the disbursements for goods and services improper payment review were administrative and documentation errors. While the improper payment rate increased by 2.0 percent from the FY 2012 rate of 9.6 percent, no new types of errors were uncovered in the improper payment review. The types of errors included:

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

It is important to note that the findings revealed no apparent significant overpayments or opportunities for recapture. All payments corresponded to valid goods and services received. Payment accuracy issues related to SAM account for 4.4 percent of the 11.6 percent improper payment rate. SAM lacks vendor account history, so the vendor account registered at the time of payment could not be determined; only the registered account at the time of testing for improper payments was confirmed. It is possible that some payments identified as erroneous were disbursed to a registered account.

To prevent the administrative and documentation errors noted in the improper payment review, the SBA plans to complete the following corrective actions in the coming year:

- enhance on-going training and instruction to include special emphasis on issues identified during the FY 2013 review. Training will be tailored for the three primary responsible parties: contracting officers, contracting officer’s representatives, and accounts payable staff. Training will include but not be limited to: the delineation of responsibilities of each party; steps to thoroughly review an invoice; and a review of the applicable guidelines about invoice receipt and payment; and
- explore the possibility of an interface between the SAM and the SBA financial system to ensure the most current contractor payment information is available at the time of payment.

Until an interface with SAM is developed, the SBA has implemented manual procedures to verify SAM data and has made updates to financial systems to prepare for an interface with SAM. The manual procedures were applied during the sample period; as such, the full benefit of the change was not realized in the sample results.

Improper Payment Reporting

The table on the next page presents the summary of SBA’s Improper Payment review results for FY 2013.

Recapture of Improper Payments

The SBA does not currently conduct recapture audits, therefore tables 2-5 defined by OMB Circular No. A-136 are not included in this report. Agency efforts to determine the effectiveness of recapturing improper payments are discussed by program.

7(a) loan guaranty purchase improper payment reviews, Quality Control Reviews and OMB Circular A-123 Appendix A reviews have indicated that payment recapture audits would be cost effective. The SBA has developed a robust Quality Control Review process and is exploring the feasibility of expanding the scope of the reviews to include payment recapture audits. This process would require additional human resources, coordination of sampling techniques with a statistician, and a review process specific to identifying overpayments. The SBA's quality control staff in the Office of Capital Access already conducts continuous Quality Control Reviews to assess the quality of the loans and loan documentation and to identify potential improper payments. Overpayments identified through both the continuous review processes and annual improper payment reviews are recovered from the lender as appropriate. The recovery determination is made on a case-by-case basis, which varies substantially depending on the circumstances of the loan approval, servicing, purchase and/or liquidation processes. The amount identified for recapture during the 7(a) Loan Guaranty Purchase improper payment review was \$401,972.

7(a) loan guaranty approval and 504 CDC loan approval are not subject to payment recapture audits as no payment is made at the time of approval; payment is made only if the lender requests that the SBA honor its guaranty. Improper payments identified through both the annual improper payment and continuous Quality Control reviews are recovered from the lender through

the cancellation of the SBA guaranty, reduction in loan guaranty percentage, or loan modification, as appropriate. This determination is made on a case-by-case basis, which varies substantially depending on the circumstances of the loan approval and lender authority.

Disaster direct loans recapture audits would not be cost effective. The Office of Disaster Assistance made this determination after completing the second half of the 2013 Improper Payment audit. The audit was completed by the Quality Assurance Review team located in the Processing Disbursement Center. The team reviewed 250 disbursements as part of the audit. The review identified 64 disbursements as improper payments totaling \$6,457,999. Pertaining to recovery of the 64 improper payments:

- 28 of the disbursements, totaling \$2,577,700 were for paperwork issues and not subject to recovery;
- 25 of the disbursements, totaling \$3,580,499 were determined as not subject to recovery due to information received or analysis completed after the initial approval; and
- of the remaining erroneous 11 payments totaling \$299,800, only \$7,800 was identified for potential recovery.

The amount subject to recovery was 0.12 percent of the sample. Therefore, the estimated amount of disaster loan funds subject to recovery for the entire population in the second half IP audit was \$46,629. The second half IP

IMPROPER PAYMENT REDUCTION OUTLOOK (\$ IN MILLIONS)																	
Program	FY 2012' Outlays \$	FY 2012 IP %	FY 2012 IP \$	FY 2013' Outlays \$	FY 2013 IP %	FY 2013 IP \$	FY 2013 Over- paid \$	FY 2013 Under- paid \$	FY 2014' Outlays \$ Est.	FY 2014 IP %	FY 2014 IP \$	FY 2015' Outlays \$ Est.	FY 2015 IP %	FY 2015 IP \$	FY 2016' Outlays \$ Est.	FY 2016 IP %	FY 2016 IP \$
7(a) Guaranty Purchases ¹	1,398.4	3.2	44.0	1,211.4	1.15	13.9	9.6	4.3	1,300.0	2.2	28.6	1,350.0	1.75	23.6	1,300.0	2.0	26.0
7(a) Guaranty Approvals ^{1,2}	12,933.7	1.8	233.2	10,994.5	4.6	510.9	510.9	0.0	11,500.0	4.0	460.0	12,500.0	3.8	475.0	12,000.0	3.6	432.0
504 CDC Guaranty Approvals ¹	5,121.6	2.0	104.5	6,386.9	.54	34.4	34.4	0.0	6,700.0	1.3	87.1	7,100.0	1.2	85.2	7,500.0	1.1	82.5
Disaster Loan Disbursements ¹	509.1	17.9	91.0	659.0	18.4	121.1	121.1	0.0	800.0	15.0	120.0	800.0	13.0	104.0	800.0	10.0	80.0
Contract Disbursements	130.0	9.6	12.5	121.4	11.6	14.1	14.1	0.0	125.0	10.0	12.5	125.0	9.0	11.3	125.0	8.0	10.0

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

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

audit was completed using 2,891 hours of staff time and cost approximately \$114,195. Based on the cost to audit versus the estimated dollars of recovery, it is clear that further expenditures for a separate recovery audit is not cost effective.

Disbursements for goods and services recapture audits would not be cost effective. The improper payment testing required 830 labor hours at a cost of \$51,700. Payments identified during the improper payment review as eligible for recapture totaled \$1,893; thus the cost of the review far exceeds the return.

Overpayments Recaptured Outside of Payment

Recapture Audits are applicable only to 7(a) loan guaranty purchases or disbursements for goods and services as payments made within these program areas are recoverable from lenders and vendors as appropriate. Overpayments for disaster loans are collected through the normal loan repayment process if the overpayment was due to an SBA error. Overpayments as a result of fraudulent actions of a borrower are immediately pursued. The amount identified for recapture during the 7(a) Loan Guaranty Purchase improper payment review was \$401,972. Cash disbursements related to goods and services made for an inaccurate amount or not according to contract terms total \$1,893.

