AUDIT REPORT

ACCURACY OF THE FY 2015 7(a) LOAN GUARANTY PURCHASE IMPROPER PAYMENTS RATE

DECEMBER 11, 2017 REPORT NUMBER 18-07

EXECUTIVE SUMMARY

ACCURACY OF THE FY 2015 7(A) LOAN GUARANTY PURCHASE IMPROPER PAYMENTS RATE

Report No. 18-07

December 11, 2017

What OIG Reviewed

This report presents the results of our audit of the Small Business Administration's (SBA's) fiscal year (FY) 2015 improper payment rate for the 7(a) Loan Program purchases. From April 1, 2014, to March 31, 2015, SBA purchased the loan guaranty on 6,740 loans totaling $880.2 million. SBA tested a sample of 261 of those payments totaling $148.3 million for improper payments. Based upon its test results, SBA estimated that the FY 2015 7(a) loan guaranty purchase improper payments rate was 0.9 percent.

To evaluate the accuracy of this rate, OIG performed its own improper payments testing for a sample of 32 loan guaranty purchases from SBA's improper payments test sample of 261. We also met with SBA officials and staff to gain an understanding of the process SBA's Quality Control (QC) team used during its improper payments testing and obtained documents regarding its estimation process.

What OIG Found

SBA did not detect all improper payments when conducting improper payment reviews to estimate its FY 2015 rate for 7(a) guaranty purchases. As a result, it understated the FY 2015 improper payments rate for the 7(a) Loan Program purchases. SBA reported improper payments of $7.91 million, or 0.9 percent, of the $880.2 million in guaranty purchases during the year. In contrast, OIG statistically estimated the improper payment rate to be approximately four times the reported rate at 3.61 percent, or $31.8 million. OMB Circular A-123 Appendix C, which defines improper payments, includes disbursements that were made based on incomplete information in addition to disbursements to ineligible recipients. Based upon this definition of improper payments, we concluded that 11 of the 32 loan guaranty purchases we reviewed included improper payments.

OIG identified eight loan guaranty purchases as improper that SBA's QC team did not identify as improper payments. We believe these differences resulted from SBA loans not being reviewed with the scrutiny required to identify improper payments, the SBA guaranty purchase centers basing decisions on internal documentation that is not consistent with the standard operating procedures (SOPs), and SBA's review process guides not specifically requiring loan specialists to recalculate and verify lenders' calculations. As a result, SBA was not able to accurately report and assess the risk of improper payments related to 7(a) loan guaranty purchases, and therefore, did not establish appropriate reduction targets and implement commensurate corrective actions to reduce improper payments, enhance program integrity, and ensure the 7(a) loan guaranty purchase process is operating as intended.

OIG Recommendations

We provided nine recommendations to improve SBA's accuracy in reporting the estimated improper payments rate for the 7(a) Loan Program purchases. We recommended that the Office of Financial Program Operations (OFPO) conduct an assessment of the 7(a) loan guaranty purchase improper payments review process, revise internal center guidance to ensure that critical lender calculations are verified, revise internal center guidance to ensure the guides are consistent with SOPs, and seek recovery from the lenders on six loans.

Agency Response

SBA management agreed with all nine recommendations. Specifically, SBA plans to assess the Improper Payments Elimination and Recovery Act of 2010 review process and implement changes as appropriate. SBA also will review and revise process guidance at its centers to ensure that loan specialists are verifying critical lender calculations and to ensure consistency with the current SOPs. With respect to recommendations four through nine, the Agency agreed to place the respective loans in the denial review process, at which time the lender will be granted an opportunity to provide documentation to bring the loans into compliance. If the lender is not able to provide documentation to mitigate the concerns identified, OFPO will seek recovery.

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

Final Report Transmittal
Report Number: 18-07

DATE: December 11, 2017

TO: Linda E. McMahon
Administrator

FROM: Hannibal "Mike" Ware
Acting Inspector General

SUBJECT: *Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate*

This report presents the results of our audit on the accuracy of the fiscal year 2015 improper payments rate for the 7(a) Loan Program purchases. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on the draft of this report when preparing the final report. SBA agreed with all nine recommendations.

We appreciate the courtesies and cooperation extended to us during this audit. If you have any questions, please contact me at (202) 205-6586 or Andrea Deadwyler, Assistant Inspector General for Audit, at (202) 205-6616.

