

SBA's model varies 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 used as the basis for program performance assumptions is drawn primarily from data systems maintained by the SBA and its contractors. The historical data undergoes quality review and analysis prior to its use in developing model assumptions.

Key input to the subsidy models vary 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 guarantied loans by estimating an allowance for loan losses. This allowance is offset against gross loan receivables to obtain SBA's expected net collections from these assets. The SBA establishes a 100 percent allowance for pre-credit reform direct and defaulted guarantied loans that are past due more than 180 days.

A liability is also established for active pre-credit reform loan guaranties. The liability is estimated based on historical experience.

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## B. Credit Program Receivables and Related Foreclosure Property, Net

(Dollars in Thousands)

<b>AS OF SEPTEMBER 30, 2009</b>	<b>Pre-1992 Loans</b>	<b>Post-1991 Loans</b>	<b>Total</b>
<b>Direct Business Loans</b>			
Business Loans Receivable	\$ 22,865	\$ 111,870	\$ 134,735
Interest Receivable	1,945	1,196	3,141
Foreclosed Property	3,104	—	3,104
Allowance	(1,924)	(28,445)	(30,369)
<b>Total Direct Business Loans</b>	<b>25,990</b>	<b>84,621</b>	<b>110,611</b>
<b>Direct Disaster Loans</b>			
Disaster Loans Receivable	13,825	8,424,827	8,438,652
Interest Receivable	103	29,501	29,604
Foreclosed Property	—	933	933
Allowance	(980)	(1,597,336)	(1,598,316)
<b>Total Direct Disaster Loans</b>	<b>12,948</b>	<b>6,857,925</b>	<b>6,870,873</b>
<b>Defaulted Guaranteed Business Loans &amp; Other Loan Receivables</b>			
Defaulted Guaranteed Business Loans	53,790	5,744,177	5,797,967
Other Loans Receivable (see note below)	—	655,911	655,911
Interest Receivable	655	25,754	26,409
Foreclosed Property	3,270	34,374	37,644
Allowance	(28,984)	(4,341,935)	(4,370,919)
<b>Total Defaulted Guaranteed Business Loans &amp; Other Loan Receivables</b>	<b>28,731</b>	<b>2,118,281</b>	<b>2,147,012</b>
<b>Total Credit Program Receivables &amp; Related Foreclosed Property, Net</b>			<b>\$ 9,128,496</b>

<b>AS OF SEPTEMBER 30, 2008</b>	<b>Pre-1992 Loans</b>	<b>Post-1991 Loans</b>	<b>Total</b>
<b>Direct Business Loans</b>			
Business Loans Receivable	\$ 28,253	\$ 114,620	\$ 142,873
Interest Receivable	2,325	1,299	3,624
Foreclosed Property	3,104	—	3,104
Allowance	(1,741)	(26,378)	(28,119)
<b>Total Direct Business Loans</b>	<b>31,941</b>	<b>89,541</b>	<b>121,482</b>
<b>Direct Disaster Loans</b>			
Disaster Loans Receivable	16,595	8,609,972	8,626,567
Interest Receivable	121	35,649	35,770
Foreclosed Property	—	999	999
Allowance	(978)	(1,574,082)	(1,575,060)
<b>Total Direct Disaster Loans</b>	<b>15,738</b>	<b>7,072,538</b>	<b>7,088,276</b>
<b>Defaulted Guaranteed Business Loans &amp; Other Loan Receivables</b>			
Defaulted Guaranteed Business Loans	56,127	3,510,385	3,566,512
Other Loans Receivable (see note below)	—	627,007	627,007
Interest Receivable	458	14,453	14,911
Foreclosed Property	3,467	16,701	20,168
Allowance	(29,288)	(2,886,127)	(2,915,415)
<b>Total Defaulted Guaranteed Business Loans &amp; Other Loan Receivables</b>	<b>30,764</b>	<b>1,282,419</b>	<b>1,313,183</b>
<b>Total Credit Program Receivables &amp; Related Foreclosed Property, Net</b>			<b>\$ 8,522,941</b>

Note: Other Loan Receivables include 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

<b>New Loans Disbursed During the Year Ending September 30,</b>	<b>2009</b>	<b>2008</b>
Business Direct Loan Program	\$ 23,928	\$ 16,429
Disaster Loan Program	725,405	860,629
<b>Total Direct Loans Disbursed</b>	<b>\$ 749,333</b>	<b>\$ 877,058</b>
<b>Outstanding Loan Obligations as of September 30,</b>	<b>2009</b>	<b>2008</b>
Business Direct Loan Program	\$ 38,130	\$ 25,576
Disaster Loan Program	211,128	468,200
<b>Total Direct Loan Obligations</b>	<b>\$ 249,258</b>	<b>\$ 493,776</b>

### GUARANTIED LOANS

<b>New Loans Disbursed During the Year Ending September 30,</b>	<b>2009</b>	<b>2008</b>
Total Principal Disbursed at Face Value	\$ 12,728,017	\$ 18,152,218
Total Principal Disbursed Guaranteed by the SBA	10,665,284	14,685,373
<b>Outstanding Loan Obligations as of September 30,</b>	<b>2009</b>	<b>2008</b>
Business Guaranteed Loan Programs	\$ 9,717,347	\$ 11,335,863
<b>Loans Outstanding as of September 30,</b>	<b>2009</b>	<b>2008</b>
Total Principal Outstanding at Face Value	\$ 74,856,050	\$ 75,088,280
Total Principal Outstanding Guaranteed by the SBA	62,203,856	61,709,613

## D. Subsidy Cost Allowance Balances

(Dollars in Thousands)

<b>FOR THE YEARS ENDING SEPTEMBER 30,</b>	<b>2009</b>	<b>2008</b>
<b>Post-1991 Business Direct and Purchased Guaranteed Loans</b>		
<b>Beginning Balance of Allowance Account</b>	<b>\$ 2,912,506</b>	<b>\$ 3,246,479</b>
Current Year's Subsidy (see 6G for breakdown by component)	2,518	1,579
Loans Written Off	(1,486,461)	(1,420,426)
Subsidy Amortization	(2,028)	(2,521)
Allowance Related to Guaranteed Loans Purchased This Year	2,909,644	1,032,790
Miscellaneous Recoveries and Costs	29,531	42,351
Balance of Subsidy Allowance Account before Reestimates	4,365,710	2,900,252
Technical Assumptions/Default Reestimates	4,670	12,253
<b>Ending Balance of Allowance Account</b>	<b>\$ 4,370,380</b>	<b>\$ 2,912,505</b>
<b>Post-1991 Disaster Direct Loans</b>		
<b>Beginning Balance of Allowance Account</b>	<b>\$ 1,574,082</b>	<b>\$ 1,563,019</b>
Current Year's Subsidy (see 6G for breakdown by component)	111,638	141,716
Loans Written Off	(302,239)	(331,081)
Subsidy Amortization	(62,462)	(37,692)
Miscellaneous Recoveries and Costs	33,008	28,020
Balance of Subsidy Allowance Account before Reestimates	1,354,027	1,363,982
Technical Assumptions/Default Reestimates	243,309	210,100
<b>Ending Balance of Allowance Account</b>	<b>\$ 1,597,336</b>	<b>\$ 1,574,082</b>

## E. Loan Guaranty Liability Balances

(Dollars in Thousands)

FOR THE YEARS ENDING SEPTEMBER 30,	2009	2008
<b>Pre-1992 Business Loan Guaranties</b>		
<b>Beginning Balance of Liability for Loan Guaranties</b>	<b>\$ 816</b>	<b>\$ 1,113</b>
Adjustment to Expected Losses, Guaranties Outstanding	(7)	(297)
<b>Ending Balance of Liability for Loan Guaranties</b>	<b>809</b>	<b>816</b>
<b>Post-1991 Business Loan Guaranties</b>		
<b>Beginning Balance of Liability for Loan Guaranties</b>	<b>1,824,735</b>	<b>1,736,747</b>
Current Year's Subsidy (see 6G for breakdown by component)	98,459	3,270
Loan Modifications	13,216	—
Fees	402,711	654,399
Interest Accumulation Factor	(59,446)	(1,483)
Claim Payments to Lenders	(3,913,241)	(2,111,223)
Adjustment Due to Reestimate & Guaranteed Loan Purchases	1,003,597	1,078,433
Miscellaneous Recoveries and Costs	(61,040)	39,774
Balance of Liability for Loan Guaranties before Reestimates	(691,009)	1,399,917
Technical Assumptions/Default Reestimates	4,684,836	424,818
<b>Ending Balance of Liability for Loan Guaranties</b>	<b>3,993,827</b>	<b>1,824,735</b>
<b>Total Ending Balance of Liability for Loan Guaranties</b>	<b>\$ 3,994,636</b>	<b>\$ 1,825,551</b>

## F. 2009 Subsidy Rates By Program and Component

LOAN PROGRAMS	Total Subsidy	Financing	Default	Other	Fee
<b>Guaranty</b>					
7(a)	0.00%	0.00%	3.42%	0.00%	-3.42%
504 CDC	-0.07%	0.00%	1.79%	0.34%	-2.20%
SBIC Debenture	0.00%	0.00%	5.38%	0.03%	-5.41%
<b>Direct</b>					
Disaster	14.92%	12.43%	9.05%	-6.56%	0.00%
Microloan	11.66%	7.57%	0.37%	3.72%	0.00%
<b>ARRA</b>					
7(a) (gty)	3.10%	0.00%	4.68%	0.00%	-1.58%
504 CDC (gty)	2.14%	0.00%	1.81%	0.34%	-0.01%
ARC (gty)	75.77%	20.16%	55.61%	0.00%	0.00%
7(a) Floor Plan (gty)	0.20%	0.00%	0.28%	0.00%	-0.08%

The subsidy rates above 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 includes reestimates.

The 7(a) Dealer Floor Plan program is a revolving loan program in which borrowers may draw and repay against the approved loan amount several times over the loan term. Based on OMB guidance, the disbursements in the DFP program reflect this revolving activity and therefore, represent a multiple of the approved loan amount. The subsidy rate stated in the table is the “actual” modeled rate, which is subsidy dollars divided by the disbursement amount. However, for accounting purposes, the SBA also calculates an “execution” subsidy rate, which is applied to each approved DFP loan amount in SBA’s accounting system. The “execution” rate is 3.24 percent (Default 4.53 percent, Fee -1.30 percent), which is subsidy dollars divided by approved loan amount.

## G. Subsidy Expense by Component

(Dollars in Thousands)

FOR THE YEARS ENDING SEPTEMBER 30,	2009	2008
<b>Business Loan Guaranties</b>		
Interest	\$ 2,707	\$ —
Defaults	145,749	3,952
Fees	(52,746)	(679)
Other	2,749	(3)
Subsidy Expense Before Reestimates and Loan Modifications	98,459	3,270
Loan Modifications	13,216	—
Reestimates	4,684,836	424,817
<b>Total Guaranteed Business Loan Subsidy Expense</b>	<b>\$ 4,796,511</b>	<b>\$ 428,087</b>
<b>Business Direct Loans</b>		
Interest	\$ 1,966	\$ 1,414
Defaults	22	6
Other	530	159
Subsidy Expense Before Reestimates	2,518	1,579
Reestimates	4,670	12,253
<b>Total Business Direct Loan Subsidy Expense</b>	<b>\$ 7,188</b>	<b>\$ 13,832</b>
<b>Disaster Direct Loans</b>		
Interest	\$ 85,592	\$ 88,583
Defaults	68,446	84,837
Fees	—	(5)
Other	(42,400)	(31,699)
Subsidy Expense Before Reestimates	111,638	141,716
Reestimates	243,309	210,100
<b>Total Disaster Direct Loan Subsidy Expense</b>	<b>\$ 354,947</b>	<b>\$ 351,816</b>

## 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,	2009	2008
Disaster Direct Loan Programs	\$ 251,999	\$ 204,991
Business Loan Programs	138,601	135,796
<b>Total Administrative Expense</b>	<b>\$ 390,600</b>	<b>\$ 340,787</b>

## 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 2009 for all of 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 follows:

(Dollars in Thousands)

Guarantied Loan Program Subsidy Reestimates	2009	2008
7(a) Loan Guaranty	\$ 2,030,243	\$ 574,840
7(a) Star	17,924	7,273
504 CDC Debentures	1,565,784	484,921
SBIC Debentures	66,598	(158,402)
SBIC Participating Securities	960,151	(492,386)
Secondary Market Guaranty Program	(50,803)	10,196
All Other Guaranty Loan Programs	(2,730)	(1,625)
7(a) Loan Guaranty - ARRA	72,430	—
504 CDC Debentures - ARRA	25,239	—
<b>Total Guarantied Loan Program Subsidy Reestimates</b>	<b>\$ 4,684,836</b>	<b>\$ 424,817</b>

The 7(a) Loan Guaranty program, SBA's flagship and largest program, had the largest net upward reestimates for the guarantied business loan programs in FY 2009 at \$2,030.2 million. The 504 Certified Development Companies program had net upward reestimates of \$1,565.8 million. For both programs, the net upward reestimates were mostly due to the downturn in the economy that resulted in higher than projected purchases during FY 2009 and an increase in projected purchases for the remaining years within the cohorts.

The SBIC Debentures program had net upward reestimates of \$66.6 million. The reestimates were mostly due to lower than projected recoveries during FY 2009 and a decrease in projected recoveries for the remaining years within the cohorts.

The SBIC Participating Securities program had a net upward reestimate of \$960.2 million. The reestimates were mostly due to the downturn in the economy that resulted in lower than projected recoveries and higher than projected purchases during FY 2009 and an increase in projected purchases for the remaining years within the cohorts.

The Secondary Market Guaranty program had a net downward reestimate of \$50.8 million. This downward reestimate was due in part to the lower than projected interest rate paid to investors during FY 2009 and a decrease in the projected interest rate paid to investors for the remaining years within the cohorts.

The 7(a) ARRA and 504 ARRA programs had net upward reestimates of \$72.4 million and \$25.2 million respectively. These upward reestimates are mostly due to updated model and economic assumptions since the original budget estimates. The updated assumptions result in an increase in projected purchases for the remaining years within the cohorts.

#### BUSINESS DIRECT LOAN PROGRAMS

Net subsidy reestimates for business direct loan programs follows:

(Dollars in Thousands)

<b>Business Direct Loan Program Subsidy Reestimates</b>	<b>2009</b>	<b>2008</b>
7(m) Microloan	\$ 4,507	\$ 13,199
SBIC Preferred Stock	344	(944)
All Other Direct Loan Programs	(181)	(2)
<b>Total Direct Loan Program Subsidy Reestimates</b>	<b>\$ 4,670</b>	<b>\$ 12,253</b>

The 7(m) Direct Microloan program had net upward reestimates of \$4.5 million. These reestimates in large part are due to the 2008 cohort that was reestimated for the first time this year. The projected defaulted loans for the 2008 cohort are greater than the original budget estimates.

#### DISASTER DIRECT LOAN PROGRAM

Subsidy reestimates for Disaster direct loan programs follow:

(Dollars in Thousands)

<b>Disaster Direct Loan Program Subsidy Reestimates</b>	<b>2009</b>	<b>2008</b>
Disaster	\$ 231,117	\$ 208,430
World Trade Center Disaster	12,192	1,670
<b>Total Disaster Direct Loan Program Subsidy Reestimates</b>	<b>\$ 243,309</b>	<b>\$ 210,100</b>

The Disaster program had net upward reestimates of \$231.1 million primarily in the 2006 cohort that mostly consists of loans for the Gulf Coast hurricanes in 2005. Those loans currently account for about 55 percent of the outstanding portfolio of direct Disaster loans. The upward reestimates are primarily the result of performance probabilities being updated with actual performance during FY 2009 that resulted in an increase in projected defaults.

**NOTE 7. General Property and Equipment, Net**

Equipment with a cost of \$50,000 or more per unit and a useful life of 2 years or more is capitalized at full cost and depreciated using the straight-line method over the useful life. Other equipment items not meeting the capitalization criteria are expensed 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 initial unit acquisition cost is \$250,000 or more and service life is at least 2 years. Costs that do not meet the capitalization criteria are expensed when incurred.

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 system is put into operation. The costs of enhancements are capitalized when it is more likely than not that the enhancements will result in significant additional capabilities.

Assets meeting the capitalization thresholds established, at September 30, 2009 and 2008 are detailed below.