Accountability

The focus of SBA’s Strategic Goal 2 is to build an SBA that meets needs of today’s and tomorrow’s small businesses. Strategic Objective 2.1, with that goal, is designed to

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

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.

7(a) loan guaranty approvals and 504 CDC loan guaranty approvals are supported by E-Tran, SBA’s electronic loan processing/servicing system. The system provides increased efficiency and decreased costs in the loan guaranty origination and servicing processes. Both the SBA and delegated lenders process applications through this system. Lenders may also handle unilateral servicing actions.

Disaster direct loan program has the information systems and other infrastructure it needs to reduce improper payments to targeted levels. For example, the Office of

Disaster Assistance has an integrated, electronic loan processing system, the Disaster Credit Management System (DCMS), to streamline, enhance and improve the loan-making process. This system supports workflow management, electronic file management and document generation functions. Many of the business rules governing DCMS have been designed to improve the quality assurance process. In fact, the ODA Quality Assurance Team works continually with the DCMS development team to improve the quality assurance process with a goal to minimize future improper payments as much as possible.

OVERPAYMENTS RECAPTURED OUTSIDE OF PAYMENT RECAPTURE AUDITS (\$ IN THOUSANDS)						
Source of Recovery	Amount Identified FY 2013	Amount Recovered FY 2013	Amount Identified FY 2012	Amount Recovered FY 2012	Cumulative Amount Identified	Cumulative Amount Recovered
7(a) Loan Guaranty Purchase IP Review ¹	402.0	195.8	5,078.4	604.7	7,080.1	903.5
Contract IP Review ²	1.9	0.0	2.1	0.0	36.2	32.2

¹ Amount Identified for FY 2012 has been reduced by \$1,383.9. Subsequent to FY 2012 reporting, the payment was determined to be proper.

² Amount Identified for FY 2012 has been reduced by \$3.2. Subsequent to FY 2012 reporting, \$2.4 was determined to be proper and \$0.8 represents several small overpayments for which recovery was determined not to be cost effective.

Disbursements for goods and services are supported by the Oracle Federal Financial System. The contracting process is supported by the PRISM Contract Management System, which tracks and records acquisitions. The SBA Acquisition and Accounts Payable teams continue work to improve interfaces between the contracting system, financial system and external databases such as SAM to streamline the acquisition process from start to finish.

Statutory or Regulatory Barriers

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

SUCCESS STORY: "To Move Forward" is Company's Motto

Ishpi Information Technologies, Inc.,
Mount Pleasant, South Carolina



In September 2006, **Noah Leask**, a service-disabled U.S. Navy veteran, started a cyber-defense business out of his home with his wife Lisa, a former U.S. Naval officer.

Noah, a member of the Sault Ste. Marie Tribe of Chippewa Indians, called the business ISHPI, which means "to move forward" in the Chippewa language. The business supports U.S. counter-terrorism efforts through information operations and intelligence support services. Clients include the U.S. Central Command and the Department of Homeland Security.

In August 2007, ISHPI was accepted into the SBA's 8(a) Business Development program. Seven months later the company received \$261,000 in working capital through an SBA guaranteed loan under the Patriot Express loan program.

By 2009, federal funding cuts brought ISHPI's string of successes to a sudden standstill. Two major contracts were cancelled forcing Noah to lay off 30 employees. Realizing that his company's client acquisition methods were inadequate, he assembled a new senior management team focused on diversifying ISHPI's customer base. With its renewed sales focus, ISHPI was able to win enough contracts to increase its revenue by more than 18 percent in 2011. A year later, ISHPI had 109 employees in four locations nationwide. Revenues surpassed \$17 million, an increase of nearly 250 percent over 2011.

Noah Leask serves as the board chairman for the Tri-County Autism Puzzle Place Academy and is a member of the Lowcountry Special Olympics and Unified Athletics committees. He is the recipient of the SBA *2013 South Carolina Small Business Person of the Year award*.

SUCCESS STORY: Fast Growing Hispanic-owned Firm Develops Sophisticated Data Systems

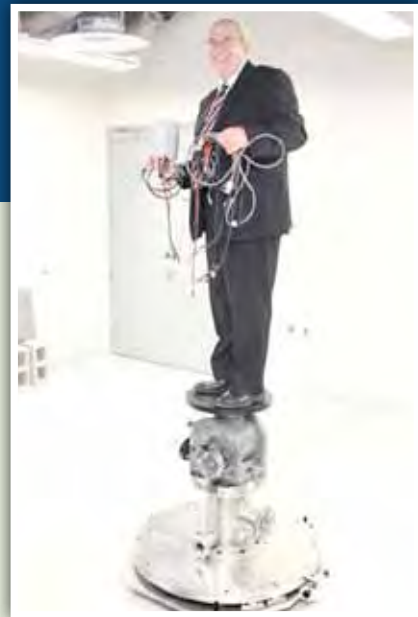
Applied Technology Associates,
Albuquerque, New Mexico

Anthony Tenorio is the Chairman and CEO of Applied Technology Associates (ATA), a company which supplies precision measurement, sensing and controls devices to commercial and government clients. Tenorio began his career at ATA in 1983, developing sophisticated data systems that supported U.S. Air Force research projects. Under his leadership as CEO and principal owner, ATA has become one of America’s fastest-growing Hispanic-owned small businesses.

In growing ATA, Tenorio took advantage of a number of SBA tools and resources including an SBA 504 loan and the SBA Small Business Innovation Research (SBIR) program. He is also a graduate of SBA’s 8(a) Business Development program which is designed to help small, disadvantaged businesses compete for federal contracts. In 2004, he was SBA’s Prime Contractor of the Year.

Tenorio graduated from Estancia High School and earned degrees from Eastern New Mexico University and the University of New Mexico. Among many civic contributions, he lent his expertise and leadership to the Estancia School Board for many years where he helped upgrade infrastructure and improve academic programs. During his tenure, both a new high school and a new elementary school were built.

Anthony Tenorio is the recipient of the SBA 2013 New Mexico Small Business Person of the Year award.



Appendices



SUCCESS STORY: Working to Create Jobs

NaugaNeedles LLC, Louisville, Kentucky



“I got a Ph.D. not to get a job but to create jobs,” said **Dr. Mehdi Yazdanpanah**, CEO and Founder of NaugaNeedles LLC, manufacturer of silver-gallium nanoneedles – tiny needle-like rods with about 1/1,000th of the thickness of a human hair. While pursuing his electrical engineering doctorate degree, Dr. Yazdanpanah inadvertently discovered how to grow nanoneedles using molten gallium droplets, silver metal film and an atomic force microscope.