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Introduction

SBA is authorized under Section 7(a) of the Small Business Act to provide financial assistance to small businesses in the form of Government-guaranteed loans. SBA's 7(a) loans are made by participating lenders in accordance with SBA's rules and regulations and prudent lending standards. SBA is released from liability on its guaranty, in whole or in part, if the lender fails to comply materially with any SBA loan program requirement or does not make, close, service, or liquidate the loan in a prudent manner.

When a loan goes into default and the lender requests guaranty payment, SBA reviews loan documentation to evaluate the lender's compliance with program rules and regulations. SBA reviews the lender's actions on the loan to determine if the lender made, closed, serviced, and liquidated the loan in a commercially reasonable manner that was consistent with SBA requirements and prudent lending practices. Based on this review, SBA determines whether it is appropriate to accept liability for payment of the guaranty, which SBA refers to as a guaranty "purchase." The purchase review process is SBA's primary control for ensuring lender compliance and preventing improper payments. In the event of material noncompliance, SBA no longer needs to honor its loan guaranty, in full or in part. Since FY 2011, SBA has paid more than $7 billion to 7(a) lenders to purchase its guaranteed share of defaulted loans.

History of Improper Payments

Congress passed the Improper Payments Information Act of 2002 (IPIA) requiring agencies to annually review programs, estimate improper payments, and report on actions to reduce them. In 2009, the President issued Executive Order 13520, which required greater transparency and the development of a website that provides information about current and historical rates, targets for reducing improper payments, and accountable officials. Next, Congress passed the Improper Payments Elimination and Recovery Act of 2010 (IPERA). This Act expanded the 2002 Act by providing more guidance on risk assessment, requiring estimates to be statistically valid, and lowered the threshold for programs that must perform recovery audits to $1 million in annual outlays. It also required Inspectors General (IGs) to annually determine compliance with key criteria listed in the act.

In 2012, the Improper Payments Elimination and Recovery Improvement Act (IPERIA) was passed. IPERIA further expanded IPIA by requiring OMB to annually designate a list of "high priority programs" that are subject to additional reporting requirements and oversight by IGs. It also required OMB to determine current and historical recovery rates for improper payments and establish targets for recovery rates.

Definition of Improper Payments

OMB Circular A-123 Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*, defines improper payments as any payments that should not have been made or that were made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. The Circular also states that incorrect amounts are overpayments or underpayments that are made to eligible recipients (including denials of payment or service, any payment that does not account for credit for applicable discounts, payments for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

According to the Circular, an improper payment under a loan guaranty program may include payments by the Government to non-Federal entities for defaults, delinquencies, interest, and other subsidies, or other payments that are based on incomplete, inaccurate, or fraudulent information. They may also include duplicate payments, payments in an incorrect amount, or any payments that are not in compliance with law, program regulations, or agency policy.

SBA's 7(a) Loan Guaranty Purchase Improper Payments Testing Process

SBA identified the 7(a) Loan Program purchases as being susceptible to significant improper payments. Therefore, SBA is required to, among other things, review a statistical sample of loan guaranty purchases annually to estimate the rate of improper payments in the program. In order to determine the sample of loans to be reviewed, the Office of Financial Program Operations (OFPO) provides all loan guaranty purchases via monthly spreadsheets to a contracted statistician. The improper payment reporting for FY 2015 was based on loan guaranty purchases between April 1, 2014, and March 31, 2015. The IPERA file reviews are performed by Quality Control (QC) staff and are completely independent of the original purchase review. If a discrepancy is noted, the QC staff reaches out to the lender to obtain additional documentation to cure the finding. If the Lender is unable to cure the finding, the QC specialist reports the finding as an improper payment. Improper payment determination guidelines have been developed by each center based on the guidance provided by Appendix C of OMB Circular A-123. The final step of the IPERA review is a comparison to the original purchase review conducted by a QC approver to determine if an improper payment has occurred.

Table 1: 7(a) Loan Guaranty Purchases Historical IP Rates

Fiscal Year	Reported IP Rate (%)	OIG Estimated IP Rate (%)
2008	0.53	27
2009	3.81	-
2010	1.87	-
2011	1.73	20[1]
2012	3.2	-
2013	1.15	-
2014	1.75	-
2015	0.9	3.61

OIG Annual Evaluation of Improper Payments Reporting

OMB Circular A-123, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments,* instructed OIGs to determine whether agencies were in compliance with IPERA. Since FY 2011, OIG has annually evaluated the compliance of the Agency's improper payments reporting. The evaluation also includes a qualitative assessment of the Agency's efforts to prevent and reduce improper payments.

[1] OIG audit determined the IP rate could have been as high as 20 percent.