(Dollars in Thousands)

	2009	2008
Equipment	\$ 1,787	\$ 1,787
Accumulated Depreciation	(703)	(357)
Net	1,084	1,430
Leasehold Improvements - Construction in Progress	75	—
Leasehold Improvements	1,496	1,496
Amortization of Leasehold Improvements	(125)	—
Net	1,446	1,496
Software in Development	4,970	1,491
Software in Use	30,546	28,994
Amortization of Software in Use	(29,511)	(28,994)
Net	6,005	1,491
<b>Total General Property and Equipment, Net</b>	<b>\$ 8,535</b>	<b>\$ 4,417</b>

**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, 2009 and 2008 consisted of:



(Dollars in Thousands)

	2009	2008
<b>Intragovernmental Liabilities - Other</b>		
Employment Taxes Payable	\$ 2,870	\$ 4,117
Federal Employee Compensation Act Payable	5,843	6,005
<b>Total Intragovernmental Liabilities - Other</b>	<b>8,713</b>	<b>10,122</b>
<b>Federal Employee Compensation Act Actuarial Liability</b>	<b>29,640</b>	<b>27,061</b>
<b>Surety Bond Guarantee Program Future Claims</b>	<b>20,817</b>	<b>24,764</b>
<b>Other Liabilities</b>		
Prior Liens on Real Estate Payable	409	424
Accrued Unfunded Annual Leave	25,314	24,547
<b>Total Other Liabilities</b>	<b>25,723</b>	<b>24,971</b>
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 84,893</b>	<b>\$ 86,918</b>

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, 2009 and 2008 and resulting balances are:

## Intragovernmental Debt

(Dollars in Thousands)

<b>Department of Treasury</b>	<b>2009</b>	<b>2008</b>
<b>Beginning Balance</b>	<b>\$ 9,462,882</b>	<b>\$ 11,365,675</b>
New Borrowing	2,594,270	865,663
Repayments	(1,184,398)	(2,768,456)
<b>Ending Balance</b>	<b>\$ 10,872,754</b>	<b>\$ 9,462,882</b>
<b>Federal Financing Bank</b>	<b>2009</b>	<b>2008</b>
<b>Beginning Balance</b>	<b>\$ 10,345</b>	<b>\$ 17,513</b>
Repayments	(4,667)	(6,943)
Change in Interest Payable	(149)	(225)
<b>Ending Balance</b>	<b>\$ 5,529</b>	<b>\$ 10,345</b>
<b>Total Debt</b>	<b>\$ 10,878,283</b>	<b>\$ 9,473,227</b>

**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 liability 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,	2009	2008
Pollution Control Equipment Guaranty Fund	\$ 5,052	\$ 5,272
Disaster Loan Fund	18,489	24,419
Business Loan and Investment Fund	55,043	75,098
<b>Total Due Treasury</b>	<b>\$ 78,584</b>	<b>\$ 104,789</b>

**NOTE 11. Other Liabilities**

Other liabilities at September 30th were:

(Dollars in Thousands)

	2009	2008
<b>OTHER LIABILITIES - INTRAGOVERMENTAL</b>		
<b>Entity</b>		
<b>Current</b>		
Employment Taxes Payable	\$ 3,457	\$ 3,167
Advances from Other Agencies	3,580	5,823
<b>Total Current</b>	<b>7,037</b>	<b>8,990</b>
<b>Non-current</b>		
Employment Taxes Payable	2,870	4,117
Federal Employee Compensation Act Payable	5,843	6,005
Payable to Federal Financing Bank	305	435
<b>Total Non-current</b>	<b>9,018</b>	<b>10,557</b>
<b>Total Entity</b>	<b>16,055</b>	<b>19,547</b>
<b>Non-entity</b>		
<b>Current</b>		
Payable to Treasury	7	7
<b>Total Other Liabilities - Intragovernmental</b>	<b>\$ 16,062</b>	<b>\$ 19,554</b>
<b>OTHER LIABILITIES - PUBLIC</b>		
<b>Entity</b>		
<b>Current</b>		
Accrued Funded Payroll and Benefits	\$ 15,158	\$ 14,209
Accrued Unfunded Annual Leave	25,314	24,547
Suspense Accounts	327	454
<b>Total Current</b>	<b>40,799</b>	<b>39,210</b>
<b>Non-current</b>		
Prior Liens on Real Estate Payable	409	424
<b>Total Non-current</b>	<b>409</b>	<b>424</b>
<b>Total Entity</b>	<b>41,208</b>	<b>39,634</b>
<b>Non-entity</b>		
<b>Current</b>		
Non-entity Current Payable	4	4
<b>Total Other Liabilities - Public</b>	<b>\$ 41,212</b>	<b>\$ 39,638</b>

**NOTE 12. Leases**

The SBA leases all 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 2009 and 2008 facilities lease costs were \$42.7 million and \$41.5 million. Future lease payments shown below assume a 3 percent inflation factor from the following years' projected totals as estimated by GSA.

(Dollars in Thousands)

**FUTURE FACILITIES OPERATING LEASE PAYMENTS**

<b>FY</b>	<b>Lease Pmts</b>
2010	\$ 41,134
2011	42,369
2012	43,640
2013	44,949
2014	46,298
After 2014	51,353
<b>Total</b>	<b>\$ 269,743</b>

**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 held by the SBA is Fund Balance with the Treasury held in the Treasury general fund accounts specifically established for SBA's downward subsidy reestimates for its discretionary 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 guarantee 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 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 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)

	2009	2008
<b>Entity</b>		
Financing Fund Payable	\$ (64,875)	\$ (466,887)
<b>Non-entity</b>		
Miscellaneous Receipts Fund Receivable	64,875	466,887
Downward Reestimate Payable to Treasury	(64,875)	(466,887)
<b>Balance Sheet Reported Payable</b>	<b>\$ (64,875)</b>	<b>\$ (466,887)</b>

## 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 revenues arise from exchange transactions, and are deducted from the full cost of SBA's major strategic goals to arrive at net strategic goals costs. The SBA recognizes earned revenues 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 include: 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. The costs of Goal 4 "ensure that all SBA strategic goals operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services" are fully allocated to the other three strategic goals. Goal 4 costs are estimated at \$121.5 million and \$117.8 million for FY 2009 and FY 2008. 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.

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

The classification as Intragovernmental Costs or Gross Cost with the Public relate to source of the 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 transac-

tion 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.

(Dollars in Thousands)

#### INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUE

FOR THE YEARS ENDING SEPTEMBER 30

	2009	2008
<b>STRATEGIC GOAL 1:</b>		
<b>Expand America's Ownership Society, Particularly in Underserved Markets</b>		
Intragovernmental Gross Cost	\$ 237,923	\$ 161,121
Gross Cost with the Public	5,172,008	834,610
<b>Total Strategic Goal 1 Gross Cost</b>	<b>5,409,931</b>	<b>995,731</b>
Intragovernmental Earned Revenue	113,832	79,491
Earned Revenue from the Public	52,511	69,831
<b>Total Earned Revenue Strategic Goal 1</b>	<b>166,343</b>	<b>149,322</b>
<b>STRATEGIC GOAL 2:</b>		
<b>Provide Timely Financial Assistance to Homeowners, Renters, Nonprofit Organizations and Businesses Affected by Disaster</b>		
Intragovernmental Gross Cost	479,914	522,532
Gross Cost with the Public	601,318	530,498
<b>Total Strategic Goal 2 Gross Cost</b>	<b>1,081,232</b>	<b>1,053,030</b>
Intragovernmental Earned Revenue	74,732	128,459
Earned Revenue from the Public	331,172	339,709
<b>Total Earned Revenue Strategic Goal 2</b>	<b>405,904</b>	<b>468,168</b>
<b>STRATEGIC GOAL 3:</b>		
<b>Improve Economic Environment for Small Business</b>		
Intragovernmental Gross Cost	3,348	3,294
Gross Cost with the Public	11,158	10,820
<b>Total Strategic Goal 3 Gross Cost</b>	<b>14,506</b>	<b>14,114</b>
<b>Cost Not Assigned to Strategic Goals</b>		
Intragovernmental Gross Cost	14,375	27,991
Gross Cost with the Public	47,919	91,940
<b>Total Gross Cost Not Assigned to Strategic Goal</b>	<b>62,294</b>	<b>119,931</b>
<b>Net Cost of Operations</b>	<b>\$ 5,995,716</b>	<b>\$ 1,565,316</b>

#### 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, 2009 and 2008. SBA's total budgetary resources were \$5.0 billion and \$3.0 billion for the years ended September 30, 2009 and 2008. Additionally, \$7.4 billion and \$6.1 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, 2009 and 2008.

## Adjustments to Beginning Balance of Budgetary Resources

The SBA made no adjustments to the beginning budgetary resources during the years ended September 30, 2009 and 2008.

## 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 Public Debt when funds needed to disburse direct loans and purchase guaranteed loans exceed subsidy costs and collections in the non-budgetary loan financing funds. In FY 2009 and 2008, the SBA received \$3.5 billion and \$1.3 billion of borrowing authority from the OMB. 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 public in its loan financing funds to repay its 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 2009 and FY 2008, the SBA incurred \$9.6 billion and \$6.1 billion of direct and reimbursable obligations of which \$0.7 billion and \$0.6 billion was apportioned in category A; \$8.9 billion and \$5.5 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, 2009 and 2008 are \$2.7 billion and \$3.0 billion which include \$1.3 billion and \$1.6 billion of unavailable unobligated balances. These balances are unavailable primarily because they are unapportioned by OMB. The SBA accumulates the majority of these unobligated balances in its nonbudgetary financing accounts during the fiscal year (\$1.2 billion in FY 2009 and \$1.5 billion in FY 2008) from program collections that are used primarily to repay the Treasury borrowings in the following fiscal year. In addition, unobligated balances are accumulated in budgetary accounts from appropriations (\$1.5 billion in FY 2009 and \$1.4 billion in FY 2008) that are used to finance SBA's ongoing program operations.

## Undelivered Orders

Undelivered orders for the periods ended September 30, 2009 and 2008 were \$0.8 billion and \$0.8 billion.

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

There was a \$619 million difference between the FY 2008 Statement of Budgetary Resources and the President's FY 2010 budget submission in the Beginning Adjusted Unobligated Balance line of the business Guaranteed Loan Financing Fund. The SBA carried forward unused borrowing authority into FY2008 in this Fund. For FACTS II and MAX reporting, the SBA cancelled this unused borrowing authority and reclassified to the beginning unobligated balance line. For financial statement reporting the SBA cancelled this unused borrowing authority during FY 2008 and this action was treated as current year activity on the Permanently Not Available line on the SBR.

The President's Budget with actual numbers for FY 2011 has not yet been published. The SBA expects no material differences between the President's Budget "actual" column and the FY 2009 reported results when the budget becomes available in February 2010.

## **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

For the years ended September 30, 2009 and 2008

(Dollars in Thousands)

	2009	2008
<b>RESOURCES USED TO FINANCE ACTIVITIES</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$ 9,635,132	\$ 6,133,235
Less: Spending Authority from Offsetting Collections and Recoveries	4,946,652	4,333,868
Obligations Net of Offsetting Collections and Recoveries	4,688,480	1,799,367
Less: Offsetting Receipts	489,395	742,578
<b>Net Obligations</b>	<b>4,199,085</b>	<b>1,056,789</b>
<b>Other Resources</b>		
Imputed Financing	25,549	24,014
Other Financing Sources	(88,187)	(567,900)
<b>Net Other Resources Used to Finance Activities</b>	<b>(62,638)</b>	<b>(543,886)</b>
<b>Total Resources Used to Finance Activities</b>	<b>4,136,447</b>	<b>512,903</b>
<b>RESOURCES THAT DO NOT FINANCE NET COST OF OPERATIONS</b>		
(Increase) Decrease in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered But Not Yet Provided	193,832	561,903
Resources that Fund Expenses Recognized in Prior Periods	(1,313,301)	(518,200)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations		
Credit Program Collections	4,042,182	3,558,121
Offsetting Receipts	489,395	742,578
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	(6,189,101)	(4,621,804)
Other - Current Year Liquidating Equity Activity	863	4,502
Other Resources that Do Not Affect Net Cost of Operations	(100)	(399)
<b>Total Resources that Do Not Finance Net Cost of Operations</b>	<b>(2,776,230)</b>	<b>(273,299)</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>1,360,217</b>	<b>239,604</b>
<b>COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD</b>		
<b>Components Requiring or Generating Resources in Future Periods</b>		
Change in Annual Leave Liability	767	1,639
Upward Reestimates of Credit Subsidy Expense	4,637,148	1,316,143
Change in Revenue Receivable from Public	(3,623)	1,869
Provision for Losses on Estimated Guaranties	(3,947)	1,176
Change in Unfunded Employee Benefits	2,579	740
<b>Total Components Requiring or Generating Resources in Future Periods</b>	<b>4,632,924</b>	<b>1,321,567</b>
<b>Components Not Requiring or Generating Resources</b>		
Depreciation or Amortization	987	1,110
Change in Bad Debt Expense - Pre-1992 Loans	2,094	3,241
Other (Income) Expenses Not Requiring Budgetary Resources	(507)	(206)
<b>Total Components Not Requiring or Generating Resources</b>	<b>2,574</b>	<b>4,145</b>
<b>Total Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period</b>	<b>4,635,499</b>	<b>1,325,712</b>
<b>Net Cost of Operations</b>	<b>\$ 5,995,716</b>	<b>\$ 1,565,316</b>



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 table below details these differences:

*(Dollars in Thousands)*

<b>AS OF SEPTEMBER 30,</b>	<b>2009</b>	<b>2008</b>
Current Year Liabilities Not Covered By Budgetary Resources	\$ 84,893	\$ 86,918
Less: Prior Year	86,918	85,534
Change in Liabilities Not Covered By Budgetary Resources	(2,025)	1,384
Upward Reestimates of Credit Subsidy Expense	4,637,148	1,316,143
Change in Revenue Receivable from Public	(3,623)	1,869
All Other	1,424	2,171
<b>Components (of Net Cost) Generating Resources in Future Periods (Per Reconciliation Above)</b>	<b>\$ 4,632,924</b>	<b>\$ 1,321,567</b>

## NOTE 17. Significant Events

### Recovery Act

The American Recovery and Reinvestment Act was signed by the President on February 17, 2009. The Recovery Act provided \$730 million to the SBA to alleviate the effect of the current economic recession on American small business. These funds were allocated to SBA as follows:

- \$636 million for loan program credit subsidies
- \$45 million for administrative expense
- \$24 million for microloan technical assistance grants
- \$15 million for surety bond guaranty cost
- \$10 million for Inspector General oversight and audit

On March 16, 2009 the SBA implemented Sections 501 and 502 of the Recovery Act. Section 501 provided for the reduction or elimination of guaranty fees for 7(a) loan guaranties and for the payment by SBA of the 1.5 percent processing fee to 504 lenders previously due from 504 program borrowers. The SBA also implemented a small Dealer Floor Plan pilot program to make loans to retail dealerships including auto dealers that began in July 2009 and qualified for Section 501 provisions. Section 502 provided for the increase of the SBA guaranty percent on 7(a) guaranties to 90 percent. Loan program credit subsidies of \$375 million were provided for Section 501 and Section 502 for use by September 30,

2010. The SBA made Section 501 of the Recovery Act retroactive to February 17, 2009. As a result, the SBA rebated upfront 7(a) guaranty fees collected during the interim between February 17th and the implementation of Section 501. Also, the SBA paid the 1.5 percent processing fee on 504 loan guaranties approved beginning February 17, 2009. The \$13.2 million cost of the retroactive implementation of Section 501 was a “modification” under Federal Credit Reform requirements. The Recovery Act Sections 501 and 502 supported \$8.7 billion of guaranties, and increased bank participation in SBA programs during FY 2009.

On June 15, 2009 the SBA began taking applications for the America’s Recovery Capital Loan Program authorized by Section 506 of the Recovery Act. ARC Loans are made by participating 7(a) program lenders to borrowers that need short term help to make their principal and interest payments on existing qualifying loans. ARC Loans can cover up to six monthly installments (or a maximum of \$35,000) and no-interest deferred-payment loans, have no fees on them and are 100 percent guaranteed by the SBA. The SBA pays the borrower’s interest to the 7(a) lender based on reports provided retroactively by the lender. Loan program credit subsidies of \$255 million were provided in the Recovery Act for ARC Loans that can be approved until September 30, 2010. During FY 2009 \$94 million of ARC Loans were approved.

## Economic Conditions

The economic downturn continued in FY 2009 as indicated by lower GDP and increased unemployment. These macroeconomic factors had an impact on the FY 2009 performance of SBA’s loan portfolio. Purchases of defaulted guaranties increased 85 percent over FY 2008. Projections for future purchases are also higher primarily due to higher unemployment forecasts as indicated by the FY 2010 President’s Economic Assumptions. In fact, projected quarterly unemployment rates for FY 2010 are 88 percent higher (and 40 percent higher on average through FY 2018) in the current PEA as compared to this time last year. All of these factors combined caused the upward reestimate in SBA loan programs (as discussed in Note 61). Under the Federal Credit Reform Act, upward reestimates are automatically covered by permanent indefinite budget authority. Such authority provides the SBA resources to address losses incurred in its existing portfolio without further action by Congress.

The Recovery Act programs that were implemented in FY 2009 contributed to an increase in monthly lending activity. Nevertheless, it is too early to fully evaluate the ultimate impact of the economy and the Recovery Act programs on SBA’s portfolio risk and performance. There continues to be volatility and uncertainty in the financial markets and the Recovery Act programs are not yet seasoned enough to measure their ultimate performance.

*Did  
you  
know*

In FY 2009 85 percent of disaster assistance loans approved were for homeowners and renters to repair or replace disaster-damaged primary residences and personal property.