Nanoneedles are used in biomedical applications, sensors and tools for semiconductor manufacturers.

With only \$500 in his checking account, Dr. Yazdanpanah trademarked the product and formed his company, NaugaNeedles, LLC in 2007. He used the funding he received from winning the prestigious Vogt Business Plan award to purchase an exclusive license to the technology and become operational in 2009.

Since 2009, NaugaNeedles has received SBA Small Business Innovation Research Phase I and Phase II grants, a Small Business Technology Transfer grant, and recently a SBA State Trade Export Promotion grant. The company has six full-time and four part-time employees and consultants with more than \$700,000 in revenues. NaugaNeedles holds two U.S. patents with seven patents pending and exports to more than 17 countries in North America, Europe and Asia.

Dr. Yazdanpanah is the SBA *2013 Kentucky Small Business Person of the Year*.

APPENDIX 1 - CONTACT SBA: USEFUL SITES AND NUMBERS

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

SBA INFORMATION	
About SBA	www.sba.gov/about-sba
SBA Direct	www.sba.gov/sba-direct
SBA Strategic Plan	www.sba.gov/AgencyStrategicPlan
SBA Performance, Budget & Planning	www.sba.gov/performance
SBA Program Inventory	www.sba.gov/sites/default/files/files/SBA%20Program%20Inventory.pdf
STARTING AND MANAGING A BUSINESS	
What is a Small Business?	www.sba.gov/content/am-i-small-business-concern
Thinking about starting a business?	http://www.sba.gov/thinking-about-starting/
Resources	
Local Assistance	www.sba.gov/local-assistance
Lender Resources	www.sba.gov/lender_resources
Financing Growth	www.sba.gov/content/financing-growth
Explore Exporting	www.sba.gov/exporting
Health Care	www.sba.gov/healthcare
LOANS and GRANTS	
Small Business Loans	www.sba.gov/financialassistance
Bonds	www.sba.gov/content/surety-bonds-explained www.sba.gov/content/tax-exempt-bonds
Grants	www.sba.gov/content/facts-about-government-grants
CONTRACTING	
Government Contracting	www.sba.gov/contracting
Contracting Opportunities	www.sba.gov/contracting-opportunities
Register as a Contractor	www.sam.gov
Size Standards	www.sba.gov/size
COUNSELING and TRAINING	
Online Training	www.sba.gov/training
SBDCs	www.sba.gov/sbdc
Women's Business Centers	www.sba.gov/content/womens-business-centers
SCORE Counselors	www.sba.gov/score
Veterans Outreach	www.sba.gov/content/veterans-business-outreach-centers

DISASTER ASSISTANCE	
Disaster Assistance	www.sba.gov/disaster
Disaster Area Office Locations	www.sba.gov/about-offices-list/4
Response Office Locations for a Declared Disaster	Go to www.sba.gov/content/current-disaster-declarations and then select the disaster/affected area in question
FEMA Information	www.fema.gov
ADDITIONAL RESOURCES	
Office of Advocacy	www.sba.gov/advocacy
Office of the National Ombudsman	www.sba.gov/ombudsman
Office of the Inspector General	www.sba.gov/oig

Facebook: www.facebook.com/sbagov


Twitter: www.twitter.com/sbagov

YouTube: www.youtube.com/sba

SBA National Answer Desk (Toll Free) (800) 827-5722

Disaster Customer Service Center (Toll Free) (800) 659-2955

**DID
YOU
KNOW**



The SBA and AARP continue a strategic alliance to provide counseling and training to **Encore Entrepreneurs over the age of 50** who want to start or grow a small business.

For information go to: www.sba.gov/encore.

APPENDIX 2 - GLOSSARY

(Available at: www.sba.gov/performance, FY 2013 Agency Financial Report)

504	504 Certified Development Loan Program Provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings and long-life capital equipment.	ARC	America's Recovery Capital Loan Program A temporary guaranty loan program authorized by the American Recovery and Reinvestment Act of 2009.
7(a)	7(a) Loan Guaranty Program SBA's primary loan program. It provides general loan financing for a wide variety of purposes.	BATF	Business Assistance Trust Fund A trust fund in the U.S. Treasury maintained to receive and account for donations made by private entities for activities to assist small business.
8(a)	8(a) Business Development Program Assists firms owned and controlled by socially and economically disadvantaged individuals to enter and succeed in the economic mainstream.	BD	Business Development The Office of Business Development uses SBA's statutory authority to provide business development and federal contract support to small disadvantaged firms.
7(m)	7(m) Microloan Program Provides small, short-term loans to small business concerns and certain types of not-for-profit child-care centers.	BLIF	Business Loan and Investment Fund Operated by the Treasury Department to maintain the accounting records of loans approved prior to 1992.
A-123	Designation for OMB Circular on Internal Control Systems. It prescribes policies and procedures to be followed by executive departments and agencies in establishing, maintaining, evaluating, improving and reporting on internal controls in their program and administrative activities.	CAPLine	Part of the SBA 7(a) loan program which helps small businesses meet their short-term and cyclical working capital needs.
AARP	Association for the Advancement of Retired Persons	CBJ	Congressional Budget Justification A federal agency's annual budget request to Congress.
AFR	Agency Financial Report, one of the annual PAR reports.	CDC	Certified Development Company Refers to the Section 504 Certified Development Company debenture program.
ANC	Alaska Native Corporation	CEAR	Certificate of Excellence in Accountability Reporting An award given by the Association of Government Accountants.
APR	Annual Performance Report Required by the Government Performance and Results Act, it presents a federal agency's progress in achieving the goals in its strategic plan and performance budget.	CFO	Chief Financial Officer The CFO is responsible for the financial leadership of the Agency, including responsibility for all Agency disbursements, management and coordination of Agency planning, budgeting, analysis and accountability processes.