Our reviews of the 7(a) Loan Program purchases indicate that the Agency has made significant improvements in its processes to prevent, detect, and correct improper payments since the advent of the review process. OIG's annual evaluation of SBA's compliance with IPERA does not include a detailed assessment of the accuracy of SBA's reported improper payment rate. Instead, OIG's annual evaluation is primarily focused on the internal processes and improper payments reporting requirements. Therefore, OIG periodically conducts a more detailed audit to determine whether the Agency's controls to assess and report an accurate improper payment rate are effective.

Prior Work

A prior OIG Audit Report, *The Small Business Administration's Fiscal Year 2008 Improper Payment Rate for the 7(a) Guaranty Loan Program* (Report Number 9-16, July 10, 2009), found that SBA's estimate for FY 2008 had significantly understated the level of improper payments in the 7(a) guaranty purchase program. SBA reported that improper payments were 0.53 percent of FY 2008 program outlays. In contrast, OIG estimated the improper payment rate to be 27 percent, or approximately $234 million, of the $869 million in loan guaranties purchased between April 1, 2007, and March 31, 2008. A review of 30 of the 186 loans sampled by SBA disclosed that it did not identify all improper payments associated with these loans. SBA identified only 2 improper payments, totaling $4,468, for the 30 loans OIG sampled. In contrast, we identified improper payments related to ongoing lender guaranty fees on all 30 loans, of which 12 evidenced lender compliance issues or SBA processing errors. OIG made ten recommendations which included obtaining recoveries on improper payments for 7(a) loan guaranty purchases; ensuring that complete and consistent reviews were performed; consulting with a statistician to ensure variable sampling procedures were employed, precision requirements were met, and projections were statistically valid; fully implementing the Agency's corrective action plan to reduce improper payments, and establishing recovery time frames for improper payments identified by the centers during their improper payment reviews. All recommendations from the report have been addressed and closed.

A prior OIG Audit Report, *The Small Business Administration's Improper Payment Rate for 7(a) Guaranty Purchases Remains Significantly Underestimated* (Report Number 13-07, November 15, 2012), found that SBA's improper payment rate of 1.73 percent, or $40.7 million was underestimated in its FY 2011 Annual Financial Report. OIG determined that the rate could have been as high as 20 percent or about $472 million of the nearly $2.36 billion in purchases. OIG made 12 recommendations which included creating a more comprehensive improper payment detection checklist and monitoring its effectiveness; providing training to the three centers responsible for conducting improper payment reviews; determining the appropriate amount of time needed for loan reviews to better identify erroneous payments; confirming recovery for two loans, and seeking recovery for four loans. All recommendations from the report have been addressed and closed.

Objective

Our audit objective was to determine whether SBA's FY 2015 estimated improper payments rate for the 7(a) Loan Program purchases was accurate.

Finding 1: SBA's FY 2015 Improper Payments Rate for the 7(a) Loan Guaranty Purchases Is Inaccurate

We found that SBA did not detect all improper payments when conducting improper payment reviews to estimate its FY 2015 rate for 7(a) loan guaranty purchases. As a result, SBA understated the 2015 improper payments rate for 7(a) loan guaranty purchases. SBA statistically estimated and reported an improper payment rate of 0.90 percent, or $7.91 million, in its FY 2015 Annual Financial Report.[2] In contrast, OIG statistically estimated the improper payment rate to be approximately four times the reported rate at 3.61 percent, or $31.8 million. The Agency reviewed a sample of 261 loans and identified 42 improper payments totaling $1.7 million, but in our review of a statistical sample of 32 of the 261 loans, we identified 11 with improper payments totaling approximately $6.6 million.[3] While the difference was substantially less than prior audits, our determination that the rate was understated is consistent with the results of our 2007 and 2011 audits.

We believe these differences occurred because SBA loan specialists did not review loans with the scrutiny needed to identify improper payments; the SBA guaranty purchase centers based their decisions on internal documentation that was not consistent with the SOPs; and SBA's review process guides did not specifically require loan specialists to recalculate and verify lenders' calculations. As a result, SBA was not able to accurately report and assess the risk of improper payments related to 7(a) loan guaranty purchases, and therefore did not establish appropriate reduction targets and implement commensurate corrective actions to reduce improper payments; enhance program integrity; and ensure the 7(a) loan guaranty purchase process is operating as intended.

Identified Improper Payments

SBA policy specifies that lenders must originate, close, service, and liquidate 7(a) loans in accordance with SBA's rules and regulations including SBA standard operating procedures (SOPs). Table 2 provides the nature and amounts of the improper payments we identified in our sample.