## Required Supplementary Information

## Combining Statement of Budgetary Resources

For the year ended September 30, 2009

(Dollars in Thousands)

	BLIF		DLF		SBGRF	PCECGF
	Budgetary	Nonbudgetary Financing	Budgetary	Nonbudgetary Financing	Budgetary	Budgetary
<b>BUDGETARY RESOURCES</b>						
Unobligated Balance						
Brought Forward October 1	\$ 29,458	\$ 678,312	\$ 1,217,311	\$ 868,753	\$ 30,371	\$ 3,220
Recoveries of Prior Year Obligations	467	1,221	35,538	219,431	—	—
Budget Authority						
Appropriations Received	2,292,609	—	189,159	—	17,000	3,000
Borrowing Authority	—	2,067,084	—	1,388,482	—	—
Spending Authority from Offsetting Collections						
Earned	10,652	2,745,872	5,113	1,296,311	8,048	195
Change in Unfilled Customer Orders	—	201,125	—	(44,114)	—	—
Total Budget Authority	2,303,261	5,014,081	194,272	2,640,679	25,048	3,195
Nonexpenditure Transfers, Net Budget Authority	—	—	—	—	—	—
Permanently Not Available	(25,847)	(84,521)	(9,934)	(1,961,180)	—	(3,220)
<b>Total Budgetary Resources</b>	<b>\$ 2,307,339</b>	<b>\$ 5,609,093</b>	<b>\$ 1,437,187</b>	<b>\$ 1,767,683</b>	<b>\$ 55,419</b>	<b>\$ 3,195</b>
<b>STATUS OF BUDGETARY RESOURCES</b>						
Obligations Incurred, Net						
Direct	\$ 1,832,115	\$ 5,053,057	\$ 290,413	\$ 1,128,408	\$ —	\$ —
Reimbursable	139,075	—	288,000	—	6,023	—
Total Obligations Incurred, Net	1,971,190	5,053,057	578,413	1,128,408	6,023	—
Unobligated Balances, Available	233,485	250,391	73,004	639,275	6,054	3,195
Unobligated Balances, Not Available	102,664	305,645	785,770	—	43,342	—
<b>Total Status of Budgetary Resources</b>	<b>\$ 2,307,339</b>	<b>\$ 5,609,093</b>	<b>\$ 1,437,187</b>	<b>\$ 1,767,683</b>	<b>\$ 55,419</b>	<b>\$ 3,195</b>
<b>CHANGE IN OBLIGATED BALANCES</b>						
Obligated Balance Brought Forward, Net October 1						
Unpaid Obligations Brought Forward	\$ 7,287	\$ 88,859	\$ 77,111	\$ 472,306	\$ 622	\$ —
Uncollected Customer Payments from Federal Sources Brought Forward	—	(2,778)	—	(76,085)	—	—
Total Obligated Balance Brought Forward, Net	7,287	86,081	77,111	396,221	622	—
Obligations Incurred	1,971,190	5,053,057	578,413	1,128,408	6,023	—
Gross Outlays	(1,771,524)	(4,965,735)	(587,343)	(1,166,309)	(6,627)	—
Recoveries of Prior Year Unpaid Obligations	(467)	(1,221)	(35,538)	(219,431)	—	—
Change in Uncollected Customer Payments from Federal Sources	—	(201,125)	—	44,114	—	—
Obligated Balance, Net, End of Period						
Unpaid Obligations	206,486	174,960	32,643	214,974	18	—
Uncollected Customer Payments from Federal Sources	—	(203,903)	—	(31,971)	—	—
<b>Total Obligated Balance, Net, End of Period</b>	<b>\$ 206,486</b>	<b>\$ (28,943)</b>	<b>\$ 32,643</b>	<b>\$ 183,003</b>	<b>\$ 18</b>	<b>\$ —</b>
<b>NET OUTLAYS</b>						
Gross Outlays	\$ 1,771,524	\$ 4,965,735	\$ 587,343	\$ 1,166,309	\$ 6,627	—
Offsetting Collections	(10,652)	(2,745,872)	(5,113)	(1,296,311)	(8,048)	(195)
Net Outlays Before Offsetting Receipts	1,760,872	2,219,863	582,230	(130,002)	(1,421)	(195)
Offsetting Receipts	—	(462,135)	—	(27,201)	—	—
<b>Net Outlays</b>	<b>\$ 1,760,872</b>	<b>\$ 1,757,728</b>	<b>\$ 582,230</b>	<b>\$ (157,203)</b>	<b>\$ (1,421)</b>	<b>\$ (195)</b>

## Combining Statement of Budgetary Resources

For the year ended September 30, 2009

(Dollars in Thousands)

	SE	OIG	BATF	TOTAL	TOTAL	
	Budgetary	Budgetary	Budgetary	Budgetary	Nonbudgetary Financing	Total
<b>BUDGETARY RESOURCES</b>						
Unobligated Balance						
Brought Forward October 1	\$ 141,833	\$ 7,287	\$ 274	\$ 1,429,754	\$ 1,547,065	\$ 2,976,819
Recoveries of Prior Year Obligations	28,404	228	2	64,639	220,652	285,291
Budget Authority						
Appropriations Received	521,550	26,750	—	3,050,068	—	3,050,068
Borrowing Authority	—	—	—	—	3,455,566	3,455,566
Spending Authority from Offsetting Collections						
Earned	404,738	641	25	429,412	4,042,183	4,471,595
Change in Unfilled Customer Orders	33,423	(668)	—	32,755	157,011	189,766
Total Budget Authority	959,711	26,723	25	3,512,235	7,654,760	11,166,995
Nonexpenditure Transfers, Net Budget Authority	2,953	—	—	2,953	—	2,953
Permanently Not Available	(10,232)	(69)	—	(49,302)	(2,045,701)	(2,095,003)
<b>Total Budgetary Resources</b>	<b>\$ 1,122,669</b>	<b>\$ 34,169</b>	<b>\$ 301</b>	<b>\$ 4,960,279</b>	<b>\$ 7,376,776</b>	<b>\$ 12,337,055</b>
<b>STATUS OF BUDGETARY RESOURCES</b>						
Obligations Incurred, Net						
Direct	\$ 461,659	\$ 18,520	\$ 38	\$ 2,602,745	\$ 6,181,465	\$ 8,784,210
Reimbursable	417,538	286	—	850,922	—	850,922
Total Obligations Incurred, Net	879,197	18,806	38	3,453,667	6,181,465	9,635,132
Unobligated Balances, Available	206,333	15,055	263	537,389	889,666	1,427,055
Unobligated Balances, Not Available	37,139	308	—	969,223	305,645	1,274,868
<b>Total Status of Budgetary Resources</b>	<b>\$ 1,122,669</b>	<b>\$ 34,169</b>	<b>\$ 301</b>	<b>\$ 4,960,279</b>	<b>\$ 7,376,776</b>	<b>\$ 12,337,055</b>
<b>CHANGE IN OBLIGATED BALANCES</b>						
Obligated Balance Brought Forward, Net October 1						
Unpaid Obligations Brought Forward	\$ 334,457	\$ 2,148	\$ 5	\$ 421,630	\$ 561,165	\$ 982,795
Uncollected Customer Payments from Federal Sources Brought Forward	—	—	—	—	(78,863)	(78,863)
Total Obligated Balance Brought Forward, Net	334,457	2,148	5	421,630	482,302	903,932
Obligations Incurred	879,197	18,806	38	3,453,667	6,181,465	9,635,132
Gross Outlays	(814,264)	(17,408)	(14)	(3,197,180)	(6,132,044)	(9,329,224)
Recoveries of Prior Year Unpaid Obligations	(28,404)	(228)	(2)	(64,639)	(220,652)	(285,291)
Change in Uncollected Customer Payments from Federal Sources	—	—	—	—	(157,011)	(157,011)
Obligated Balance, Net, End of Period						
Unpaid Obligations	370,986	3,318	27	613,478	389,934	1,003,412
Uncollected Customer Payments from Federal Sources	—	—	—	—	(235,874)	(235,874)
<b>Total Obligated Balance, Net, End of Period</b>	<b>\$ 370,986</b>	<b>\$ 3,318</b>	<b>\$ 27</b>	<b>\$ 613,478</b>	<b>\$ 154,060</b>	<b>\$ 767,538</b>
<b>NET OUTLAYS</b>						
Gross Outlays	\$ 814,264	\$ 17,408	\$ 14	\$ 3,197,180	\$ 6,132,044	\$ 9,329,224
Offsetting Collections	(438,161)	27	(25)	(462,167)	(4,042,183)	(4,504,350)
Net Outlays Before Offsetting Receipts	376,103	17,435	(11)	2,735,013	2,089,861	4,824,874
Offsetting Receipts	(59)	—	—	(59)	(489,336)	(489,395)
<b>Net Outlays</b>	<b>\$ 376,044</b>	<b>\$ 17,435</b>	<b>\$ (11)</b>	<b>\$ 2,734,954</b>	<b>\$ 1,600,525</b>	<b>\$ 4,335,479</b>

## Required Supplementary Stewardship Information

### Stewardship Investments in Human Capital for the Five Years Ending September 30, 2009

**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 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.

**SCORE** is a nonprofit organization which provides small business counseling and training under a grant from the SBA. SCORE members are successful business men and women who volunteer their time to assist aspiring entrepreneurs and small business owners. There are SCORE chapters in every state.

**Women's Business Centers** provide assistance to women business owners and acts as their advocate in the public and private sectors in a number of locations around the U.S.

**All Other Training and Assistance Programs** includes primarily 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 lasts for one or more hours and includes an agenda, attendee list, and a trainer evaluation. The session 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 Native American Outreach and Drug Free Work Place. As additional years of data accumulate, the investments will be presented separately.

Performance results are discussed in the Management Discussion and Analysis (MD&A) section of SBA's annual Agency Financial Report in the Programs results section of the Executive Summary.

Significant Human Capital investments occur within the following programs:

(Dollars in Thousands)

	2009	2008	2007	2006	2005
Small Business Development Centers	\$ 116,909	\$ 98,484	\$ 99,748	\$ 105,743	\$ 104,075
SCORE	9,899	10,960	12,267	15,285	18,669
Women's Business Centers	21,504	23,655	16,382	10,382	11,172
All Other Training and Assistance Programs	61,356	41,318	62,787	24,513	46,598
<b>Total</b>	<b>\$ 209,668</b>	<b>\$ 174,417</b>	<b>\$ 191,184</b>	<b>\$ 155,923</b>	<b>\$ 180,514</b>

U.S. Small Business Administration



*Your Small Business Resource*



# OFFICE OF THE INSPECTOR GENERAL REPORTS



## Summary of OIG Audit Follow-Up

### Summary

Throughout the year, the OIG conducts audits of SBA's processes, procedures and programs, and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on SBA's financial and administrative operation, but are very beneficial to management. Program management has the option to agree or disagree with OIG recommendations. If agreement cannot be reached, the issue can be raised to a higher level by the OIG. Once both management and the OIG agree with a recommendation, it becomes a "management decision." The manager develops a specific action plan and provides a target date for completion as part of the "management decision." The corrective action is referred to as a "final action."

The Office of the Chief Financial Officer is responsible for monitoring the final actions and reporting on their implementation. To track and

report these to management, the OCFO maintains a database and provides a status report available on the SBA intranet page. This is updated as corrective actions are completed. Program offices also provide regular updates on final action status that are used to update the database.

The OCFO continues to take aggressive steps to improve management's attention to these issues, resulting in 133 final actions during FY 2009. Of these final actions, 12 were monetary and 121 were non-monetary.

The following two charts depict SBA's monetary final action activity: audit recommendations with disallowed or questioned costs, and audit recommendations with funds put to better use. The status of all audit recommendations is reconciled with the OIG to ensure actions are posted promptly and accomplished in accordance with the agreed-upon target dates.

TABLE I

A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	7	\$ 7,429
C. Total recommendations pending final action during period.	17	\$ 9,269
1. Recoveries:		
(b) Property	0	\$ 0
2. Write-Offs	4	\$ 5,479
E. Recommendations needing final action at the end of the period.	6	\$ 2,509



TABLE II

<b>Final Action On Audit Recommendations With Funds Put To Better Use</b> October 1, 2008 – September 30, 2009		
	<b>Number of Recommendations</b>	<b>Funds to be Put to Better Use</b> (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	2	\$ 7,200
B. Recommendations on which management decisions were made during the period.	3	\$ 1,555,152
C. Total recommendations pending final action during period.	5	\$ 1,562,352
D. Recommendations on which final action was taken during the period.		
1. Value of recommendations implemented (completed).	1	\$ 12,700
2. Value of recommendations that management concluded should not or could not be implemented or completed.	0	\$ 0
3. Total	1	\$ 12,700
E. Recommendations needing final action at the end of the period.	4	\$ 1,549,652

### *Success Story*



#### **Recovery Loan Helps Hammer Thru Defeat** **ACE Hardware, Silver Lake, Washington**

Ace Hardware of Silver Lake, Washington opened its doors in July 2009 thanks to SBA's 7(a) loan program. Gary Skrla was laid off from his corporate job and headed to the SBA office in Seattle to discuss his business ideas with Ed Milan, a SCORE representative. After a few counseling sessions, he decided to follow his dream and open a hardware store. His past hardware industry experience helped him decide the ACE Hardware franchise would be a good fit.

Skrla took advantage of the new lending incentives of increased guarantees and reduced fees. He worked out the details in his loan application and received financing through Seattle-based Fortune Bank and the SBA 7(a) loan program. Lisa Forrest, vice president with Fortune Bank said, "Gary is a

perfect example of what can be done with an SBA loan. The Silver Lake area is growing and was ready for additional services; and the 20 jobs the new store will generate are welcome, too."

As part of the Recovery Act, the SBA temporarily eliminated fees paid by the borrowers in the 7(a) program. The bank decision to provide an SBA 7(a) loan for \$879,000 resulted in a savings of \$19,777 in waived fees. This helped to get the inventory needed and provided the working capital to have the store open on time. Hard work and perseverance paid off for Skrla. He did his research, knew the industry, hired experienced staff, and sought out business assistance.

U.S. SMALL BUSINESS ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL

**Report No. 10-02**

*Fiscal Year 2010 Report  
on the Most Serious Management and  
Performance Challenges Facing the  
Small Business Administration*

October 16, 2009



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

October 16, 2009

**MEMORANDUM**

**TO:** Karen G. Mills  
Administrator

**FROM:** Peggy E. Gustafson  
Inspector General

A handwritten signature in black ink, appearing to read "Peggy E. Gustafson".

**SUBJECT:** Fiscal Year 2010 Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General's (OIG) Fiscal Year (FY) 2010 Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration (SBA). 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 official reports, as well as our general knowledge of SBA's programs and operations. Our analysis generally considers those accomplishments that SBA reported as of September 30, 2009.

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 Some Progress; and Red for No Progress. An upwards arrow in the color box indicates that the color score improved over last year's report. 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, and 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 FYs (or as long as the Challenge has existed, if shorter) by showing the number of actions that have moved to Green each year.

This year's report contains two new Management Challenges dealing with (1) SBA's Loan Management and Accounting System (LMAS) project, and (2) improper payments

in the Disaster and 7(a) loan programs. Since these two Management Challenges are new, no color scores have been assigned; the Agency's progress in resolving them will be assessed during FY 2010 and color scores will be assigned in next year's report.

Following is a summary of the FY 2010 report on the Agency's Most Serious Management and Performance Challenges.

	Topic	Status Score				Improved <sup>1</sup>
		Green	Yellow	Orange	Red	
1	Small Business Contracts		2	1		1
2	IT Security		4			0
3	Human Capital		3			0
4	Loan Guaranty Purchase		1	1		0
5	Lender Oversight		2	4		0
6	8(a) BD Program	1	4			3
7	SBIC Program	2	2			2
8	Loan Agent Fraud			2		-- <sup>2</sup>
9	Loan Management and Accounting System					New
10	Improper Payments					New
	<b>TOTAL</b>	<b>3</b>	<b>18</b>	<b>8</b>	<b>0</b>	<b>6</b>

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

Attachment

<sup>1</sup> "Improved" refers to a recommended action that showed progress this year over last year's score (as denoted by an "up" arrow).

<sup>2</sup> Management Challenge 8, Loan Agent Fraud, was revised in FY 2009 to include two new recommended actions. Consequently, no color scores were shown for these two remaining recommended in last year's report against which to measure progress.

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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 SBA to successfully carry out its mission and become a high-performing organization.

Challenge 4. SBA needs better controls over loan purchase and liquidation processes.

Challenge 5. 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 clear and objective, and SBA ensures that firms follow 8(a) regulations when completing contracts.

Challenge 7. Insufficient and outdated SBA controls contribute to excessive risk of the SBIC program.

Challenge 8. Effective tracking and enforcement would reduce financial losses from loan agent fraud.

Challenge 9. SBA needs to modernize its Loan Accounting System and migrate it off the mainframe.

Challenge 10. SBA needs to accurately report, significantly reduce, and strengthen efforts to recover improper payments in the Disaster and 7(a) loan programs.

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.

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

Office of Inspector General (OIG) audits and other governmental studies have shown widespread misreporting by procuring agencies; many contract awards recorded as going to small firms have actually been performed by larger companies. While some contractors may misrepresent or erroneously calculate their size, most incorrect reporting results from errors made by government contracting personnel. Noted errors include acceptance of questionable size self-certifications and misapplication of small business contracting rules. Also, it is unclear whether contracting officers always review the on-line certifications that contractors enter into the governmental Online Representations and Certifications Application (ORCA) prior to awarding contracts. SBA needs to do more to ensure that contracting personnel are adequately trained on small business procurement procedures and are reviewing ORCA data prior to awarding contracts.

The Agency also needs to address a loophole within General Services Administration Multiple Awards Schedule (MAS) contracts that contain multiple 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 such a MAS contract.

While more remains to be done, SBA made some progress on this challenge as it: (1) developed a strategy for promoting and encouraging procurement officials to be trained on small business contracting procedures; (2) conducted surveillance reviews to assess whether procurement officials confirmed the small business size status prior to contract award, and (3) provided anomaly reports to Federal agencies procurement officials that identified potentially miscoded business size status for correction.