CIO	Chief Information Officer The CIO is responsible for the management of information technology for the Agency, including the design, implementation and continuing successful operation(s) of information programs and initiatives.	FFMIA	Federal Financial Management Improvement Act A law that requires each agency to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the USSGL.
COBOL	A computer programming language designed for business applications.	FICA	Federal Insurance Contributions Act A law requiring a deduction from paychecks and income that goes toward the Social Security program and Medicare.
COOP	Continuity of Operations Plan A predetermined set of instructions or procedures that describes how an organization's essential functions will be sustained for up to 30 days following a disaster and then return to normal operations.	FISMA	Federal Information Security Management Act.
COTS	Commercial Off-The-Shelf Software or hardware products that are ready-made and available for sale to the public.	FMFIA	Federal Managers Financial Integrity Act A law that primarily requires ongoing evaluations and reports on the adequacy of the internal accounting and administrative control systems of executive agencies. It also requires evaluations and reports on the conformance of financial management systems.
CSAM	Cyber Security Assessment and Management	FTA	Fiscal Transfer Agent.
DCMS	Disaster Credit Management System The electronic system used to process loan applications for all new disaster declarations.	FTE	Full Time Equivalent Indicates the workload of an employed person; an FTE of 1.0 means that the person is equivalent to a full-time worker, while an FTE of 0.5 signals that the worker is only half-time.
DLF	Disaster Loan Fund Assists eligible small businesses impacted by disasters.	FY	Fiscal Year The federal government fiscal year begins October 1 and ends the following September 30.
FCRA	Federal Credit Reform Act A law enacted to provide a more realistic picture of the cost of U.S. government direct loans and loan guaranties.	GAO	U.S. Government Accountability Office The audit, evaluation and investigative arm of Congress.
FECA	Federal Employees' Compensation Act Provides compensation benefits to federal civilian employees for work-related injuries or illnesses and to their surviving dependents.	GC/BD	Office of Government Contracting and Business Development GC/BD works to create an environment for maximum participation by small, disadvantaged and women-owned business in federal government contract awards and large prime subcontract awards.
FERS	Federal Employees Retirement System A three-tiered retirement plan for federal employees hired after 1984, composed of Social Security benefits, a basic benefit plan, and contributions to a TSP.		

GSA	General Services Administration	LAS	Loan Accounting System SBA's loan origination servicing and disbursement system.
GWAC	Government-wide Acquisition Contract	LMAS	Loan Management and Accounting System Financial management system that supports loan accounting.
High-growth Small Business	Rapidly expanding small businesses that drive net new job growth. The SBA supports high-growth small businesses through its SBIR, SBIC and export programs, among others.	MAS	The GSA Multiple Award Schedule
HUBZone	Historically Underutilized Business Zone Program that encourages economic development by the establishment of federal contract award preferences for small businesses located in historically underutilized business zones.	MD&A	Management's Discussion and Analysis The MD&A is considered required supplementary information for federal financial statements and is designed to provide a high level overview of the Agency.
IDIQ	Indefinite-delivery indefinite-quantity	MRA	Master Reserve Account SBA's fiscal agent maintains this escrow fund to facilitate the operation of the Certified Development Company program.
IIP	Incremental Improvement Project	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.
IP	Internet Protocol	NAICS	North American Industry Classification System.
IPIA	Improper Payment Information Act A federal law enacted in 2002 to identify and reduce erroneous payments in the government's programs and activities.	NIST	National Institute of Standards and Technology An agency of the U.S. Department of Commerce.
IT	Information Technology Refers to matters concerned with the design, development, installation and implementation of information systems and applications.	OCA	Office of Capital Access The office responsible for small business loans, lender oversight and the surety bond program.
IV&V	Independent Validation and Verification An IV&V review executes independent procedures by a third party that are used for checking that a model, product, service or system meets requirements and specifications and that it fulfills its intended purpose. IV&V reviews of SBA's Office of Financial Analysis and Modeling financial models are conducted to assure that they are accurate and properly functioning.	OCFO	Office of the Chief Financial Officer.
JAAMS	Joint Administrative Accounting Management System.	OCRM	Office of Credit Risk Management SBA office that manages program credit risk, monitors lender performance, and enforces lending program requirements.
Jobs Act	Small Business Jobs Act of 2010 Most often referred to as the Jobs Act in SBA documents, may also be referred to as SBJA.	ODA	Office of Disaster Assistance SBA office that promotes economic recovery in disaster ravaged areas. SBA disaster loans are the primary form of federal assistance for non-farm, private sector disaster losses for individuals and businesses.

OFA	Office of Financial Assistance SBA office that administers various loan programs to assist small businesses.	QA	Quality Assurance Functions to assure that project deliverables meet SBA's requirements and quality standards.
OFAM	Office of Financial Analysis and Modeling An office in the SBA Office of Performance Management and Chief Financial Officer.	QAR	Quality Assurance Review.
OFPO	Office of Financial Program Operations.	SBA	U.S. Small Business Administration A federal agency of the Executive Branch whose mission is to aid, counsel and protect the interests of small businesses and help families and businesses recover from disasters.
OHRS	SBA Office of Human Resources Solutions.	SBAExpress	Provides selected lenders with a 50 percent guaranty on loans in exchange for the ability to primarily use their own application and documentation forms, making it easier and faster for lenders to provide small business loans of \$250,000 or less.
OIC	Office of Internal Control Part of the SBA Office of the Chief Financial Officer, has the lead in making sure managers can comply with internal control standards.	SBDC	Small Business Development Center Program Delivers 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.
OIG	Office of Inspector General Conducts and supervises audits, inspections and investigations relating to SBA programs and operations.	SBG	Surety Bond Guarantee Program Provides guaranties, bid, performance and payment bonds for contracts up to \$2 million for eligible small businesses that cannot obtain surety bonds through regular commercial channels.
OMB	U .S. Office of Management and Budget White House office that oversees preparation of the federal budget and supervises its administration in Executive Branch agencies.	SBGRF	Surety Bond Guaranty Revolving Fund All the contractor and surety fees collected by the SBA are deposited in the SBGRF at the Treasury Department, which is used to pay claims.
OPM	U.S. Office of Personnel Management The federal government's human resources agency.	SBIC	Small Business Investment Company Provides long-term loans, debt-equity investments and management assistance to small businesses, particularly during their growth stages.
ORACLE	The accounting program used by SBA's Administrative Accounting Division.	SBIR	Small Business Innovation Research SBA office that supports scientific excellence and technological innovation through the investment of federal research funds.
PAR	Performance and Accountability Report Annual report that presents financial, budgetary and performance information to OMB, Congress and the public.		
PCECGF	Pollution Control Equipment Contract Guaranty Fund Supports costs associated with the credit portfolio of pre-October 1991 pollution control equipment loans and guaranties being liquidated by the SBA.		
POA&M	Plan of Action and Milestones.		
PPS	Probability Proportional to Size.		

SBJA	Small Business Jobs Act of 2010 Most often referred to as the Jobs Act in SBA documents.	SPFI	Summary of Performance and Financial Information One of three annual financial and performance reports required of federal agencies.
SBLC	Small Business Lending Company Non-depository small business lending companies listed by the SBA Office of Capital Access.	STEP	References State Trade and Export Promotion program or grant.
SCORE	A volunteer organization sponsored by the SBA that offers counseling and training for small business owners who are starting, building or growing their businesses.	VAT	Vulnerability Assessment Team Performs monthly scans of network-attached devices to identify and remedy network vulnerabilities.
SDM	System Development Methodology A software development methodology or system development methodology in software engineering is a framework that is used to structure, plan, and control the process of developing an information system.	WBC	Women's Business Center WBCs provide long-term training and counseling to women owning or managing a business, including financial, management, marketing and technical assistance and procurement.
SOP	Standard Operating Procedure SOPs are the primary source of the Agency's internal control.		