Table 2: Identified Improper Payments and Recommended Recoveries

Sample Number	Deficiency Description	Purchase Amount	SBA IP Amount	OIG IP Amount	Recommended Recovery
8	(1) Unapproved change in use of proceeds; (2) Unsupported disbursements	$124,052	$750	$72,873	$72,123
11	(1) Ineligible debt refinance; (2) Lien on collateral not obtained; (3) Personal medical judgement	$182,454	$4,824	$167,963	$69,730
24	(1) Expense overpayment	$803,984	$3,559	$3,559	-*

[2] SBA used disbursement data from April 1, 2014, through March 31, 2015, to estimate the FY 2015 7(a) Loan Guaranty Purchase improper payments rate.
[3] The OIG statistical sample of 32 loans was selected from SBA's sample of 261 loans. Our sample of 32 contained 2 loans that were previously reviewed as a part of the OIG High Risk 7(a) Loan Review Program.

Sample Number	Deficiency Description	Purchase Amount	SBA IP Amount	OIG IP Amount	Recommended Recovery
26	(1) Ineligible debt refinance	$1,178,986	-	$821,590	$64,747
28	(1) Unsupported projections; (2) Equity injection not sourced	$2,127,190	-	$2,127,190	$1,903,213
31	(1) Final construction plans not obtained; (2) Interim and final site inspections not performed	$2,046,465	$0	$2,046,465	$2,046,465[4]
32	(1) Ineligible use of proceeds; (2) Affiliates not considered in financial analysis	$1,205,359	$12,905	$1,205,359	$850,791[5]
Totals		$9,471,124	$49,735	$6,609,738	$5,143,835

Source: SBA loan files and results of OIG's reviews.
* SBA previously recovered this IP from the lender.

SBA's improper payment reviewers did not detect that lenders failed to meet Agency requirements on 8 loans in our sample of 32. Below are examples of the types of deficiencies we identified in our loan file reviews.

Eligibility Deficiency Example

We noted one loan where the lender's calculation of the cash flow improvement contained erroneous information. When the calculation was performed with the appropriate figures, the cash flow improvement fell significantly below the SBA threshold for eligibility. SBA requirements state that when refinancing long-term debt, the business must receive a permanent substantial benefit.

Repayment Ability Example

For one loan, the lender determined that repayment ability was sufficient even though the borrower had unsupported and unrealistic revenue projections and declining revenue prior to the change of ownership. The projections showed a 62 percent increase in revenue in the first year, after a decrease of 16 percent in the prior year. The loan file did not contain sufficient evidence to support how it would be achieved. SBA requirements state that borrower projections must be based on reasonable assumptions and no loan can be guaranteed by SBA unless there is a reasonable assurance of repayment in a timely manner.

In addition, due to the initial purchase review identifying a potential eligibility issue, the National Guaranty Purchase Center (NGPC) initially recommended a full denial on this loan. However, the denial recommendation was overturned at headquarters based on additional documentation. Agency procedures require that the purchase review then be returned to the NGPC for the remainder of the purchase review to be completed. In this instance, the purchase review process was closed without the remainder of the review being completed.

Closing Deficiency Example

We identified one loan where the lender incorrectly indicated that loan proceeds were to be used to purchase land and improvements. Instead, the loan proceeds were used to make a payment to the estate of a deceased partner to facilitate a change of ownership. The lender did not comply with SOP requirements for a change of ownership transaction including the completion of a business valuation. SBA policies required the lender to obtain, or perform a business valuation.

[4] OIG Management Advisory Memorandum Report 16-11 previously recommended recovery on this loan.
[5] OIG Management Advisory Memorandum Report 16-19 previously recommended recovery on this loan.

Collateral/Liquidation Deficiency Example

We identified one loan where the lender failed to properly take a lien on a truck that was being refinanced with SBA loan proceeds. The loan being refinanced was solely secured by the truck. SBA requirements state that when SBA refinances secured debts, SBA expects to have at least the same security for the new debt, as long as the original loan was not over collateralized.

Other Deficiency Example

We also found that SBA identified one loan in which Care and Preservation of Collateral (CPC) expenses were deducted from recoveries at the time of liquidation, and the lender was then reimbursed for the same expenses at the time of the guaranty purchase. This resulted in a duplicative reimbursement of CPC expenses.

Recommendations

We recommend that the Director of the Office of Financial Program Operations:

1. Conduct an assessment of the 7(a) loan guaranty purchase improper payments review process to improve improper payment identification. Based on the results of the assessment, implement additional controls to ensure improper payment identification and accurate reporting of the rate.