Challenge History Fiscal Year (FY) Issued: 2005	Actions Accomplished (Green Status) during Past 4 FYs			
	N/A	06-0	07-0	08-1
Remaining Recommended Actions for FY 2010				Status at end of FY 2009
1. Develop and take steps to provide reasonable assurance that agencies are providing adequate basic and continuing education training to contracting personnel on small business contracting procedures.				Yellow ↑
2. Develop and implement a program that promotes accurate contractor certifications and ensures that contracting personnel review contractor certifications.				Yellow
3. 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 # 4)				Orange

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

## Challenge 2. Weaknesses in information systems security controls pose significant risks to the Agency.

The confidentiality, integrity, and availability of SBA's information systems are vital to the continued successful operation of the Agency. While information technology (IT) can result in a number of benefits, such as information being processed more quickly and communicated almost instantaneously, it can also increase the risk of fraud, inappropriate disclosure of sensitive data, and disruption of critical operations and services. SBA's computer security program operates in a dynamic and highly decentralized environment and requires management attention and resources as weaknesses are identified.

SBA continued to improve information system security in several critical areas during FY 2009. The Agency established a vulnerability assessment team (VAT) which performs monthly scans of network attached devices to identify and remediate network vulnerabilities; implemented procedures for requesting and granting remote access and for sanitization of used media prior to disposal; made progress documenting LAS and DCMS configuration baselines and implementing segregation of duties controls in LAS; and developed guidance on how contractor access vulnerabilities should be reported in the Plan of Actions and Milestones (POA&M) and now requires documentation justifying removal of prior vulnerabilities from the POA&M. To show further progress, SBA needs to address both known and newly-reported information security issues. For example, SBA needs to implement a process to more timely mitigate system risks that are identified as "medium" and "high" and ensure that all security weaknesses identified in risk assessments as "high" are included in the POA&M; further implement enterprise-wide and application level change control controls for both emergency and normal system changes; and ensure that critical controls such as patch management are addressed in service level agreements with contractors and hosting sites.

Challenge History Fiscal Year (FY) Issued: 1999	Actions Accomplished (Green Status) during Past 4 FYs			
	05-2	06-2	07-2	08-2
Remaining Recommended Actions for FY 2010				Status at end of FY 2009
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.				Yellow
3. Segregation of duty controls are in place and operating effectively.				Yellow
4. The POA&M accurately reports all computer security weaknesses and corrective actions. (Previously action #5)				Yellow

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

### Challenge 3. Effective human capital strategies are needed to enable SBA to successfully carry out its mission and become a high-performing organization.

Between 2001 and 2006, SBA's staffing (excluding Disaster) decreased by more than 25 percent while virtually all of its programs grew significantly. For example, the number of loans made to small businesses doubled and the Agency's oversight responsibilities over government contracting to small businesses increased as the value of these Federal contracts rose by more than 50 percent. In response to budget constraints, SBA restructured key Agency operations, reengineered its largest loan programs, and downsized personnel through attrition and directed transfers. While these actions transformed the way SBA does business, the Agency did not adequately analyze priorities and allocate resources consistent with those priorities and its new business processes. As a result, there was no assurance that sufficient resources—in terms of both number of staff and the knowledge and skills possessed by staff—were available and appropriately deployed to perform critical functions. For example, audits showed that inadequate staffing of key functions resulted in limited oversight of lenders and inadequate monitoring of 8(a) program requirements.

The results of the 2002, 2004 and 2006 Federal Human Capital Surveys (FHCS) illustrated SBA's serious human capital challenges. For example, in 2006 SBA ranked near the bottom on all four human capital indices—Leadership and Knowledge Management, Results-Oriented Performance Culture, Talent Management, and Job Satisfaction. SBA's scores were particularly low related to the adequacy of job-related knowledge and skills, the reasonableness of workload, sufficiency of information needed to go a good job, and employee morale.

SBA was proactive in addressing the results of the 2006 FHCS. As a result, the 2008 survey showed significant improvement. For example, on the four indices identified above, SBA's rankings moved from 33rd to 22nd, 32nd to 26th, 35th to 31st, and 34th to 27th, respectively. In addition, the Partnership for Public Service, in its 2009 rankings of the best places to work in the Federal Government, recognized SBA as the most improved agency, although SBA still ranked 26 out of 30 large agencies. SBA has also focused considerable attention on improving workforce planning and employee development. Human capital management continues to be a significant challenge, however, requiring continued attention to ensure that qualified staff is available and appropriately allocated toward SBA's mission-critical functions and identified priorities.

Challenge History Fiscal Year (FY) Issued: 2001 (Revised 2007)	Actions Accomplished (Green Status) during Past 4 FYs			
	05-0	06-0	07-0	08-0
Remaining Recommended Actions for FY 2010				Status at end of FY 2009
1. Allocate appropriate staffing toward Agency priorities – perform an analysis of Agency priorities and develop, communicate, and implement a comprehensive plan (including responsibilities, metrics, and timeframes) for allocating appropriate staffing (in terms of staffing levels and requisite knowledge, skills, and abilities) toward those priorities.				Yellow
2. Take steps to correct problems identified by the Federal Human Capital Survey (FHCS) – develop, communicate, and implement a corrective action plan (including priorities, responsibilities, metrics, and timeframes) to address the underlying causes of SBA's poor results on the FHCS.				Yellow
3. Plan for the future of SBA – develop and implement an effective succession planning program to ensure that there is qualified staff available to perform SBA's mission-critical functions and meet identified priorities for the foreseeable future.				Yellow

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



#### Challenge 4. SBA needs better controls over loan purchase and liquidation processes.

The majority of loans under the 7(a) loan-guaranty program are made with little or no review by SBA prior to loan approval because SBA has delegated most of the credit decisions to lenders originating these loans. SBA's review of lender requests for guaranty purchases on defaulted loans is, therefore, the Agency's primary tool for assessing lender compliance on individual loans and protecting SBA from making erroneous purchase payments. Furthermore, as lenders are delegated the responsibility for servicing and liquidating SBA loans, SBA's liquidation process, including the comprehensive charge-off review, is the last opportunity to identify lender noncompliance. However, OIG audits of defaulted loans and SBA's guaranty purchase and liquidation processes have shown that reviews performed by the loan centers have not consistently detected failures by lenders to administer loans in full compliance with SBA requirements and prudent lending practices, resulting in improper payments.

SBA has taken actions to correct many of the deficiencies identified by the OIG. SBA reengineered the 7(a) loan guaranty purchase processes at the National Guaranty Purchase Center (NGPC) and the Little Rock and Fresno Service Centers to improve the efficiency and consistency of the process; increased staffing levels at the centers; developed a comprehensive operations manual for the NGPC; trained individuals responsible for making purchase decisions; and made significant progress in developing a quality assurance program. While improvements have been made, additional actions are needed to strengthen guaranty purchase and liquidation decisions to effectively reduce improper payments, such as implementing effective policies and procedures governing the guaranty purchase and liquidation processes and fully implementing the quality assurance program at the centers.

Challenge History Fiscal Year (FY) Issued: 2001	Actions Accomplished (Green Status) during Past 4 FYs			
	05-2	06-0	07-0	08-2
Remaining Recommended Actions for FY 2010				Status at end of FY 2009
1. Implement a Quality Assurance Program for all SBA loan centers. <i>(Previously action #3)</i>				Orange
2. Implement policies and procedures governing the guaranty purchase and liquidation processes to ensure lender compliance before honoring SBA loan guaranties. <i>(Previously action #4)</i>				Yellow
Green-Implemented Yellow-Substantial progress Orange-Limited Progress Red-No progress				

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

Since its inception in 1953, SBA has loaned or guaranteed billions of dollars to finance and spur investment in small businesses. Over the years, SBA has shifted from processing loans to overseeing lenders originate, service, and liquidate loans. This requires an effective oversight program to: (1) monitor lender compliance with SBA policies and procedures, and (2) take corrective actions when material noncompliance are detected.

The Agency has made substantial progress in its oversight of lenders in the 7(a) and 504 loan programs, reducing action items within this Management Challenge from 8 in FY 2006 to 3 in FY 2009. With authority to charge fees to cover the cost of on-site lender reviews, SBA expanded the scope of its oversight by more than doubling the number of on-site reviews of large high-risk lenders. It also issued a Lender Review Standard Operating Procedure (SOP) to guide the on-site review process and modified the Lender Risk Rating System to further strengthen lender risk assessments. In January 2009, SBA published an Interim Final Rule that outlined its policy on enforcement actions against nonperforming lenders. This rule identified the types of enforcement actions that could be exercised, grounds for enforcement action, and processes for implementing such actions. Subsequent to publishing the rule, the Agency drafted, but did not finalize, a Lender Enforcement SOP, which contains guidance for implementing enforcement actions. Finally, in FY 2009, SBA evaluated the sufficiency of over 180 corrective actions proposed by lenders and developed guidelines for establishing lender performance measures that will be incorporated into the Lender Enforcement SOP. The guidelines will assist the Office of Credit Risk Management (OCRM) in establishing lender performance goals and target dates for inclusion in lender corrective action plans.

To progress further, SBA will need to conduct agreed-upon-procedure reviews of medium-sized, high-risk lenders and ensure that its on-site reviews are based on statistically-valid samples of lender loan files. While OCRM has drafted agreed-upon-procedures for the reviews of medium-sized lenders and has developed possible statistical approaches for reviewing loan files, it has not finalized its plans in either area. SBA will also need to finalize the Lender Enforcement SOP so that it can establish performance measures in lender corrective action plans.

Challenge History Fiscal Year (FY) Issued: 2001	Actions Accomplished (Green Status) during Past 4 FYs			
	05-7(A)-0 05-504-3	06-7(a)-2 06-504-1	07-7(a)-0 07-504-1	08-7(a)-2 08-504-2
Remaining Recommended Actions for FY 2010				Status at end of FY 2009
				7(a)      504
1. Expand the scope of lender oversight and improve the process for reviewing lenders and Certified Development Companies (CDCs) for compliance risks. <i>(Previously action #2)</i>				Yellow      Yellow
2. Implement guidance providing for effective oversight of lending programs. <i>(Previously action #4)</i>				Orange      Orange
3. Ensure that effective corrective actions are implemented, monitored, and result in improvement in the performance of participants with unacceptable performance. <i>(Previously action #5)</i>				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 clear and objective, and SBA ensures that firms follow 8(a) regulations when completing contracts.**

The SBA 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 Agency has made considerable progress in addressing issues that challenge its ability to deliver an effective 8(a) program. The Office of Business Development has developed a Business Development Assessment Tool, as well as a plan to provide 8(a) firms with individualized business development assistance. In addition, the Office of Business Development has strengthened its policies and procedures and revised its regulations to ensure that companies that are “business successes” are graduated from the program. Further, the Agency has issued proposed regulations establishing objective standards to address the definition of “economic disadvantage,” and has addressed the need to identify the skills necessary for Business Development Specialists to adequately evaluate a company’s business plan and assess a participant’s competitive potential. The Agency needs to ensure that procuring agencies enforce contractors’ compliance with 8(a) BD program regulations and finalize regulations to complete the recommended actions.

Challenge History Fiscal Year (FY) Issued: 2003	Actions Accomplished (Green Status) during Past 4 FYs			
	05-0	06-1	07-1	08-1
Remaining Recommended Actions for FY 2010				Status at end of FY 2009
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.				Yellow ↑
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 criteria that reasonably measures “economic disadvantage” and implement the new criteria.				Yellow ↑
4. Provide sufficient financial and analytical training to business development specialists to enable them to evaluate a company’s business profile and competitive potential.				Green ↑
5. On a regular basis, conduct surveillance reviews of procuring agencies to ensure they are effectively monitoring and enforcing compliance with specified 8(a) BD regulations on the contracts they administer. (Previously action #6)				Yellow

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

### Challenge 7. Insufficient and outdated SBA controls contribute to excessive risk of the SBIC program.

The Small Business Investment Company (SBIC) program is designed to stimulate and supplement the flow of private equity capital and long-term debt to small business concerns. SBA uses both guaranteed debt (debentures) and equity interest (participating securities) to provide government-backed financing to SBICs. As of September 30, 2009, SBA had about \$8.2 billion of such financings at risk. From FY 1993 to FY 2004, program costs were about \$2 billion more than anticipated. Prior audits performed by the Government Accountability Office (GAO) and the OIG attributed the unanticipated costs to the structure of the program, the funding process, and the lack of focus on limiting costs when liquidating SBICs. The audits determined that: (1) the subsidy model underestimated the cost of the program; (2) SBA's profits were not proportional to its investments in the participating security SBICs; (3) insufficient incentives existed to encourage participating security SBICs to repay principal debt as quickly as possible; (4) SBA allowed too much time for financially troubled SBICs to attempt rehabilitation; (5) better performance goals and indicators were needed to show how well and how timely recoveries were maximized for liquidated SBICs; (6) SOPs for SBIC operations and liquidations were outdated; and (7) existing guidance did not provide a systemic approach for estimating the level of financial risk, implementing transfers to restrictive operation status, transferring capital-impaired SBICs to liquidation status, liquidating SBICs with participating securities, and monitoring the liquidation of SBIC receiverships.

From FY 2005 to FY 2009, however, the program has been self-sustaining, with fees covering all losses. SBA has also demonstrated that it transferred 30 of 33 SBICs into restrictive operations in a timely manner, that self-liquidation procedures for participating security SBICs were followed, and that effective monitoring of SBIC receiverships was accomplished through oversight reports and documented quarterly meetings with receivership personnel. These actions are sufficient to elevate to green the scores for two of the four remaining recommended actions for this Management Challenge.

To further reduce risk in the program, SBA needs to more timely transfer debenture funded SBICs into liquidation and implement performance goals and indicators that address the efficiency, cost-effectiveness, and timeliness of the SBIC liquidation process. An analysis of 12 debenture funded SBICs transferred into liquidation status between September 2007 and 2009 showed that the majority of these transfers were not timely; the OIG found that at least 7 were transferred into liquidation status 12 months or more after exceeding their maximum capital impairment percentage. Also, after establishing goals and performance indicators to evaluate the liquidation of SBICs, SBA must demonstrate their effectiveness.

Challenge History Fiscal Year (FY) Issued: 2004	Actions Accomplished (Green Status) during Past 4 FYs			
	05-0	06-1	07-1	08-1
Remaining Recommended Actions for FY 2010				Status at end of FY 2009
1. Develop systematic criteria and implement a timely approach for transferring SBICs to liquidation status.				Yellow
2. Incorporate into SOP 10 06 a requirement for the timely and consistent implementation of restrictive operations. <i>(Previously action #3)</i>				Green↑
3. Develop and implement performance goals and indicators that address the efficiency, cost-effectiveness, and timeliness of the SBIC liquidation process. <i>(Previously action #4)</i>				Yellow
4. Develop and implement procedures, to be included in a revised version of SOP 10 07 that address the liquidation of participating security SBICs and SBA monitoring of the liquidation of SBICs in receivership. <i>(Previously action #5)</i>				Green↑

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

### Challenge 8. Effective tracking and enforcement would reduce financial losses from loan agent fraud.

For years, OIG investigations have revealed a pattern of fraud in the 7(a) business loan guaranty program by loan packagers and other for-fee agents. Fraudulent schemes have involved hundreds of millions of dollars, yet SBA oversight of loan agents has been limited, putting taxpayer dollars at risk. The Agency could reduce this risk by establishing effective loan agent disclosure requirements, a database or equivalent means to track loan agent involvement with its loans, and a more effective agent enforcement program.

In response to this Management Challenge, SBA had proposed to revise its E-Tran system (which is designed to collect loan data electronically from participating lenders) to collect information on loan agent involvement. The Agency concluded, however, that this would not address the problem due to limitations in the E-Tran system and communication issues between lender personnel involved in loan decisions and those performing E-Tran data entry. In addition, many lenders were not using E-Tran. In late FY 2007, SBA proposed a new approach. The Agency intends to integrate the collection of data from the Form 159 (which asks for information about loan agents) into the Form 1502 process. The Form 1502 is an electronically-submitted report that lenders submit to SBA's Fiscal and Transfer Agent (FTA) to describe the status of all SBA-guaranteed loans in their portfolios. This method of capturing the data is superior to using the E-Tran system because: (1) the 1502 is first submitted after the initial loan disbursement, so a lender should be aware of and able to report on loan agent activity, and (2) the 1502 is submitted by all 7(a) lenders. Accordingly, in FY 2008, the OIG issued the revised recommended action #1 below. SBA made no progress on this action during FY 2008, in part due to a protest of the award of the FTA contract to what would have been a new vendor. At the end of FY 2009, SBA devised a succinct plan for implementing the 1502 approach.

In FY 2007, the Agency made progress by issuing its Lender Oversight SOP and by previously revising the guaranty purchase checklist (which lists the records that lenders need to provide when requesting SBA to pay a guaranty) to include the submission of the Form 159. However, the Agency also needs to establish a more effective enforcement program to deter fraudulent loan agent activity. As a first step, SBA issued for clearance at the end of FY 2009 a draft SOP revision with loan agent enforcement procedures.

Challenge History Fiscal Year (FY) Issued: 2000	Actions Accomplished (Green Status) during Past 4 FYs			
	05-0	06-0	07-1	08-1
Remaining Recommended Actions for FY 2010				Status at end of FY 2009
1. Develop an effective method of disclosing and tracking loan agent involvement in the SBA business loan programs.				Orange
2. Implement procedures for enforcement actions against loan agents for improper and fraudulent conduct. (Previously action #3)				Orange

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

### Challenge 9. SBA needs to modernize its Loan Accounting System and migrate it off the mainframe.

In November 2005, SBA initiated the Loan Management and Accounting System (LMAS) project, which is the latest in a series of attempts to update the Agency's Loan Accounting System (LAS) and migrate it off of the mainframe. With an estimated cost of over \$250 million, LMAS is SBA's largest IT project. When completed, it will increase functionality, reduce data entry redundancies, and allow real-time updates and inquiry of loan data. Previous OIG reports have stressed the urgency of replacing the current loan accounting system, which presents substantial risk to SBA. The system is dangerously close to the end of its expected useful life, relies on obsolete technology, contains major security vulnerabilities that cannot be addressed until the system is moved to a new operating platform, and is costly to operate.