DID YOU KNOW

The **Small Business Jobs Act of 2010** and the **National Defense Authorization Act of 2013** include over 30 provisions related to increasing small business access to federal contracting. Finalized rules allow set-asides under multiple-award contracts, review and revision of size standards, and removal of the dollar thresholds for women-owned small business set-asides, among many more.

APPENDIX 3 – OIG AUDIT FOLLOW-UP ACTIVITY

Throughout the year, the OIG conducts audits of the SBA’s processes, procedures and programs, and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on the SBA’s financial and administrative operation, but are beneficial to the SBA’s management. If SBA management disagrees with an OIG recommendation, the OIG may revise the recommendation or refer the issue to a higher level of SBA management. When both SBA management and the OIG agree on the recommendation, SBA management develops a corrective action plan, including a target date for completion. This recommendation is identified as having a “Management Decision.” When the corrective action plan is implemented and the recommendation has been fully addressed, the recommendation is identified as having a “Final Action.”

The OCFO maintains a database to track the recommendations through to the conclusion, or Final Action. During FY 2013, there were 119 Final Actions, resulting from 9 monetary and 110 non-monetary recommendations. The status of the corrective actions is updated regularly and is available for review on the SBA Intranet.

The following tables depict the SBA’s final action activity for FY 2013 and the status of corrective action plans not implemented within one year:

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

TABLE I FINAL ACTION ON AUDIT RECOMMENDATIONS WITH DISALLOWED OR QUESTIONED COSTS OCTOBER 1, 2012 – SEPTEMBER 30, 2013		
	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.	3	\$4,371
B. Recommendations on which management decisions were made during the period.	7	\$2,141
C. Total recommendations pending final action during period.	10	\$6,512
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	5	\$1,933
(b) Property		
(c) Other	1	\$1,022
2. Write-Offs	3	\$3,545
3. Total	9	\$6,500
E. Recommendations needing final action at the end of the period.	1	\$12

Table I - Detail of Final Action Activity

Disallowed / Questioned Costs

Report # ROM 10-19, Assessment of 7(a) Early-Defaulted and Early-Problem Recovery Act Loans

Summary: The audit objectives were to determine (1) whether early-defaulted or early problem 7(a) Recovery Act loans were originated and closed in accordance with SBA’s rules and regulations and commercially prudent lending standards, and (2) if not, whether the noncompliance with SBA requirements or commercially prudent lending standards led to the

loan problem, default, or unnecessary losses. The OIG identified \$3,990,640 in questioned costs. The audit recommended the Office of Capital Access flag loans not yet purchased to ensure that loan deficiencies are addressed at the time of the purchase review and advise the OIG of any denials, repairs, withdrawals or cancellations of SBA's guaranties made as a result of the deficiencies. The recovery was determined to be \$463,711.78.

Final Action: \$463,711.78 collected / \$3,526,928.22 written off

Report # ROM 11-05, Assessment of 7(a) Recovery Act Loans

Summary: The objective of the audit was to determine whether purchased 7(a) Recovery Act Loans were originated, closed, and purchased in accordance with the SBA's rules and regulations, and commercially prudent lending standards. The audit recommended the Agency recover funds on four purchased loans. The amounts for two loans were collected in a prior period; one was found not to warrant recovery; and the fourth was being disputed by the lender but was collected in full during this fiscal year.

Final Action: \$380,915.31 collected / \$0.00 written off

Report #11-16, Audit of Banco Popular's Assessment of Borrower's Repayment Ability.

Summary: The objective of the audit was to respond to a complaint that the lender did not adequately assess borrower repayment ability when originating Huntington Learning Center franchise loans. The audit recommended that the Office of Capital Access recover loan guaranties, less any recoveries, paid on ten defaulted loans and to improve data pertaining to new franchise loans. The recovery was determined to be \$1,074,225.

Final Action: \$1,074,225 collected / \$0.00 written off

Report # 12-12, Assessment of State Trade and Export Promotion (STEP) Program Grants

Summary: The audit discovered an award in the amount of \$1,022,781 was made to an ineligible recipient and this Advisory Memorandum was issued in order for immediate action to be taken. Funds had not been disbursed. In FY 2012, obligated funds were cancelled, thereby prohibiting future disbursements. All three recommendations for this audit include questioned costs of \$1,022,781, for the same award; two recommendations were resolved in FY2012 when the funds were de-obligated for the ineligible recipient; the third recommendation was resolved in FY2013 for the same amount when the grant funds were re-distributed to eligible recipients.

Final Action: \$0.00 collected / \$0.00 written off/\$1,022,781 Grant re-distribution

Report # 13-07, Assessment of 7(a) Guaranty Purchases Improper Payment Rate

Summary: The objective of the audit was to determine whether SBA accurately estimated its FY2011 Improper Payment Rate for 7(a) Loan Program purchases. The audit recommended recovery on six loans when it was determined that deficiencies were not noted at the time of purchase. Two were collected in full; the Office of General Counsel recommended SBA not seek recovery on two loans; and SBA is investigating the recovery of the two remaining loans.

Final Action: \$14,072 collected / \$17,744 written off

TABLE II FINAL ACTION ON AUDIT RECOMMENDATIONS WITH FUNDS PUT TO BETTER USE OCTOBER 1, 2012 – SEPTEMBER 30, 2013		
	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.	2	\$7,700
B. Recommendations on which management decisions were made during the period.	0	0
C. Total recommendations pending final action during period.	2	\$7,700
D. Recommendations on which final action was taken during the period..		
1. Value of recommendations implemented (completed).	1	\$5,200
2. Value of recommendations that management concluded should not or could not be implemented or completed.		
3. Total	1	\$5,200
E. Recommendations needing final action at the end of the period.	1	\$2,500

Table II - Detail of Final Action Activity

Funds for Better Use

Report # 12-08, Assessment of Lender Loan Reporting Process

Summary: The objective of the audit was to determine the adequacy of SBA’s controls and oversight over the development, security, and operation of certain information technology systems and processes performed by a contractor. The audit recommended that SBA research and correct loans that have not been reported by the lender for a significant length of time which could contribute to an estimated \$5.2 million subsidy overstatement. SBA reported improvements in lender loan reporting and stated that continued improvement will further reduce subsidy under/over statements in the future.