Despite the cost and risks associated with the current system, SBA was unable to replace LAS prior to the expiration of the mainframe contract in February 2007, and subsequently extended the contract to 2012. SBA also revised its acquisition strategy in May 2008 from a requirements-based approach to one that relies on a provider to design a system that best meets SBA's business objectives. Consequently, the project is still in the planning phase. Additionally, recent OIG reports have raised concerns about how the project was being managed. The OIG reported that the project did not comply with SBA's System Development Methodology in key quality assurance and earned value management areas, which threatened SBA's ability to control LMAS costs and quality. The OIG also reported that SBA had not established either an enterprise-wide or project-level Quality Assurance (QA) function to ensure that project deliverables meet SBA's requirements and quality standards. Finally, the OIG reported that the project lacked a defined process for reviewing and accepting deliverables that complied with SBA's Systems Development Methodology.

Challenge History Fiscal Year (FY) Issued: 2010	Actions Accomplished (Green Status) during Past 4 FYs			
	N/A	N/A	N/A	N/A
Recommended Actions for FY 2010				Status at end of FY 2009
1. Migrate LAS to a new operating platform before the current mainframe contract expires in 2012.				New
2. Modify the LMAS QA/IV&V contract to require the contractor to report all findings and recommendations to the Program Manager <i>and</i> an independent QA manager.				New
3. Establish a process for reviewing and accepting LMAS deliverables that complies with SDM requirements.				New

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



**Challenge 10. SBA needs to accurately report, significantly reduce, and strengthen efforts to recover improper payments in the Disaster and 7(a) loan programs.**

Recent OIG audits of SBA's Disaster and 7(a) Loan Programs determined that the improper payment rates reported for these programs were significantly understated. SBA estimated that improper payments in the Disaster Loan Program were about \$4.5 million, or 0.55 percent of the \$819.7 million in loans approved in FY 2007, while the OIG reported that it was at least 46 percent, or approximately \$1.5 billion. SBA also reported that the improper payment rate for the 7(a) program was 0.53 percent of FY 2008 program outlays, although the OIG estimated the rate to be 27 percent, or approximately \$234 million. 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 both programs. Additionally, the Office of Financial Assistance inappropriately overturned improper payments identified by reviewers.

OIG audits in prior years have also identified high percentages of disaster and business loans that were made to borrowers who were ineligible, lacked repayment ability, or did not provide the required supporting documentation required for loan disbursement. In 2008, we reported that 63 percent of early defaulted Gulf Coast loans reviewed went to individuals who lacked repayment ability, and that half of the loans reviewed in another audit were disbursed without securing all the documentation needed to secure SBA's interest in the property. In 2009, we reported that over 30 percent of reviewed disaster loans were disbursed for properties that were not the applicant's primary residence. Further, audits in 2009 of SBA's post purchase and liquidation processes for 7(a) loans identified an estimated \$30 million in improper loan guaranty purchases. Finally, SBA has not aggressively pursued recovery of improper payments, recovering only about 1 percent of the improper payments identified during its FY 2007 and FY 2008 improper payment reviews.

Challenge History Fiscal Year (FY) Issued: 2010	Actions Accomplished (Green Status) during Past 4 FYs			
	N/A	N/A	N/A	N/A
Recommended Actions for FY 2010			Status at end of FY 2009	
			Disaster	7(a)
1. Ensure that processes used to calculate the improper payment rate for disaster and 7(a) loans are designed to identify all potential improper payments as defined by Office of Management and Budget (OMB) Circular A-123.			New	New
2. Reassign responsibility for final approval of disputed denial, repair, and improper payment decisions from the Office of Financial Assistance to the Office of Risk Management.			New	New
3. Develop a process to ensure that reviewers are properly trained to perform improper payment reviews.			New	New
4. Develop and implement corrective action plans to reduce improper payments in the 7(a) and Disaster Loan programs.			New	New
5. Establish a process and time standards to expeditiously recover improper payments identified during Agency reviews and OIG audits.			New	New

**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/ig/onlinelibrary/oigreports/index.html>*

### Challenge 1:

- SBA Advocacy, Analysis of Type of Business Coding for the Top 1,000 Contractors Receiving Small Business Awards in FY 2002, December 2004.
- The Center for Public Integrity, The Big Business of Small Business: Top defense contracting companies reap the benefits meant for small businesses, September 29, 2004.
- The Center for Public Integrity, The Pentagon's \$200 Million Shingle: Defense data shows billions in mistakes and mislabeled contracts, September 29, 2004.
- SBA OIG, Audit of SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders, Report #4-16, March 17, 2004, pp. 8-9.
- GAO, Contract Management: Reporting of Small Business Contract Awards Does Not Reflect Current Business Size, GAO-03-704T, 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. Armendariz, Associate Deputy Administrator, SBA, 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, May 7, 2003.
- SBA OIG, SBA Small Business Procurement Awards Are Not Always Going to Small Businesses, Report #5-14, February 24, 2005.
- SBA OIG, Review of Selected Small Business Procurements, Report #5-16, March 8, 2005.

### Challenge 2:

- SBA OIG, Review of Allegations Concerning How the LMAS Modernization Project is Being Managed, Report #9-17, July 30, 2009
- SBA OIG, System Access By Contractors Without Security Clearances, Report #9-07, January 26, 2009
- SBA OIG, SBA's FY2008 Financial Statements-Management Letter, Report #9-05, December 17, 2008
- SBA OIG, SBA's FY2008 Financial Statements, Report #9-03, November 14, 2008
- SBA OIG, SBA's Implementation of an HSPD-12 Card Issuance System, Report #9-01, October 6, 2008
- SBA OIG, Planning for the Loan Management and Accounting System Modernization and Development Effort, Report #8-13, May 14, 2008
- SBA OIG Audit of SBA's FY 2007 Financial Statements, Report #8-03, November 15, 2007.
- SBA OIG, Audit of Controls Over Access to Employee Emails by SBA Managers, Report #8-02, October 19, 2007.
- SBA OIG, Results of KPMG Vulnerability Assessment, Report #7-16, March 6, 2007.
- SBA OIG, FISMA Independent Evaluation for FY 2006, Report #7-14, February 9, 2007.
- SBA OIG, Memorandum Advisory Report on SBA's Protection of Sensitive Information, Report #7-13, February 9, 2007.
- Audit of SBA OIG, Audit of SBA's Financial Statements for FY 2006, Report #7-03, November 15, 2006.
- SBA OIG, FISMA Independent Evaluation for FY 2005, Report #6-01, October 7, 2005.
- SBA OIG, Memorandum Advisory Report on SBA Needs to Implement a Viable Solution to its Loan Accounting System Migration Problem, Report #5-29, September 30, 2005.



- SBA OIG, Audit of SBA's Information System Controls for FY 2004, Report #5-12, February 24, 2005.
- SBA OIG, Audit of SBA's Exchange Email System, Report #4-42, September 10, 2004.
- SBA OIG, Audit of Selected SBA General Support Computer Operating Systems, Report #4-41, September 10, 2004.
- SBA OIG, Audit of SBA's Information System Controls for FY 2003, Report #4-19, April 29, 2004.
- SBA OIG, Audit of SBA's Information System Controls for FY 2002, Report #3-20, March 31, 2003.

### Challenge 3:

- Partnership for Public Service, Best Places to Work in the Federal Government 2009, <http://data.bestplacetowork.org/bptw/index>
- OPM, 2008 Federal Human Capital Survey (FHCS), <http://www.fhcs.opm.gov/>
- GAO, Opportunities Exist to Build on Leadership's Efforts to Improve Agency Performance and Employee Morale, GAO-08-995, September 2008
- SBA 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, August 7, 2008
- SBA OIG, Audit of Two 8(a) Sole-Source Contracts Awarded to Contractors in SBA's Mentor Protégé Program, Report #7-19, March 30, 2007
- SBA OIG, Management Advisory Report on the Transfer of Operations to the National Guaranty Purchase Center, Report #4-39, August 31, 2004
- GAO, Small Business Administration: Progress Made, but Transformation Could Benefit from Practices Emphasizing Transparency and Communication, GAO-04-076, October 2003
- GAO, Results Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations, GAO-03-699, July 2003
- GAO, Small Business Administration: Workforce Transformation Plan is Evolving, GAO-02-931T, July 16, 2002
- SBA OIG, Modernizing Human Capital Management, Report #2-20, May 31, 2002
- GAO, Small Business Administration: Current Structure Presents Challenges for Service Delivery, GAO-02-17, October 2001
- GAO, Small Business Administration: Steps Taken to Better Manage its Human Capital, but More Needs to be Done, GAO/T-GGD/AIMD-00-256, July 20, 2000
- SBA OIG, A Framework for Considering the Centralization of SBA Functions, November 1996

### Challenge 4:

- SBA OIG, SBA's Management of the Backlog of Post-purchase Reviews at the National Guaranty Purchase Center, #9-18, August 25, 2009
- SBA OIG, , The Small Business Administration's Fiscal Year 2008 Improper Payment Rate for the 7(a) Guaranty Loan Program #9-16, July 10, 2009
- SBA OIG, Review of Key Unresolved OIG Audit Recommendations in Program Areas Funded by the American Recovery and Reinvestment Act and Related Activities Need to Safeguard Funds, #ROM 09-1, April 30, 2009
- SBA OIG, Audit of the Liquidation Process at the National Guaranty Purchase Center, #9-08, January 30, 2009
- SBA OIG, Audit of Six SBA Guaranteed Loans, #8-18, September 8, 2008
- SBA OIG, Audit of Loan Classifications and Overpayments on Secondary Market Loans, #8-09, March 26, 2008
- SBA OIG, Audit of UPS Capital Business Credit's Compliance with Selected 7(a) Lending Requirements, #8-08, March 21, 2008
- SBA OIG, Audit of the Guarantee Purchase Process for Section 7(a) Loans at the National Guaranty Purchase Center, Report #7-23, May 8, 2007
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-17, March 12, 2007
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-15, February 12, 2007

- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-10, January 16, 2007
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-09, January 9, 2007
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-07, December 29, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-06, December 28, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-05, December 20, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #7-02, October 23, 2006
- SBA OIG, Audit of Deficiencies in OFA's Purchase Review Process for Backlogged Loans, Report #6-35, September 29, 2006
- SBA OIG, Survey of the Quality Assurance Review Process, Report #6-26, July 12, 2006
- SBA OIG, Audit of SBA's Implementation of the Improper Payments Information Act, Report #6-25, June 21, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #6-22, May 17, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #6-17, March 20, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #6-16, March 20, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #6-14, March 2, 2006
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #5-26, September 28, 2005
- SBA OIG, Audit of an SBA Guaranteed Loan, Report #5-21, July 15, 2005
- SBA OIG, Management Advisory Report on the Transfer of Operations to the National Guaranty Purchase Center, Report #4-39, August 31, 2004
- SBA OIG, Audit of an Early Defaulted Loan, Report #4-38, August 24, 2004
- SBA OIG, Audit of an Early Defaulted Loan, Report #4-33, July 30, 2004
- SBA OIG, Audit of an Early Defaulted Loan, Report #4-28, July 9, 2004
- SBA OIG, Audit of an Early Defaulted Loan, Report #4-25, June 22, 2004
- SBA OIG, Audit of an Early Defaulted Loan, Report #4-06, January 8, 2004
- SBA OIG, Audit of an Early Defaulted Loan, Report #3-38, September 22, 2003
- SBA OIG, Audit of an Early Defaulted Loan, Report #3-30, June 19, 2003
- SBA OIG, Audit of an Early Defaulted Loan, Report #3-27, May 22, 2003
- SBA OIG, Audit of the Guaranty Purchase Process, Report #3-15, March 17, 2003
- SBA OIG, Audit of an Early Defaulted Loan, Report #3-07, January 23, 2003
- SBA OIG, Audit of an Early Defaulted Loan, Report #2-32, September 30, 2002
- SBA OIG, Audit of an Early Defaulted Loan, Report #2-30, September 24, 2002
- SBA OIG, Audit of an Early Defaulted Loan, Report #2-23, August 7, 2002
- SBA OIG, Audit of an Early Defaulted Loan, Report #2-15, March 29, 2002
- SBA OIG, Improvements are Needed in Small Business Lending Company Oversight Process, Report #2-12, March 21, 2002
- SBA OIG, Audit of an Early Defaulted Loan, Report #2-03, February 27, 2002
- SBA OIG, Audit of an Early Defaulted Loan, Report #2-05, February 27, 2002
- SBA OIG, Audit of an Early Defaulted Loan, Report #1-10, March 9, 2001
- GAO, Major Management Challenges and Program Risks, GAO-01-260, January 2001
- SBA OIG, Audit of an Early Defaulted Loan, Report #0-10, April 23, 2000
- SBA OIG, Audit of an Early Defaulted Loan, Report #0-12, March 28, 2000
- SBA OIG, Audit of an Early Defaulted Loan, Report #0-05, February 14, 2000

#### Challenge 5:

- SBA OIG, SBA's Oversight of SBA Supervised Lenders, Report #8-12, May 9, 2008
- SBA OIG, UPS Capital Compliance with Selected 7(a) Lending Requirements, Report #8-08, March 21, 2008
- GAO, Small Business Administration: Additional Measures Needed to Assess 7(a) Loan Program's Performance, GAO-07-769, July 13, 2007
- SBA OIG, SBA's Oversight of Business Loan Center, LLC, Report #7-28, July 11, 2007.
- SBA OIG, SBA's Use of the Loan and Lender Monitoring System, Report #7-21, May 2, 2007.

- SBA OIG, Audit of the Office of Lender Oversight Corrective Action Process, Report #7-18, March 14, 2007.
- GAO, Small Business Administration: Improvements Made, But Loan Programs Face Ongoing Management Challenges, GAO-06-605T, April 6, 2006
- SBA OIG, SBA's Administration of the Supplemental Terrorist Activity Relief (STAR) Loan Program, Report #6-09, December 23, 2005
- GAO, Small Business Administration: New Service for Lender Oversight Reflects Some Best Practices, But Strategy for Use Lags Behind, GAO-04-610, June 8, 2004
- GAO, Continued Improvements Needed in Lender Oversight, Report #03-90, December 2002
- SBA OIG, Impact of Loan Splitting on Borrowers and SBA, Advisory Memorandum Report #2-31, September 30, 2002
- SBA OIG, Improvements needed in SBLC Oversight, Advisory Memorandum Report, #2-12, March 20, 2002
- SBA OIG, Preferred Lender Oversight Program, Report #1-19, September 27, 2001
- SBA OIG, SBA Follow-up on SBLC Examinations, Report #1-16, August 17, 2001

#### Challenge 6:

- SBA OIG, Audit of Two 8(a) Sole –Source Contracts Awarded to Contractors in SBA's Mentor Protégé Program, Report #7-19, March 30, 2007.
- SBA OIG, Audit of Monitoring Compliance with 8(a) Business Development Regulations During 8(a) Business Development Contract Performance, Report #6-15, March 16, 2006.
- SBA OIG, Business Development Provided by SBA's 8(a) Business Development Program, Report #4-22, June 2, 2004.
- SBA OIG, SACS/MEDCOR: Ineffective and Inefficient, Report #4-15, March 9, 2004.
- SBA OIG, Section 8(a) Program Continuing Eligibility Reviews, Report #4-3-H-006-021, September 30, 1994

#### Challenge 7:

- SBA OIG, Audit of SBIC Liquidations Process, Report #5-22, July 28, 2005
- SBA OIG, The SBIC Program: At Risk for Significant Losses, Report #4-21, May 24, 2004
- OMB, Small Business Administration: PART Assessment on the SBIC Program, February 2, 2004
- SBA OIG, FY 2003 Financial Statement Audit in the SBA FY 2003 Performance and Accountability Report, January 30, 2004, pp. 230-60
- SBA OIG, Audit of SBIC Oversight, Report #3-33, July 1, 2003
- GAO, Small Business: Update on SBA's Small Business Investment Company Program, GAO/RCED-97-55, February 1997
- GAO, Small Business Administration: SBA Monitoring Problems Identified in Case Studies of 12 SBICs and SSBICs, GAO/OSI-96-3, April 1996
- GAO, Small Business Administration: Better Oversight of SBIC Programs Could Reduce Federal Losses, GAO/T-RCED-95-285, September 28, 1995
- GAO, Small Business Administration: Inadequate Oversight of Capital Management Services, Inc.-An SSBIC, GAO/T-OSI-95-19, August 7, 1995
- GAO, Small Business Administration: Prohibited Practices and Inadequate Oversight in SBIC and SSBIC Programs, GAO/OSI-95-16, May 28, 1995
- GAO, Small Business Administration: Inadequate Oversight of Capital Management Services, Inc.-An SSBIC, GAO/OSI-94-23, March 1994
- SBA OIG, Audit Report on the Small Business Investment Company (SBIC) Liquidation Function, Report #3-2-E-004-031, March 31, 1993

**Challenge 8:**

- SBA OIG, Applicant Character Verification in SBA's Business Loan Program, Report #3-43, April 5, 2001
- SBA OIG, Summary Audit of Section 7(a) Loan Processing, Report #0-03, January 11, 2000
- SBA OIG, Loan Agents and the Section 7(a) Program, Report #98-03-01, March 31, 1998
- SBA OIG, Fraud Detection in SBA Programs, Report #97-11-01, November 24, 1997
- SBA OIG, Operation Cleansweep Memorandum, August 21, 1996

**Challenge 9:**

- SBA OIG, Review of Allegations Concerning How the Loan Management and Accounting System Modernization Project is Being Managed, Report #9-17 July 30, 2009
- SBA OIG, Planning for the Loan Management and Accounting System Modernization and Development Effort, Report #8-13, May 14, 2008
- SBA OIG, SBA Needs to Implement a Viable Solution to its Loan Accounting System Migration Problem, Report #5-29, September 20, 2005
- GAO, Information Technology: Agencies Need to Improve the Accuracy and Reliability of Investment Information, GAO-06-250, January 12, 2006.
- GAO, Major Management Challenges and Program Risks: Small Business Administration, GAO-03-116, January 1, 2003
- GAO, SBA Loan Monitoring System: Substantial Progress Yet Key Risks and Challenges Remain, Testimony of Joel C. Willemssen, Director, Civil Agencies Information Systems Accounting and Information Management Division, Before the Subcommittee on Government Programs Statement Committee on Small Business, House of Representatives, GAO/T-AIMD-00-113, February 29, 2000
- GAO, SBA Needs to Establish Policies and Procedures for Key IT Processes, Accounting and Information Management Division, GAO/AIMD-00-170, May 31, 2000

**Challenge 10:**

- SBA OIG, SBA's Management of the Backlog of Post-Purchase Reviews at the National Guaranty Purchase Center, Report #9-18, August 25, 2009
- SBA OIG, The Small Business Administration's Fiscal Year 2008 Improper Payment Rate for the 7(a) Guaranty Loan Program, Report #9-16, July 10, 2009
- SBA OIG, Audit of Borrower Eligibility for Gulf Coast Disaster Loans, Report #9-09, March 31, 2009
- SBA OIG, The Small Business Administration's Fiscal Year 2007 Improper Payment Rate for the Disaster Loan Program, Report #9-10, March 26, 2009
- SBA OIG, Audit of the Liquidation Process at the National Guaranty Purchase Center, Report #9-08, January 30, 2009
- SBA OIG, The Use of Proceeds From Gulf Coast Disaster Loans, Report #9-06, January 15, 2009
- SBA OIG, Disaster Loss Verification Process, Report #8-15, June 17, 2008
- SBA OIG, Review of the Adequacy of Supporting Documentation for Disbursements, Report #8-07, January 29, 2008
- SBA OIG, The Quality of Loans Processed Under the Expedited Disaster Loan Program, Report #7-34, September 28, 2007
- SBA OIG, SBA's Quality Assurance Reviews of Loss Verifications, Report #7-29, July 23, 2007
- SBA OIG, Securing Collateral for Disaster Loan Disbursements, Report #7-22, May 9, 2007

## Agency Response to the OIG Report on Management and Performance Challenges



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

November 9, 2009

TO: Peggy E. Gustafson  
Inspector General

FROM: Eileen Harrington  
Chief Operating Officer

SUBJECT: FY 2010 OIG-Identified Major Management Challenges

On October 16, 2009, the OIG provided to the Administrator its report, entitled: "FY 2010 Report on the Most Serious Management and Performance Challenges Facing the Small Business Administration." The Challenge Report, which is published in the Agency's Annual Financial Report (AFR), provides a current assessment of major Agency management challenges that pose significant risks, including those that are particularly vulnerable to fraud, waste, error, mismanagement or inefficiencies. In FY 2009, SBA made progress on eight major challenges; for FY 2010, the OIG identified three new challenges dealing with SBA's Loan Management and Accounting System (LMAS), improper payments in the loan programs, and internal controls. All 11 challenges fall into two major risk categories:

1. Those that pose risk of losing taxpayers' money (i.e., guarantee purchase process, lender oversight, loan agent fraud, SBIC program risk, improper payments); and
2. Those that pose risk of delivering inefficient programs (i.e., human capital, IT security, contracting loopholes, 8(a) program execution, LMAS, and Agency internal controls).

One of the Agency's management goals is to create a transformed, high-performing organization that exercises cost-effective stewardship over its resources and offers transparent and accountable service to its customers. SBA appreciates the cooperation and work done by the OIG in helping the Agency to address successfully its major management challenges. Instituting sound internal processes lead to reduced government risk; lower cost to the taxpayer; and reduced potential for waste, fraud and abuse. The Agency concurs with the OIG Report, which reflects improvements across the board and a more consistent focus on addressing the Challenges. In addition to eliminating the last remaining "red" rating and experiencing no deterioration in any single rating, SBA is pleased to report the following results:

1. Improved ratings in six of the 29 recommended actions in four of the eight Challenges; maintained "substantial" or "limited" progress in the other four Challenges.
2. Achieved three green or "fully successful" ratings out of 29 actions.
3. Reduced the number of recommended actions from 39 to 29, down from 136 in FY 2004.

Only through our continued collaboration with you and your staff can we create a more effective and efficient SBA. Thank you and your staff for your continued commitment in helping us to improve our management environment.



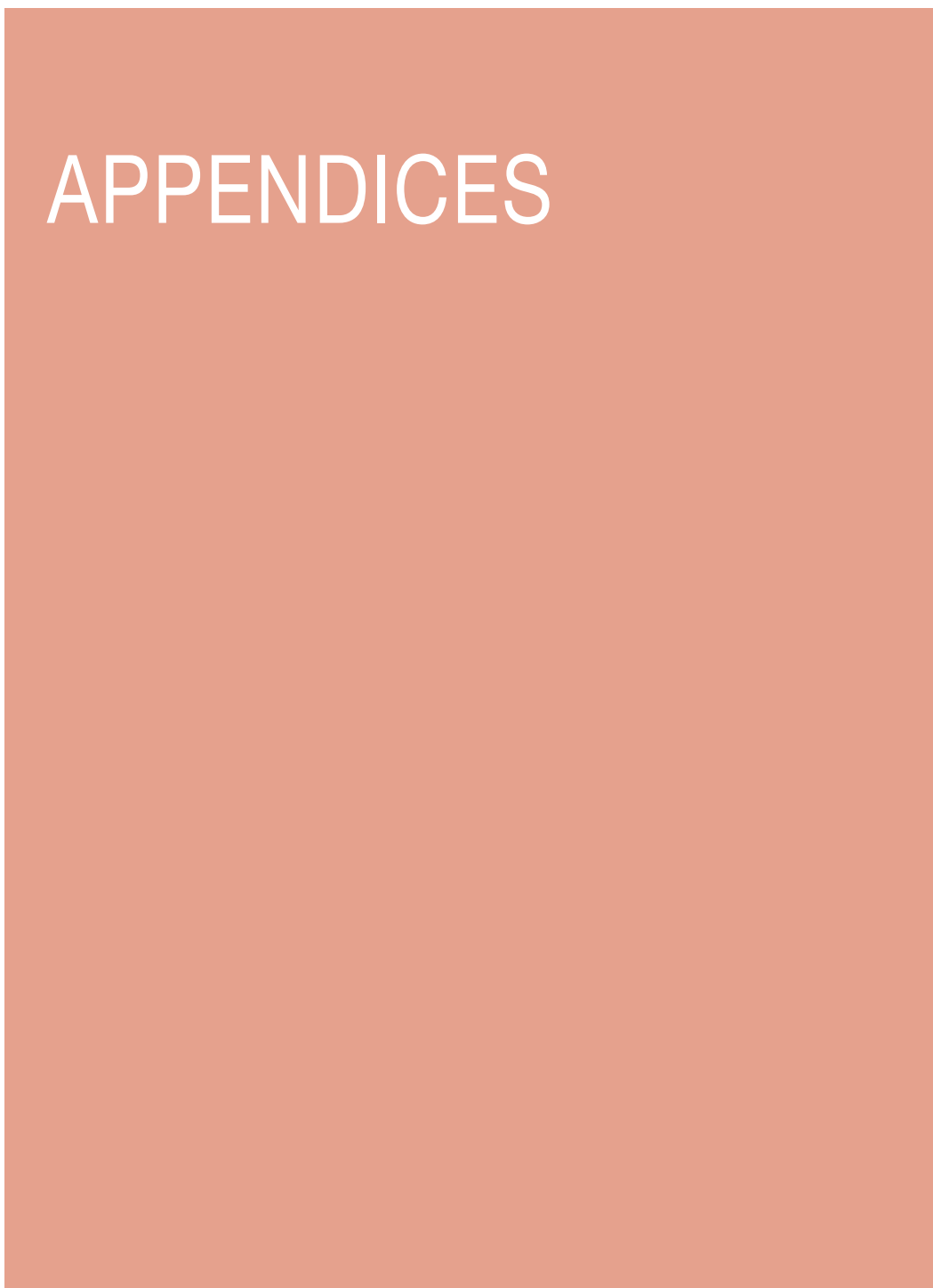
U.S. Small Business Administration



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# APPENDICES





## Appendix 1

### Improper Payments

As required by the Improper Payments Information Act, the SBA reviewed its payment programs for improper payments during FY 2009. The SBA Inspector General's reports issued this year on the sampling and test methodologies for improper payments were considered in the development of the SBA's FY 2009 improper payment results. Consequently, the SBA has restated some of the FY 2008 improper payment results in this year's report and has changed the methodologies used in the statistical sampling process for the 7(a) and 504 programs. In addition, the methodology used for the disaster improper payment program was changed to use disbursements of disaster loans rather than disaster loan approvals and to fully consider documentation required in SBA's Disaster program procedures.

An Agency should:

- I. *Briefly describe the risk assessment(s), performed subsequent to completing its full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through its risk assessments. Be sure to include the programs previously identified in the former Section 57 of Circular A-11 (now located in Circular A-123, Appendix C). Please highlight any changes to risk assessment results that occurred since last year's report.*

**Response:** The SBA's four major credit programs are included in the improper payments program. They are: (1) 7(a) Business Loan Program, (2) 504 Certified Development Company Program, (3) Small Business Investment Company Program and (4) Disaster Loan program. The first three are loan guaranty programs and disaster is a direct lending program. No other SBA programs meet OMB guidance thresholds for improper payment reporting. There have been no changes in SBA's risk assessment process since the last improper payment report.

The delegation of responsibility for the 7(a) guaranty program to SBA's participating lenders nationwide for the making, servicing and liquidation of 7(a) loans causes a medium risk of improper payments in the guaranty purchase process that is subject to SBA oversight, monitoring and attention to identified discrepancies. The 7(a) guaranty purchase process operates in a center in Herndon, Virginia that purchases defaulted 7(a) guaranteed loans and in centers in Fresno, California and Little Rock, Arkansas that purchase defaulted SBAExpress guaranteed loans. The 7(a) guaranty loan origination process is considered to be low risk with regard to the approval of loans that are deemed to be ineligible for the 7(a) program.

The risk of FY 2009 improper payments in the 504 CDC program is deemed by the SBA to be a low risk due to extensive controls that exist in the loan origination process that include reviews by SBA program and legal professionals. This includes both CDC debenture issuance and financings by CDCs to the small concerns.

The SBIC program has a low risk of improper payments due to extensive internal controls, including legal review over guaranty issuance and default purchase activities. The SBIC examination program subjects SBICs to at least a biennial review of the SBICs investments in small business ventures.

The Disaster program has a low risk of loss due to extensive, thorough operational controls over the Disaster application, damage verification, credit review and loan closing activities.

- II. *Briefly describe the statistical sampling process conducted to estimate the improper payment rate for each program identified. Please highlight any changes to the statistical sampling process that occurred since the last improper payment report.*

**Response:** The 7(a) loan purchase statistical sampling process was changed in FY 2009 in response to the SBA Inspector General's report issued in July 2009 on the FY 2008 report. Last year's improper payment report applied the sampling guidance in OMB Circular A-123 Appendix C directly to SBA's loan purchase program. This year the



sampling process was enhanced in response to the OIG draft report.

The 7(a) and 504 CDC populations contain loan types that are not homogeneous and exhibit skewed distributions in loan size. That is, large loans constitute a relatively smaller percentage of the populations by count, but a larger percentage by dollar amount. Therefore, the SBA stratified the data on several key variables and used a sampling method known as Probability Proportional to Size sampling with replacement. This is a sampling technique in which the probability that a particular loan will be selected for the sample is proportional to the population size of the corresponding strata. By using PPS, the SBA attempts to create a comprehensive sample that addresses the fact that different types of loans may have unequal improper payment probabilities.

For 7(a) purchase reviews, the sample cases were chosen using PPS sampling with replacement from all purchases approved during the 12 month period ended March 31, 2009. The purchase population was divided into twelve strata based on the following three factors: (1) which servicing office processed the purchase, (2) whether the purchase process was streamlined, and (3) whether the loan was considered an early default. Using the PPS approach, the SBA determined the appropriate total sample size to be 203 loans from the population. The sample included aggregate purchase outlays of \$89,774,114 and improper payments of \$3,014,571 within the sample. Using the Hansen-Hurwitz estimation method, the estimated improper payment rate for the 7(a) guaranty purchase population is 3.81 percent for the annual period ending March 31, 2009. SBA's previous improper payment rates were calculated at 0.53 percent for FY 2008 (now adjusted to 3.2 percent in connection with the audit by SBA's Office of Inspector General), 0.43 percent for fiscal year 2007, and 1.56 percent for fiscal year 2006.

The 7(a) loan guaranty purchase and approval reviews were conducted to examine whether the lender complied materially with the 7(a) loan program origination requirements including statu-

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

For 7(a) guaranteed loan approvals the sample cases were chosen using PPS Sampling with replacement from all loan guaranties approved during the 12 month period ended March 31, 2009. The loan guaranties were approved through SBA's loan processing centers, consisting of the Standard 7(a) Loan Guaranty Processing Center with dual locations in Sacramento, California and Hazard, Kentucky; and the Sacramento, California Loan Processing Center which handles PLP and SBAExpress loan approvals. The approval population was divided into five strata based on the loan delivery method. The 7(a) loan delivery methods are SBA Express, Community Express, Patriot Express, Preferred Lender Program, and all others. The SBA determined the appropriate total sample size to be 112 loans from the population. The base sample size was 110 as determined by the SBA in the FY 2008 AFR. Using the PPS sampling process within strata, the SBA rounded up when a fractional loan was selected in any stratum. Therefore, the final sample size for FY 2009 was 112. The estimated improper payments rate for the annual period ending March 31, 2009 was calculated as 0 percent based on the aggregate gross disbursement amount of \$90,321,505 on the approved loans with no improper payments found.

For 504 CDC approval reviews, the sample cases were chosen using PPS sampling with replacement from all loan guaranties approved during the 12 month period ended March 31, 2009. The loan guaranties were approved at the SBA's Sacramento loan processing center and closed at various SBA district offices, with servicing subsequently handled by the Fresno, California Commercial Loan Servicing Center and the Little Rock, Arkansas Commercial Loan Servicing Center. The approval population was divided into three strata based on

the loan delivery method. The 504 loan delivery methods are Accredited Lenders Program, Premier Certified Lenders Program, and Regular. The SBA determined the appropriate total sample size to be 49 loans from the population. The base sample size was 48 as determined by the SBA in the FY 2008 AFR. Using the PPS sampling process within strata, the SBA rounded up when a fractional loan was selected in any stratum. Therefore, the final sample size for FY 2009 was 49. The estimated improper payments rate for the annual period ending March 31, 2009 was calculated as 0 percent based on the aggregate gross disbursement amount of \$61,951,000 on the approved loans with no improper payments found.

The SBIC program used OMB guidance to determine a random sample of 95 SBIC financings by SBICs having SBA guaranteed leverage during the period July 1, 2008 to June 30, 2009. Improper payments were identified when an SBIC examination or a review by a SBIC program analyst found a discrepancy with SBIC program regulations in the sampled financings. About 48 percent of the sampled financings were subjected to an SBIC examination during the year. The rest of the sampled financings were reviewed by SBIC program analysts. The program analysts reviewed term sheets (which include the terms of the financings), Forms 468 financial statements, Forms 1031s reports of individual financings and other material to determine compliance with regulatory requirements. The reviews revealed one potential erroneous payment among the sampled financings involving a possible pre-payment penalty that constituted \$1,000,000 of the \$88,004,157 in financings sampled, or 1.1 percent of the total.

The Disaster program improper payment rate was determined using the Disaster Quality Assurance Review program that reviews the approved loan portfolio annually to identify any deficiency that would result in an improper payment. As a result of an audit by SBA's Inspector General, beginning in FY 2009, the Disaster program improper payments are based on disaster loan disbursements, not disaster loan approvals as in prior years. Following OMB guidance, a sample of 245 randomly selected

loan disbursements from the period July 1, 2008 to June 30, 2009 was used. The scope of the QAR covers three compliance areas: (1) basic eligibility, (2) adherence to relevant laws, rules, regulations and standard operating procedures, and (3) creditworthiness. The total number of loans disbursed was 20,425 and the total value of disbursements was \$806 million. The improper payment rate determined was 20.9 percent or \$168.5 million in improper payments.