Final Action: \$5,200,000 implemented

Table III - Final Action on Audit Recommendations Not Completed Within 1 Year

October 1, 2012 – September 30, 2013

Report # 0-14, 7(a) Service Fee Collections

Program: OCFO

Date Issued: 03/30/2000

Management Decision Date: 08/22/2000

Explanation: The recommendation is to establish receivable accounts for 7(a) loan service fees. The purpose of this recommendation is to assure the collection of servicing fees on SBA guaranteed loans during the loan term. The new 7(a) fiscal agent contract in January 2014 will include provisions to require the monitoring and collection of these service fees. Once the new contract is fully operational it should achieve the purpose of this recommendation, and the service fee account receivable may not be necessary. As a result the anticipated completion date is now 9/30/14.

Report # 4-34, SBA’s Process for Complying With the FMFIA Reporting Requirements

Program: OCFO

Date Issued: 07/29/2004

Management Decision Date: 09/09/2004

Explanation: The two recommendations remaining open are to the Office of the Chief Financial Officer (OCFO) to revise, clear and issue the draft SOP 00 02 3 and clearly define material weakness as it relates to SBA and at the different

levels of management within the Agency. The current SOP was substantially rewritten in FY 2013; however, it was not completed due to the Office of Management and Budget's announcement that their guidance will be updated in FY 2014 to align with the GAO's new guidance in the Green Book. The anticipated completion date is 9/30/14, dependent on the issue date of OMB's new guidance.

Report # 6-10, SBA's FY 2005 Financial Statements Management Letter

Program: OCFO

Date Issued: 01/18/2006

Management Decision Date: 03/06/2006

Explanation: There is one open recommendation to the Office of the Chief Financial Officer to update the accounting SOP to include SBA's policies and procedures to reflect the GL accounts and data field updated for each transaction. The accounting pro forma on LAS transactions is available in "table format" in the CGL, but data field updates are not shown. SBA will work with OCA to develop this documentation through an automated process. Work on this project will not start until FY 2014 after the OCA/OCIO completion of the Loan Management and Accounting System project. This audit recommendation is expected to have a final action by 09/30/2014.

Report # 6-34, Policies and Procedures for the SBAExpress and CommunityExpress Loan Programs

Program: OCA

Date Issued: 09/29/2006

Management Decision Date: 09/30/2009

Explanation: There are two open recommendations to the Office of Capital Access (OCA). 1) Promulgate regulations to govern the SBAExpress Program to ensure the Agency has sufficient legal authority. 2) Promulgate regulations to exempt the SBAExpress Program from existing regulations that conflict with the SBAExpress Program Guide. SBAExpress guidance as a permanent program has been incorporated into the SOP 50-10 F. The SOP is the primary resource that lenders rely upon to operationalize SBA loan programs; and therefore, lenders are fully aware of the policies and procedures of the SBAExpress program.

Report # 8-12, Oversight of SBA Supervised Lenders

Program: OCA

Date Issued: 05/09/2008

Management Decision Date: 06/26/2008

Explanation: One recommendation remains open to the Office of Capital Access (OCA) to establish risk mitigation goals applicable to each loan program and the entire lending portfolio. OCA will develop program level performance benchmarks and risk mitigation goals for each 7(a) loan program and the entire 7(a) portfolio based on OCRM's PARRiS framework. The PARRiS assessment system is designed to measure the level of risk at the lender, program and portfolio level. The program and portfolio risk mitigation goals will focus on Performance, Asset management and Regulatory performance – utilizing the current metrics framework. Expected completion of this final action is 12/31/2014.

Report # 9-05, SBA's FY 2008 Financial Statements - Management Letter

Program: OFA

Date Issued: 12/17/2008

Management Decision Date: 02/18/2009

Explanation: The two open recommendations are to the Office of Financial Assistance to reinforce the importance of the collateral analysis in an updated SOP and ensure the revised Disaster Loan SOP identifies procedures related to the disposition of collateral. OFPO issued a collateral release memorandum to staff in June 2011 reinforcing this information. SOP 50 52 in final draft and is being prepared for Agency Clearance by the end of the calendar year. The final action due date for this recommendation is 12/31/13.

Report # 10-14, Audit of Quality Assurance Oversight of the Loan Management and Accounting System Project**Program:** ODM**Date Issued:** 09/13/2010**Management Decision Date:** 06/13/2011

Explanation: The remaining recommendation for this audit is to the Office of the Administrator to require the LMAS Quality Assurance plan to incorporate all the components required by the enterprise-wide QA plan. The ITQA SOP was updated and SBA has demonstrated significant progress in implementing a quality assurance process by conducting QA reviews. The expected final action is expected by September 2014.

Report # ROM 10-19, Audit of Early Defaulted and Early Problem Recovery Act Loans.**Program:** CA**Date Issued:** 09/24/2010**Management Decision Date:** 06/29/2011

Explanation: The remaining recommendation on this audit is to the Office of Capital Access to require the lenders have 25 purchased loans to bring the loans into compliance or recover the \$375,259 in paid guaranties. Twenty-four out of 25 loans have been resolved. The final loan is currently in the dispute resolution process and a decision is being reviewed by the Office of Financial Assistance to ensure policy compliance. Once the review is completed, a determination on the loan and potential repair will be instated.

Report #11-03, Audit of SBA's FY 2010 Financial Statements.**Program:** CIO**Date Issued:** 11/12/2010**Management Decision Date:** 06/01/2011

Explanation: The remaining open recommendation for this audit is to the Office of the Chief Information Officer to enforce an organization-wide configuration management process. Configuration Management policy was developed to incorporate enterprise change control. A centrally managed Agency-wide configuration management solution was identified for procurement. OCIOI is working with OIG to close this recommendation. Final action is estimated to be complete by 12/31/13.

Report #ROM 11-04, Audit of SBA's Recovery Act Data on Public Websites.**Program:** CFO**Date Issued:** 3/22/11**Management Decision Date:** 06/30/2012

Explanation: The six recommendations are to the Office of the Chief Financial Officer to determine if awards were made or funds should be de-obligated on 66 purchase requisitions; to perform routine reconciliation of executed awards to FPDS-NG.gov; to deploy an independent statistical verification and validation of all SBA transactions; to determine if Recovery Act funds were used to fund 13 contracts; to develop a data quality plan; and to monitor contractor reported information and prime contractor information for accuracy. The OCFO is researching data to resolve the contract funding issues and is developing procedures to ensure data accuracy in the future. The independent verification and validation of SBA transactions and the revision of the data quality plan have been implemented; follow-up with the OIG should close these issues. Final actions for all recommendations are estimated to be 9/30/14.