### III. Describe the Corrective Action Plans for:

- a. *Reducing the estimate rate and amount of improper payments for each type of root cause of error (e.g. Administrative and Documentation errors, Authentication and Medical Necessity errors, and Verification and Local Administrative errors). This discussion must include the corrective action(s) for each different type of root cause of error. If efforts are ongoing, it is appropriate to include that information in this section and to highlight current efforts, including key milestones.*
- b. *Grant-making agencies with risk susceptible grant programs, discuss what your agency has accomplished in the area of funds stewardship past the primary recipient. Include the status on projects and results of any reviews.*

**A. Response:** The 7(a) guaranty purchase process improper payments program includes identifying and tracking the reasons for any improper payments discovered in the IPIA reviews, and then making appropriate adjustments to the guaranty purchase process to reduce the purchase error rate in future years. Improper payments in the guaranty purchase process arise from the failure of a purchase processor to identify material lender deficiencies in the handling of an SBA guaranteed loan. Primary reasons noted for the determination that all or a portion of the guaranty purchases identified as improper were:

- Improper use of proceeds (not in accordance with loan authorization).

- Failure to maximize recovery on loan collateral in liquidation proceedings.
- Incomplete documentation to justify lender action.
- Underpayment of interest owed lender.
- Failure to verify borrower financial information using IRS tax transcripts.
- Disbursement of guaranty purchase without required SBA Form 1919 for SBAExpress loan.

Corrective action procedures followed for the 7(a) guaranty purchase process involve advising the purchase processing team of improper payment determinations and also providing clarification as to the nature of the issues to avoid possible improper payments in the future. In this regard, a fully documented guaranty purchase procedure handbook has been completed, including transcript analysis instructions, and is updated as needed. This assures consistency in the purchase process and will serve to minimize errors. In addition, the purchase centers are two years into a process of lean six sigma based continuous improvement to enhance standardization and reduce deviations. Other remedial actions include:

- identify and analyze error patterns,
- communicate error patterns to the centers processing purchases,
- review current policies and procedures to ensure that any error patterns are appropriately addressed in current guidance,
- revise policies and procedures where necessary,
- issue guidance to the purchase centers on specific issues,
- provide training, and
- supplement center resources where possible to ensure ongoing quality assurance review programs that will identify any emerging patterns or potential problem areas that might result in future improper payments, as well as take action to mitigate these potential problem areas.

7(a) loan guaranty approvals and CDC loan approvals had no improper payments. There appear to be sufficient safeguards in place to prevent improper

payments in 7(a) loan processing and 504 loan originations because of multiple reviews that take place when a loan is being processed.

The SBIC guaranty program had one potential erroneous payment. Over the four-year period that this sampling methodology has been used, there have only been two instances of potentially erroneous payments. The SBA expects that this minimal number of erroneous payments will continue to be the case and has instituted a number of steps to ensure that. First, in the early to mid 1990s, more rigorous program standards were instituted. This has led to more knowledgeable fund managers and reduced the likelihood that program fraud would be committed. Second, the SBA requires all fund managers to undergo training on regulations as a condition for receiving leverage. Almost all SBICs are represented by very knowledgeable service providers who have extensive experience in the program. As part of the licensing process, the SBA conducts extremely detailed background checks on fund managers with both the Office of the Inspector General and the Federal Bureau of Investigation. The SBA also does credit checks on all potential fund managers as part of the due diligence process in licensing. The SBA has a program of auditing licensees on a periodic basis to determine compliance. These steps ensure that only fiscally prudent managers become part of the program.

The Disaster program improper payment rate in FY 2009 is substantially greater than reported in prior years. The increased rate does not reflect a greater risk in the portfolio, only that the SBA is classifying improper payments differently than in the past. In prior years improper payments represented loan funds that were disbursed to a borrower that based on Standard Operating Procedures were not appropriate. In FY 2009 the majority of errors identified were the result of missing loan documentation. The errors generally do not have an impact on the eligibility of the borrower to receive the funds or the willingness and/or ability of the borrower to repay the disaster loan. The SBA has instituted additional training to ensure that staff is aware of all paperwork requirements and the proper steps to

be taken to waive requirements when appropriate. Additionally, a new quality assurance team reporting to the Disaster Headquarters office is being assembled to provide an independent review of the Disaster processing center. The improper payment review will then be completed more frequently than annually allowing corrective actions to be implemented in a timely manner.

**B. Response:** The SBA does not have any reportable grant programs under risk susceptible OMB guidance. However, the Agency does employ internal control measures to address improper grant payments.

#### IV. Program improper Payment Reporting

(a) *The table below is required for each reporting agency. Agencies must include the following information:*

(i) *all risk susceptible programs must be listed in this chart whether or not an error measurement is being reported;*

(ii) *where no measurement is provided, agency should indicate the date by which a measurement is expected;*

(iii) *if the Current Year (CY) is the baseline measurement year, indicate by either note or by "n/a" in the Prior year (PY) column;*

(iv) *if any of the dollar amounts(s) included in the estimate correspond to newly established measurement components, separate the two amounts to the extent possible;*

(v) *include outlay estimates for CY+1, +2 and +3; and*

(vi) *agencies are expected to report on CY activity, and if not feasible, the PY activity is acceptable. (future year outlay estimates (CY+1, +2 and +3) should match the outlay estimates for those years as reported in the most recent President's Budget.)*

**Response:** The SBA's report of improper payments is shown in the following table.

Improper Payment Reduction Outlook (\$ in millions)															
Program	FY08 <sup>1</sup> \$ Outlays	FY08 IP %	FY08 IP \$	FY09 <sup>1</sup> \$ Outlays	FY09 IP %	FY09 IP \$	FY10 <sup>1</sup> \$ Outlays	FY10 IP %	FY10 IP \$	FY11 <sup>1</sup> \$ Outlays	FY11 IP %	FY11 IP \$	FY12 <sup>1</sup> \$ Outlays	FY12 IP %	FY12 IP
7(a) Guaranty Purchases <sup>1</sup>	1,230.9	3.20 <sup>6</sup>	39.4 <sup>6</sup>	1,805.4	3.81 <sup>6</sup>	68.8	1,900.0	3.50	66.5	1,800.0	3.25	58.5	1,700.0	3.00	51.0
7(a) Guaranty Approvals <sup>2</sup>	11,739.1	0.0	0.0	8,934.7	0.0	0.0	12,000.0	0.0	0.0	13,000.0	0.0	0.0	14,000.0	0.0	0.0
CDC Debentures <sup>3</sup>	5,245.6	NA	NA	3,820.6	0.0	0.0	4,000.0	0.0	0.0	4,500.0	0.0	0.0	5,000.0	0.0	0.0
CDC Loans Guaranteed <sup>2</sup>	5,245.6	0.0	0.0	3,820.6	0.0	0.0	4,000.0	0.0	0.0	4,500.0	0.0	0.0	5,000.0	0.0	0.0
SBIC Guaranties <sup>4</sup>	2,283.0	0.0	0.0	1,856.0	1.1	20.4	1,800.0	1.0	18.0	1,750.0	1.0	17.5	1,750.0	1.0	17.0
Disaster Loan Approvals <sup>5</sup>	825.3	.74	6.1	806.0	20.9 <sup>6</sup>	168.5	800.0	16.7	133.6	800.0	13.3	106.4	800.0	10.7	85.6

1. Outlays in this report represent the base amount of the program activity related to SBA improper payments; and this amount will differ from the amount reported as outlays in SBA's President's Budget submissions because they include reestimates of subsidy cost, reimbursements to SBA administrative funds and other costs. Outlays for 7(a) Guaranty Purchases are the amount of disbursements for the purchase of defaulted guarantied loans. Outlays for 7(a) Guaranty Approvals are the amount of new guaranty approvals by banks and other SBA lending partners. Outlays for CDC Debentures and 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.

2. Beginning with FY 2007, 7(a) and CDC reporting includes guaranties approved.

3. SBA has zero improper payments assumed for CDC debentures

4. SBIC guaranties include SBA guaranties of SBIC investments in small business for SBICs having SBA leverage.

5. Disaster Loan Approvals projected for FY 2010 thru FY 2012 reflects a historical average level.

6. The SBA Inspector General issued audit reports on the 7(a) and disaster improper payment programs in July and March 2009. As a result of findings and recommendations in these reports the SBA has changed its methodology used in both of these programs for sampling and testing improper payments. As a result the improper payment rates and dollars have increased in FY 2009 reflecting these changes. In addition, the 7(a) Guaranty Purchase program FY 2008 improper payment rate is restated reflecting the findings and conclusions from the IG audit (3.20 versus 0.53 percent). The MD&A section of this report has additional information on the consequences of the IG audits.



*(b) Discuss your agency's recovery of improper payments, if applicable. Include in your discussion the dollar amount of cumulative recoveries collected beginning with FY 2004.*

**Response:** For 7(a) guaranty purchases, the SBA has established a recovery target of 85 percent of the aggregate amount of improper payments identified by March 30, 2010 (and will pay the lender two small underpayments noted). While SBA will attempt to recover 100 percent of the amounts identified as overpayments (with the exception of the purchase where no loan file has yet been located), litigation may be necessary in some instances with uncooperative lenders and additional information may be presented which could indicate that all or a portion of a disbursement is not actually improper. Also, decisions may be made when appropriate to accept reasonable settlements of improper payment claims rather than to pursue protracted recovery proceedings. Procedures for Recovery of 7(a) guaranty purchases: SBA will make formal written demand upon and/or engage in discussions with 7(a) lenders it identifies as having received improper payments. If a lender refuses to return a payment, litigation or other action will be explored if analysis determines that such action will be cost effective and there will be a reasonable chance for the Agency to prevail. The litigation office in SBA's Office of General Counsel will conduct this analysis

The SBA has a recovery program for the SBIC program and current recovery efforts are very effective. Most regulatory violations are resolved in a fairly short time frame. The resolution can be in a number of ways. The violation may be determined not to be a violation of the regulations after further study. In other instances, the SBIC may be asked to change the terms of the investment in the portfolio concern in a manner that resolves the issue. If the situation cannot be corrected, the SBIC may be asked to divest its interest in the portfolio concern. In very rare instances, the SBIC might be found to be in default of its covenants and transferred to the Office of SBIC Liquidations, where recovery efforts will be implemented. This is a

very rare step and has not been necessary for the most part.

The Disaster program improper payments are generally the result of loan documentation errors and do not result in a disaster victim receiving funds that they are not eligible to receive. The disaster loan program operation has a built in recovery system in that the majority of loans made are collateralized and all loans have to be repaid.

V. *Discuss your agency's recovery auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. In addition complete the table below.*

Agency component	Amount subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amount Identified for Recovery CY	Amount Recovered CY	Amount Identified for Recovery PYs	Amount Recovered PYs	Cumulative Amount Identified for Recovery (CY + PYs)	Cumulative Amount Recovered (CY + PYs)
N/A	N/A	N/A	N/A		N/A	N/A		N/A

**Response:** Recovery auditing is a control technique to identify improper contractor payments and initiate recovery actions where appropriate. Even though SBA does not meet the OMB threshold for recovery auditing, SBA does employ internal control measures to address improper contract payments.

VI. *Describe the steps the agency has taken and plans to take (including time line) to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.*

**Response:** The SBA's Strategic Goal 4 is to assure SBA programs operate efficiently and effectively, including compliance with federal regulations improper payment guidelines. The strategic goals are included in annual performance plans for all of its programs as business objectives, and these business

objectives are included in employee performance plans. SBA management monitors accomplishment of its business objectives in its performance plan using its performance management process, and action is taken when progress 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 assures accountability of improper payment administration.

For the SBIC program, operations analysts are evaluated, in part, on the resolution of regulatory violations in a timely manner. They are also evaluated, in part, on responding to requests for clarification on regulations by licensees. Although examiners are not evaluated on the number of violations they uncover, they are evaluated on the number of exams they perform. The Agency believes the assistance provided by the operations analysts and the approximately annual exams for leveraged SBICs provide an incentive to perform within the framework of the regulations.

For the Disaster program, it is important to note: The majority of improper payments identified through annual Quality Assurance Reviews indicate minimal findings of unauthorized and/or ineligible loans. Disaster program internal controls include the following:

- Disaster related damages are verified onsite by SBA staff. The cost to repair and/or replace the disaster damaged property is determined by SBA construction analysts.
- Disaster procedures also include credit checks, verification of income, verification of ownership and checks with FEMA to ensure that federal assistance is not duplicated during loan processing and disbursement of all disaster loan funds.
- Every secured disaster loan is reviewed by disaster staff attorneys for legal sufficiency and the use of electronic funds transfer is utilized to prevent lost and stolen checks.

Disaster program internal controls (checks and balances) have always been a part of its loan

making and disbursement function, and are responsible for the relatively minimal amounts of unauthorized and/or ineligible loans. In addition, the Disaster Loan Program, by its very nature, legally obligates the recipient of any disaster loan (or any IP portion of a disaster loan) to pay back all the loan funds whether the loan contains any Improper Payments or not. Not only is there a legally binding contract (between the government and the SBA) to repay the loan, the contract is usually secured by real estate collateral which further strengthens the government's recovery position. Accordingly, an ODA recovery auditing effort is not applicable because each loan contract legally assures recovery of the entire loan (with interest) as soon as the loan agreement is signed – notwithstanding the circumstances.

#### *VII. Agency information systems and other infrastructure*

*A. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.*

**Response:** SBA's 7(a) program Guaranty Purchase Tracking System supports the 7(a) guaranteed loan purchase process very well, and it is continually updated to enhance the overall integrity of the purchase process. The 504 program software used by the Central Servicing Agent is owned by the SBA. Therefore the Agency has a higher level of control over that software than would typically exist with contractor owned systems. In addition the contractor provides audited financial statements and a SAS 70 report to verify its system. The SBIC program maintains a data system that tracks exams, exam findings and resolution of exam findings. All individuals are empowered to refer any case of suspected fraud to the Inspector General. The Disaster loan program does have the information systems and other infrastructure it needs to reduce improper payments to targeted levels. For example, ODA is engaged in an ongoing process of developing and has already implemented an integrated, electronic loan processing system to streamline, enhance and improve the loan-making

process. This system will support workflow management, electronic file management and document generation functions. In fact, a Quality Assurance Task Force partnered with the Disaster Credit Management System development team to improve the Quality Assurance process with a goal to minimize future Improper Payments events as much as possible. As a result, many of the business rules that govern the programming of this new system have been designed to help improve the Quality Assurance process. The DCMS will significantly impact the disaster assistance program and the manner in which it delivers services to disaster victims.

*B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its most recent budget submission to Congress to obtain the necessary information systems and infrastructure.*

**Response:** Although SBA's existing systems are used to adequately manage its programs to avoid improper payments, the SBA has requested additional funding in its FY 2011 budget request to support the implementation of the Loan Management and Accounting System. This is an important systems project that will require significant additional budget authority in SBA's budgets through FY 2014. LMAS will enhance SBA's administrative and loan receivables information systems that will support and improve improper payment identification and results.

*VIII. Describe any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.*

**Response:** Not applicable. The SBA does not have any statutory or regulatory barriers limiting improvement to its performance on improper payments initiative.

*IX. Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPLA implementation.*

**Response:** No additional comments.

## Appendix 2 – Contact SBA: Useful Sites and Numbers

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

SBA INFORMATION	
Who We Are and What We Do	<a href="http://www.sba.gov/aboutsba">www.sba.gov/aboutsba</a>
Find Your Local Office	<a href="http://www.sba.gov/localresources/index.html">www.sba.gov/localresources/index.html</a>
SBA's Plans and Reports	<a href="http://www.sba.gov/aboutsba/budgetsplans/index.html">www.sba.gov/aboutsba/budgetsplans/index.html</a>
SBA En Español	<a href="http://www.sba.gov/espanol">www.sba.gov/espanol</a>
Ombudsman	<a href="http://www.sba.gov/ombudsman">www.sba.gov/ombudsman</a>
Online Library	<a href="http://www.sba.gov/tools/resourcelibrary/index.html">www.sba.gov/tools/resourcelibrary/index.html</a>

FOR START-UP BUSINESSES	
What is a Small Business?	<a href="http://www.sba.gov/starting/indexwhatis.html">www.sba.gov/starting/indexwhatis.html</a>
Starting Your Business	<a href="http://www.sba.gov/starting/">www.sba.gov/starting/</a>
Start-up Kit	<a href="http://www.sba.gov/smallbusinessplanner/index.html">www.sba.gov/smallbusinessplanner/index.html</a>
On Line Training	<a href="http://www.sba.gov/services/training/index.html">www.sba.gov/services/training/index.html</a>
Outside Resources and Business Hotlinks	<a href="http://www.sba.gov/hotlist/">www.sba.gov/hotlist/</a>

FOR ESTABLISHED BUSINESSES	
Financing Your Business	<a href="http://www.sba.gov/services/financialassistance">www.sba.gov/services/financialassistance</a>
Contracting	<a href="http://www.sba.gov/services/contractingopportunities">www.sba.gov/services/contractingopportunities</a>
Surety Bond	<a href="http://www.sba.gov/services/financialassistance/suretybond/index.html">www.sba.gov/services/financialassistance/suretybond/index.html</a>
Business Opportunities	<a href="http://www.sba.gov/expanding/">www.sba.gov/expanding/</a>

CONTRACTING WITH THE GOVERNMENT	
Government Contracting	<a href="http://www.sba.gov/GC">www.sba.gov/GC</a>
PRO-Net:	<a href="http://pro-net.sba.gov/">pro-net.sba.gov/</a>

DISASTER ASSISTANCE	
Disaster Assistance	<a href="http://www.sba.gov/services/disasterassistance">www.sba.gov/services/disasterassistance</a>
Disaster Area Office Locations	<a href="http://www.sba.gov/services/disasterassistance/officelocations">www.sba.gov/services/disasterassistance/officelocations</a>
FEMA Information	<a href="http://www.fema.gov">www.fema.gov</a>

### PHONE NUMBERS TO CALL:

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

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



## Appendix 3 – Glossary of Acronyms and Abbreviations

<b>504</b>	<b>504 Certified Development Company Loan Program</b> Provides small businesses with long-term, fixed rate financing for the purchase of land, buildings and long-life capital equipment.	<b>BD</b>	<b>Business Development</b> The Office of Business Development uses SBA's statutory authority to provide business development and federal contract support to small disadvantaged firms.
<b>7(a)</b>	<b>7(a) Loan Guaranty Program</b> SBA's primary loan program. It provides general loan financing for a wide variety of purposes.	<b>BDMIS</b>	<b>Business Development Management Information System</b> The system that automates the certification and annual review process for the 8(a) program.
<b>8(a)</b>	<b>8(a) Business Development Program</b> Assists firms owned and controlled by socially and economically disadvantaged individuals to enter and succeed in the economic mainstream.	<b>BLIF</b>	<b>Business Loan and Investment Fund</b> Fund operated by the Treasury Department to maintain the accounting records of loans approved prior to 1992.
<b>A-123</b>	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.	<b>CA</b>	<b>Capital Access (See OCA)</b>
<b>AA</b>	<b>Associate Administrator</b>	<b>CDC</b>	<b>Certified Development Company</b> Refers to the Section 504 Certified Development Company debenture program.
<b>AFMAC</b>	<b>Audit and Financial Management Advisory Committee</b> Assists the Administrator in overseeing SBA's financial operations.	<b>CFO</b>	<b>Chief Financial Officer</b> The CFO is responsible for the financial leadership of the Agency. This includes responsibility for all Agency disbursements, management and coordination of Agency planning, budgeting, analysis and accountability processes
<b>AFR</b>	<b>Agency Financial Report</b> The name of one of the annual PAR reports.	<b>CFR</b>	<b>Code of Federal Regulations</b> The codification of the general and permanent rules published in the Federal Register by the executive departments and agencies of the federal government.
<b>APR</b>	<b>Annual Performance Report</b> A report required by the GPR that presents a federal agency's progress in achieving the goals in its strategic plan and performance budget.	<b>CIO</b>	<b>Chief Information Officer</b> 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.
<b>ARRA</b>	<b>America's Recovery Capital Loan Program</b> A new temporary guaranteed loan program authorized by the American Recovery and Reinvestment Act of 2009.	<b>CLA</b>	<b>Office of Congressional and Legislative Affairs</b> The CLA assists in the development and enactment of SBA legislative proposals and serves as the liaison for SBA's communications on all legislative and congressional activities.
<b>BATF</b>	<b>Business Assistance Trust Fund.</b> 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.		