Report # 11-06, Audit of FY2010 Federal Information Security Management Act Review**Program:** CIO**Date Issued:** 01/28/2011**Management Decision Date:** 03/28/2011

Explanation: The eight recommendations are to the Office of the Chief Information officer to (1) require an updated list of Major Systems and their interfaces; (2) manage, control, and monitor system interconnections throughout their lifecycle; (3) develop configuration management policies and procedures; (4) develop and maintain a centralized inventory of

all Agency hardware and software; (5) develop and document baseline configuration for each information system; and (6) develop and test disaster recovery plans. Status for these recommendations include (1) A total count of all interconnections was completed and Interconnection Service Agreements (ISAs) for FISMA-reportable systems are being obtained. Estimated completion of the final action is 9/30/14. (2) SOP 90 47 3, published 10/10/12, requires system owners to manage system interconnections in accordance with NIST requirements. SBA personnel had one year to implement the requirements of the SOP. OCIO is working with the OIG to close this recommendation. The final action completion date is estimated to be 12/31/13. (3) Configuration Management policy is being developed to incorporate enterprise change control. The final action completion date is estimated to be 9/30/13. (4) An enterprise-wide asset management tool will be procured to centrally manage assets. The final action completion date is estimated to be 2/7/14. (5) A gap analysis was conducted to determine which applications need to have a baseline established. A project is underway to establish baselines for all systems agency hardware and software. Final action completion is estimated to be 9/30/14. (6) For externally hosted moderate impact and high-impact systems, disaster recovery tests were performed. There currently is no disaster recovery solution for internally-hosted systems and therefore only table top tests were performed. A solution is being identified to meet the disaster recovery tests per NIST requirements. The final completion date is estimated to be 9/30/14.

Report #11-07, Audit of Insurance Recovery Checks at the Disaster Loan Servicing Centers

Program: OFPO

Date Issued: 02/10/2011

Management Decision Date: 04/07/2011

Explanation: The recommendation is to the Office of Capital Access to revise the SOP to provide detailed instructions for processing insurance recovery checks. OFPO developed and issued a duplication and benefits logic tree and narrative to assist in the processing of insurance recovery checks. Additionally, SOP 50 52 in final draft and is being prepared for Agency Clearance by the end of the calendar year. The final action due date for this recommendation is 12/31/13.

Report #11-10, Management Advisory Report on the Records Management and Documentation Process at the Disaster Loan Servicing Centers.

Program: FPO

Date Issued: 03/29/2011

Management Decision Date: 06/20/2011

Explanation: The two recommendations are to the Office of Financial Programs to (1) develop record designation requirements for all loan servicing documents and incorporate the guidance into SOP 50 52 and (2) to revise the SOP to preserve the analyses performed to conduct all servicing actions. (1) Electronic recordkeeping guidelines internal desk document was developed and issued to center personnel in February 2012. Additionally, SOP 50 52 in final draft and is being prepared for Agency Clearance by the end of the calendar year. The final action due date for this recommendation is 12/31/13. (2) A memorandum was issued to staff and has been reinforced with training. Additionally, SOP 50 52 in final draft and is being prepared for Agency Clearance by the end of the calendar year. The final action due date for this recommendation is 12/31/13.

Report #11-11, Audit of SBA's Surveillance Review

Program: GC/BD

Date Issued: 03/31/2011

Management Decision Date: 07/08/2011

Explanation: The 12 recommendations are to the Office of Government Contracting and Business Development require development or update to policies and procedures to include selection criteria, an effective monitoring process, resource requests, instruction on completing checklist questions, monitoring the performance of work requirements and issuance surveillance review reports. Revisions to Chapter 4, How Do I Perform a Surveillance Review? Include 8(a) specific requirements, modification of rating categories, establishment of formal follow-up processes and update of interview questions. SOP 60 02 8, Prime Contracts Program, was signed by the Administrator on 9/27/13 and all recommendations were resolved on 10/31/13.

Report #11-14, Audit of Funding of Information Technology contracts Awarded to Isika Technologies, Inc.**Program:** CFO**Date Issued:** 06/02/2011**Management Decision Date:** 12/11/2011

Explanation: The two remaining recommendations are to the Office of the Chief Financial Officer and require a review of funding to ensure SBA did not violate the Anti-Deficiency Act during a Continuing Resolution in 2011 and a review of SBA's funding procedures. The OCFO is researching the funding issue to ensure funds were not inappropriately obligated and will review written policies and procedures to ensure work is performed in compliance with the FAR. Final action completion date is estimated to be 9/30/14.

Report #12-02, Audit of FY 2011 Financial Statement Audit**Program:** OCIO**Date Issued:** 11/14/11**Management Decision Date:** 12/22/2011

Explanation: The six open recommendations are to the Office of the Chief Information Officer and require (1) coordination with SBA program offices to enhance security vulnerability management processes; (2) prevent users from connecting unauthorized devices by implementing mandatory domain authentication for Internet Protocol address issuance; (3) ensure that information systems hosted by third parties comply with SBA policy and NIST guidance; (4) Oversee the review and validation of financial system accounts quarterly; (5) monitor the audit logs of all financial applications regularly; and (6) create, implement, and test system specific and the HQ COOP. Resolution activities include (1) OCIO hired contractors to assist in the security management process; estimated completion date is 9/30/14; (2) (3) The 802.1x solution has been fully implemented and the OCIO is working with the OIG to close this recommendation. Estimated completion date is 12/31/13. (4) Remediation activities are in process. Estimated completion date is 9/30/14. (5) A project is underway to implement a centralized audit logging tool. Procedures will be developed to periodically review system audit logs. Estimated completion date is 9/15/15. (6) Remediation activities are in process. Estimated completion date is 9/30/14.

Report #12-04, Audit of Annual Small Business Procurement Calculations**Program:** GC/BD**Date Issued:** 12/6/11**Management Decision Date:** None

Explanation: The four 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 overseas contracts in the small business goaling baseline; (2) finalization of the draft memorandum dated January 25, 2008, Exemptions from Goaling; revisions of the Goaling Guidelines based on OGC's final opinion on the exemptions of goaling; and (4) notification to GSA of any programming updates to the FPDS-NG resulting from changes to goaling guidance. In accordance with the National Defense Authorization Act of 2013, the Chief Counsel for Advocacy of the Small Business Administration shall conduct an independent assessment of the small business procurement goals established in section 15(g) of the Small Business Act. In addition, the Department of Defense is required to conduct an independent assessment of federal procurement contracting performance of the Department of Defense. Because of the direct potential impact that these two assessments would have on the Small Business Goaling Guidelines, GCBD will await their results before finalizing revisions to the Small Business Goaling Guidelines.

Report #12-08, Audit of Lender Loan Reporting Process**Program:** OCA**Date Issued:** 2/23/12**Management Decision Date:** 5/3/12

Explanation: The one remaining recommendation is to the Office of Capital Access and requires the collection of \$2.5 million in secondary market late penalty fees. A plan of action to request on delinquent accounts regarding secondary

market late fees is finalized, along with the use of guaranty purchase offset. This will be communicated to the applicable lenders no later than the November 2013 NAGGL conference. Full implementation of this plan of action is anticipated no later than 11/30/13.

Report #12-10, Audit of FY 2011 7(a) Loan Improper Payment

Program: OCA

Date Issued: 3/15/12

Management Decision Date: 5/15/12 and 9/26/12

Explanation: The two remaining recommendations are to the Office of Capital Access and require that (1) loan officers evaluate the creditworthiness of borrowers on early default loans during the purchase and improper payment review processes; and (2) OCA conduct a cost/benefit analysis for payment recapture audits of 7(a) purchases. For (1) OCA made improvements to the purchase checklist but OIG identified additional items. Estimated completion date is 1/31/14 to add these items. For (2) it was determined that implementing a recapture audit process would benefit the agency, therefore, OFPO will be incorporating a continuous IPERA review process to current Quality Improvement Program review process during FY2014, utilizing the center resources, especially those of the QIP team for the recapture audit function.

Report #12-11R, Audit of 7(a) Early Default Loans

Program: OCA

Date Issued: 3/23/12

Management Decision Date: 5/3/12 and 10/19/12

Explanation: The two remaining recommendations are to the Office of Capital Access and require that (1) a loan be reviewed for potential recovery of \$1,330,708 plus interest; and (2) trained loan specialists perform purchase reviews on early defaulted loans above the purchase amount of \$500,000. The loan in (1) is currently in review by portfolio management and undergoing the dispute resolution process. For (2) OFPO agreed to modify its process and will incorporate repayment ability guidance as indicated in the new issuance SOP 50-10 5F, effective January 1, 2014. The process modification will take place by January 31, 2014. Concurrently, OFPO will determine if the funds are for better use and provide the determination to OIG by March 31, 2014.

Report #12-13, Audit of FY 2011 Cash Gifts

Program: OGC

Date Issued: 3/30/12

Management Decision Date: 6/19/12

Explanation: The remaining recommendation is to the Office of General Counsel and recommends collaboration with the Offices of Strategic Alliances and the Chief Financial Officer to issue SOP 90.53. OIG recommends four specific inclusions to SBA's policies and procedures. The SOP was completed for review in November 2012; OGC is now evaluating the comments to ensure compliance with various laws and policies. Estimated completion date is 9/30/14.

Report #12-14, Audit of Disaster Loans in Liquidation

Program: OCA

Date Issued: 7/9/12

Management Decision Date: 9/25/12

Explanation: The four recommendations are to the Office of Capital Access and recommends that (1) specific actions be taken for loans over 180 days delinquent that are secured by collateral; (2) immediately charge-off loans over 180 days delinquent not secured by collateral; (3) Update SOP's to include Debt Collection Improvement Act and Treasury Managing Federal Receivables Guide requirements; and (4) provide training on DCIA and Treasury's guide. OCA is currently working with the Department of Treasury to develop a process for referring collateralized debt under a new Agency Profile that will allow SBA to maintain compromise authority. Training in DCIA has been provided and will be again, in addition to training provided by the Department of Treasury. Additionally, SOP 50 52, which provides DCIA guidance, is in its final draft form. Estimated completion is 12/31/13.

Report #12-15, Audit of FY 2011 Federal Information Security Management Act Review**Program:** OCIO**Date Issued:** 7/16/12**Management Decision Date:** 8/16/12

Explanation: The three remaining recommendations are to the Office of the Chief Information Officer and require (1) development of an overall strategy to implement OIG recommendations on FISMA security requirements; (2) perform recertification reviews of agency general support systems or design compensating controls; and (3) continuously monitor remote access audit logs for unauthorized activity. OCIO will (1) hold weekly meetings to prioritize and monitor remediation progress on OIG recommendations and provide a report to the CIO; (2) perform recertification reviews for users of the general support systems; and (3) implement a process to review VPN logs on an ongoing basis to timely identify and mitigate unauthorized activity. Estimated completion date is 9/30/14.

Report #12-16, Audit of Government Purchase Card for Construction Purchases**Program:** CFO**Date Issued:** 8/6/12**Management Decision Date:** 9/11/12

Explanation: The two recommendations are to the Office of the Chief Financial Officer and require that purchase cardholders have current delegation letters that reflect limitations and approving officials and that training be provided by OCFO on the proper use of government purchase cards to include the definition of construction. The OCFO has completed both actions and will work with the OIG to close these recommendations. Estimated completion date is 4/30/14.

Report #12-18, Audit of 7(a) Early Defaulted Loans**Program:** OCA**Date Issued:** 8/16/12**Management Decision Date:** 11/5/12

Explanation: The three recommendations are to the Office of Capital Access and require (1) revision of the purchase process to verify lender's compliance with SBA's repayment ability requirements; (2) training of purchase staff on repayment ability requirements; and (3) perform a cost/benefit analysis for detailed reviews of early defaulted loans of less than \$500,000. OFPO agreed to modify the process and incorporate repayment ability guidance as indicated in the SOP 50-10 5E, effective January 1, 2014. The estimated completion date is March 31, 2014. OFPO will also produce a determination on the funds for better use calculation developed by the OIG. In addition, staff is being trained with a completion date of 11/30/13. Further, a risk assessment is being performed with a completion date of 11/5/13.

Report #12-20R, Audit of High Risk Lenders**Program:** OCA**Date Issued:** 9/28/12**Management Decision Date:** 11/16/12

Explanation: The remaining recommendation is to the Office of Capital Access and requires development of a follow-up process to ensure lenders implement corrective actions. OCRM has been in continuous dialogue with the OIG and other stakeholders through the PARRiS/SMART risk assessment development. As such, the development and implementation of the Corrective Action follow-up process is underway with an anticipated final action delivery of 2/28/14.

Report #12-22, Audit of SBA's Ratification Process**Program:** OCFO**Date Issued:** 9/28/12**Management Decision Date:** 10/12/12

Explanation: The two recommendations are to the Office of the Chief Financial Officer and require that a review of previously ratified unauthorized commitments and remaining ratification actions for Anti-Deficiency Act violations. The OCFO reviewed the ratified commitments and confirmed that no Anti-Deficiency violations occurred. The OCFO is working with the OIG to close these recommendations. Anticipated completion date is 4/30/14.

ACKNOWLEDGMENTS

This Agency Financial Report was produced with the energies and talents of the SBA staff. To these individuals, the Office of Performance Management and the Chief Financial Officer would like to offer sincere thanks and acknowledgement.

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