<b>COO</b>	<b>Office of the Chief Operating Officer</b>	<b>FBCI</b>	<b>Faith-Based and Community Initiatives</b> The office promotes SBA partnerships with faith-based and neighborhood organizations to help people receive training and credit assistance. In accordance with an Executive Order issued in February 2009, the name will change to the Center for Faith-Based and Neighborhood Partnerships.
<b>COOP</b>	<b>Continuity of Operations Plan</b> A predetermined set of instructions or procedures that describe how an organization's essential functions will be sustained for up to 30 days following a disaster and then return to normal operations.	<b>FCRA</b>	<b>Federal Credit Reform Act</b> A law enacted to provide a more realistic picture of the cost of U.S. government direct loans and loan guaranties.
<b>CRC</b>	<b>Civil Rights Center</b> The CRC administers and enforces various federal statutes, regulations, and Executive Orders that relate to nondiscrimination and equal opportunity.	<b>FECA</b>	<b>Federal Employees' Compensation Act</b> Provides compensation benefits to federal civilian employees for work-related injuries or illnesses and to their surviving dependents.
<b>DAIP</b>	<b>Disaster Assistance Plan</b> Executive Order 13411 mandates that the federal agencies create a single application that fulfills the information requirements of all applicable federal disaster assistance programs.	<b>FEMA</b>	<b>Federal Emergency Management Agency</b> The agency that is tasked with responding to, planning for, recovering from and mitigating against disasters.
<b>DCMS</b>	<b>Disaster Credit Management System</b> The electronic system used by the SBA to process loan applications for all new disaster declarations.	<b>FERS</b>	<b>Federal Employees' Retirement System.</b> 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.
<b>DCIA</b>	<b>Debt Collection Improvement Act</b> A federal law to maximize collections of delinquent debts owed to the government.	<b>FFMIA</b>	<b>Federal Financial Management Improvement Act of 1966</b> 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.
<b>DFP</b>	<b>Dealer Floor Plan</b> A small pilot program to make revolving loans to retail dealerships including automobile dealers that began in July 2009.	<b>FHCS</b>	<b>Federal Human Capital Survey</b> A survey administered by OPM, to measure federal employees' perceptions about how effectively agencies have managed their workforces.
<b>DLF</b>	<b>Disaster Loan Fund</b> Assists eligible small businesses impacted by disasters.	<b>FICA</b>	<b>Federal Insurance Contribution Act</b> The law establishing a social security tax, a largely self-supporting program for employees.
<b>ECCB</b>	<b>Enterprise Change Control Board</b> The ECCB is in charge of the administration of the centralized network accounts for the SBA.	<b>FMFIA</b>	<b>Federal Managers Financial Integrity Act</b> Requires ongoing evaluations and reports on the adequacy of the internal accounting and administrative control systems of executive agencies.
<b>EEO</b>	<b>Equal Employment Opportunity</b>		
<b>ELA</b>	<b>Electronic Loan Application</b> Simplifies the application process by providing electronic loan applications.		
<b>FASAB</b>	<b>Federal Accounting Standards Advisory Board</b> Promulgates accounting principles for federal government reporting entities.		

<b>FPDS</b>	<b>Federal Procurement Data System</b>	<b>LMS</b>	<b>Loan Monitoring System</b> Aids the SBA in managing its core loan guaranty programs and serves as one of the building blocks in the overall systems modernization project.
<b>FT</b>	<b>Fiscal Transfer Agent</b>	<b>MAS</b>	<b>Multiple Awards Schedule</b>
<b>FY</b>	<b>Fiscal Year</b> The SBA fiscal year begins on October 1st and ends the following September 31th.	<b>MAX</b>	<b>Budget Information System</b> OMB uses the MAX Budget Information System to collect, validate, analyze, model and publish budget information.
<b>GAO</b>	<b>U.S. Government Accountability Office</b> The audit, evaluation and investigative arm of Congress.	<b>MD&amp;A</b>	<b>Management's Discussion and Analysis</b> The MD&A is considered required supplementary information for federal financial statements and is designed to provide a high level overview of the Agency.
<b>GC/BD</b>	<b>Office of Government Contracting and Business Development</b> GB/CD works to create an environment for maximum participation by small, disadvantaged and woman-owned business in Federal Government contract awards and large prime subcontract awards.	<b>MRA</b>	<b>Master Reserve Account</b> SBA's fiscal agent maintains this escrow fund to facilitate the operation of the Certified Development Company program.
<b>GSA</b>	<b>General Services Administration</b>	<b>MRF</b>	<b>Master Reserve Fund</b> SBA's fiscal and transfer agent maintains this reserve fund to facilitate the operation of the 7(a) secondary market program.
<b>GWAC</b>	<b>Government wide Acquisition Contract</b>	<b>NAICS</b>	<b>North American Industry Classification System</b> NAICS is the standard used by federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.
<b>HUBZone</b>	<b>Historically Underutilized Business-Zone Program</b> Encourages economic development by the establishment of federal contract award preferences for small businesses located in historically underutilized business zones.	<b>NGPC</b>	<b>National Guaranty Purchase Center</b> SBA's centralized loan guaranty purchase processing center.
<b>IP</b>	<b>Improper Payments</b> (See IPIA)	<b>NWBC</b>	<b>National Women's Business Council</b> A bi-partisan federal advisory council created to serve as an independent source of advice and policy recommendations to the President, Congress, and the SBA on economic issues of importance to women business owners.
<b>IPA</b>	<b>Independent Public Accountant</b> A firm or person, other than the agency's IG, who meets the independence standards specified in GSA, and is engaged to perform the audit of a federal agency or for other purposes.	<b>OCA</b>	<b>Office of Capital Access</b> The office responsible for small business program loans, lender oversight, the investment company
<b>IPIA</b>	<b>Improper Payment Infraction Act</b> A federal law, enacted in 2002 to identify and reduce erroneous payments in the government's programs and activities.		
<b>IT</b>	<b>Information Technology</b> Refers to matters concerned with the design, development, installation and implementation of information systems and applications.		
<b>L/LMS</b>	<b>Loan and Lender Monitoring System</b>		

program, the surety bond program and the international trade program.

<b>OCFO</b>	<b>Office of the Chief Financial Officer</b> The office responsible for the financial activity of the Agency, including Agency disbursements, management and coordination of Agency planning, budgeting, analysis and accountability processes.
<b>OCIO</b>	<b>Office of the Chief Information Officer</b> Supports and provides guidance for SBA's nationwide computer automation and information technology efforts.
<b>OCRM</b>	<b>Office of Credit Risk Management</b>
<b>ODA</b>	<b>Office of Disaster Assistance</b> SBA office that promotes economic recovery in disaster ravaged areas. SBA loans are the primary form of federal assistance for non-farm, private sector disaster losses for individuals and businesses.
<b>OFA</b>	<b>Office of Financial Assistance</b> SBA office that administers various loan programs to assist small businesses.
<b>OFO</b>	<b>Office of Field Operations</b> SBA office that represents field offices, including regional and district offices, at headquarters.
<b>OGC</b>	<b>Office of General Counsel</b> Provides legal advice for senior management, as well as legal support for all Agency programs, initiatives and administrative responsibilities.
<b>OHCM</b>	<b>Office of Human Capital Management</b> Supports the strategic management of human capital in the accomplishment of the Agency's mission.
<b>OIG</b>	<b>Office of Inspector General</b> Conducts and supervises audits, inspections and investigations relating to SBA programs and operations.
<b>OMB</b>	<b>U.S. Office of Management and Budget</b> Presidential office that oversees preparation of the federal budget and supervises its administration in Executive Branch agencies.

<b>OPM</b>	<b>U.S. Office of Personnel Management</b> The federal government's human resources agency.
<b>ORACLE</b>	<b>The Accounting program used by SBA's Administrative Accounting Division</b>
<b>ORCA</b>	<b>Online Representation and Certification Application</b> an e-Government initiative that was designed to replace the paper based Representations and Certifications process
<b>OSA</b>	<b>Office of Strategic Alliances</b>
<b>OVBD</b>	<b>Office of Veterans Business Development</b> The SBA office that works to enhance and increase successful small business ownership by veterans.
<b>PAR</b>	<b>Performance and Accountability Report</b> Reporting that presents financial, budgetary and performance information to OMB, Congress and the public.
<b>PART</b>	<b>Program Assessment Rating Tool</b> An OMB methodology developed to assess and improve program performance.
<b>PCECGF</b>	<b>The Pollution Control Equipment Contract Guarantee Fund</b> Supports costs associated with the credit portfolio of pre-October 1991 pollution control equipment loans and guaranties being liquidated by the SBA.
<b>PCOE</b>	<b>President's Council on Integrity and Efficiency</b>
<b>PIA</b>	<b>Privacy Impact Assessment</b> Part of the Privacy Impact Statement from the Privacy Act.
<b>PLP</b>	<b>Preferred Lender Program</b> Covers certified or preferred lenders that receive full delegation of lending authority.
<b>PMA</b>	<b>President's Management Agenda</b> A Bush Administration program to improve management of the federal government.
<b>QA</b>	<b>Quality Assurance</b>
<b>QAR</b>	<b>Quality Assurance Review</b>

<b>SAS</b>	<b>Statement on Auditing Standards</b> Establish standards and provide guidance on the design and selection of an audit sample and the evaluation of the sample results.	<b>SCORE</b>	Offers counseling and training for small business owners who are starting, building or growing their businesses. Sponsored by the SBA, SCORE's services are free of charge and are provided by retired or active business volunteers.
<b>SBA</b>	<b>Small Business Administration</b> 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 national disasters.	<b>SDB</b>	<b>Small Disadvantaged Business</b> Small business owned and controlled by individual(s) claiming to be socially and economically disadvantaged.
<b>SBA</b>	Provides selected lenders with a 50 percent guaranty on their loans in exchange for the ability to use primarily their own application and documentation forms. This makes it easier and faster for lenders to provide small business loans of \$250,000 or less.	<b>SMG</b>	<b>Secondary Market Guaranty</b>
<b>SBDC</b>	<b>Small Business Development Center</b> SBDCs deliver 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..	<b>SOP</b>	<b>Standard Operating Procedure</b> SOPs are the primary source of the Agency's internal control.
<b>SBG</b>	<b>Surety Bond Guarantee Program</b> Provides guarantees bid, performance and payment bonds for contracts up to \$2 million for eligible small businesses that cannot obtain surety bonds through regular commercial channels.	<b>SOX</b>	<b>Sarbanes-Oxey Act 2002</b> The law introduced major changes to the regulations of financial practice and corporate governance.
<b>SBGRF</b>	<b>Surety Bond Guarantees Revolving Fund</b> Provides assistance to small business contractors in obtaining bid, performance and payment bonds for construction, service and supply contracts.	<b>SSBIC</b>	<b>Specialized Small Business Investment Company</b> Provides equity capital, long-term loans, debt-equity investments and management assistance to socially or economically disadvantaged small businesses.
<b>SBIC</b>	<b>Small Business Investment Company</b> Provides equity capital, long-term loans, debt equity investments and management assistance to small businesses, particularly during their growth stages.	<b>TOP</b>	<b>Treasury Offset Program</b> A centralized debt collection program developed by the Treasury Department's FMS to assist agencies in the collection of delinquent debts owed to the Federal Government.
<b>SBLC</b>	<b>Small Business Lending Companies</b> Non-depository small business lending companies listed by the SBA Office of Capital Access.	<b>WBC</b>	<b>Women's Business Center Program</b> WBCs provide long-term training and counseling to women owning or managing a business, including financial, management, marketing and technical assistance, and procurement.
<b>SBPRA</b>	<b>Small Business Paperwork Relief Act of 1992</b>		
<b>SBREFA</b>	<b>Small Business Regulatory Enforcement Fairness Act</b>		

## ACKNOWLEDGMENTS

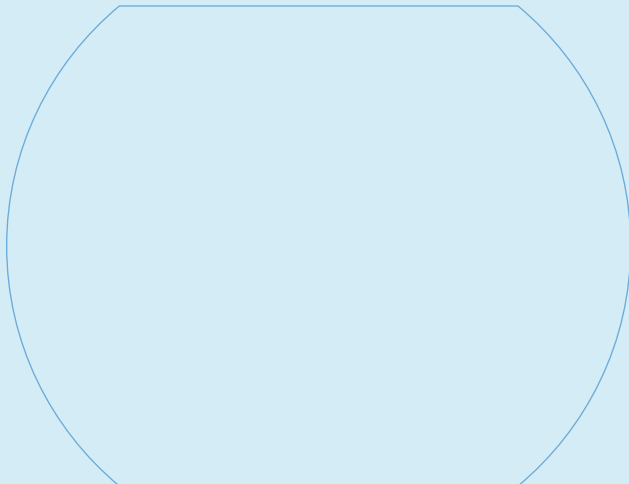
This Agency Financial Report was created by the energy and talent of the U.S. Small Business Administration staff. To all these dedicated individuals listed below, as well as those not listed, we offer our sincerest acknowledgement.

### CFO OFFICE

Jonathan Carver	John Kushman
Melissa Atwood	David Lippold
Raymond Baca	Theresa Lucero
James Bates	Valerie Meadows
Rory Berges	Shirley Mebane
Deepak Bhargava	Robert Montgomery
Debra Braswell	Maureen Moore-Vellucci
Jeffrey Brown	JoAnn Mueller
Joshua Bull	Rosemary Ngwiri
Ashok Chaudhry	Ivey Packwood
Randall Christopherson	Sarada Parthasarathy
Elizabeth Cottom	Mike Peterson
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Mary Dam	Trevor Postlethwaite
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Tamara Dollarhite	Tong Qin
Sharon Evans	Steve Ramey
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Michelle Gierwatoski	Harold Simmons
Leslie Godsey	Rodney Simoneau
Gordon Goeke	Jessica Smith
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Marilyn Henderson	Sylvia Thornton
Joseph Henry	Darrell White
Malene Hernandez	Kelly Wilcox
Blake Hoing	Rita Williams
Michael Holland	Petrina Worthington
Jonathan Jones	Uma Yanamandra
Thomas Karg	

### PROGRAM OFFICES

Michael Avant	Christine Koronides
Dennis Bumpass	Nina Levine
Shawne Carter	Robert Naylor
Martin Coyret	Bruce Purdy
Eugene Cornelius	Yan Russell
Jeanne Crepeau	Holly Schick
Alan Escobar	Ajoy Sinha
Roger Garland	Annie Spiczak
Martin Gold	James VanWert
Grady Hedgespeth	Yvonne Walters
Brian Hooper	Gloria Wright-Simms
Calvin Jenkins	



We would also like to acknowledge the SBA Office of the Inspector General and KPMG, LLP for the professional manner in which they conducted the audit of the FY 2009 financial statements.

We offer our special thanks to Innovative Consultants International (ICI), and Corporate Visions, Inc. for outstanding contributions to producing this report.



**U.S. Small Business Administration**  
**Office of Business Development**  
**409 Third Street, S.W.**  
**Washington, DC 20416**