2. Revise internal center guidance to ensure that critical lender calculations are verified and/or recalculated.

3. Revise internal center guidance to ensure the guides are consistent with the appropriate SOPs.

4. Require Compass Bank to bring the loan into compliance and, if not possible, seek recovery of $12,266, plus interest, on the guaranty paid by SBA for the loan to FOIA Exemptions 4 and 6.

5. Require Premier Bank to bring the loan into compliance and, if not possible, seek recovery of $72,123, plus interest, on the guaranty paid by SBA for the loan to FOIA Exemptions 4 and 6.

6. Require Coastway Community Bank to bring the loan into compliance and, if not possible, seek recovery of $124,500, plus interest, on the guaranty paid by SBA for the loan to FOIA Exemptions 4 and 6.

7. Require Home Loan Investment Bank F.S.B. to bring the loan into compliance and, if not possible, seek recovery of $69,730, plus interest, on the guaranty paid by SBA for the loan to FOIA Exemptions 4 and 6.

8. Require Newtek Small Business Finance Inc. to bring the loan into compliance and, if not possible, seek recovery of $64,747, plus interest, on the guaranty paid by SBA for the loan to FOIA Exemptions 4 and 6.

9. Require Sonabank to bring the loan into compliance and, if not possible, seek recovery of $1,903,213, plus interest, on the guaranty paid by SBA for the loan to FOIA Exemptions 4 and 6.

Analysis of Agency Response

SBA management concurred with the nine recommendations and stated the agency will target November 15, 2018, for full implementation. The Agency's response is included in its entirety in Appendix IV.

Summary of Actions Necessary to Close the Recommendations

The following provides the status of the recommendations and necessary actions to close them.

1. **Resolved.** SBA management concurred with our recommendation and plans to assess the IPERA review process, evaluate whether any changes are needed, and implement as appropriate.

2. **Resolved.** SBA management concurred with our recommendation and plans to review the center process guidance and revise to ensure that loan specialists are verifying critical lender calculations.

3. **Resolved.** SBA management concurred with our recommendation and plans to review and revise the center process guidance to ensure that there is consistency with the current SOPs.

4. **Recommendations 4 through 9 - Resolved.** SBA management concurred with our recommendations and plans to place these loans in the denial review process, at which time the lender will be granted an opportunity to provide documentation to bring the loans into compliance. If the lenders are not able to provide documentation to mitigate the concerns identified, OFPO will seek recovery.

Appendix I: Objectives, Scope, and Methodology

Our audit objective was to determine whether SBA's FY 2015 estimated improper payments rate for the 7(a) Loan Program purchases was accurate.

To answer our objectives, we reviewed IPERIA, and OMB Memorandum M-15-02, Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments, for improper payments guidance. We reviewed SBA's SOPs, including 50 10, 50 51, 50 57, and additional guidance to determine compliance with agency specific guidelines in the determination of an improper payment.

We leveraged the internal control assessment performed during OIG evaluation report on SBA's FY 2015 Progress in Reducing Improper Payments. Detailed internal control testing was performed during that audit on the exact process from which sampling occurred in our audit.

- We met with Agency officials prior to reviewing our sample. Additionally, we acquired documents from OIG evaluation workpapers as well as obtained other needed documentation from SBA Electronic Loan Folder systems and the QC team.

- We selected a statistical sample of 32 7(a) loan guaranty payments (totaling $24.7 million) occurring between April 1, 2014, and March 31, 2015, from a sample of 261 guaranty loan purchases reviewed by SBA's QC team as part of its improper payment estimation process.[6] SBA's 261 guaranty purchases (totaling $148.3) were sampled from a universe of 6,740 guaranty loan purchases between April 1, 2014, and March 31, 2015, totaling $880.2 million.

- We reviewed the guaranty purchases using an OIG designed review checklist based on ensuring compliance with agency criteria stated above.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Use of Computer-Processed Data

We relied on information from SBA's Mainframe Loan Accounting System for guaranty purchases occurring between April 1, 2014, and March 31, 2015. Previous OIG engagements have verified that the information maintained in this system is reasonably reliable. Further, data elements associated to reviewed loans were verified against source documentation maintained in SBA loan files. As a result, we believe the information is reliable for the purposes of this audit.

[6] Four of the 32 loan guaranty purchases in the OIG sample were selected with certainty. Two of these payments were previously reviewed and reported as a part of OIG's High Risk 7(a) Loan Review Program, and the additional two loans had unusually high payment amounts (at least $3.6M). The remaining 28 loan guaranty purchases were randomly sampled from the SBA sample.

Review of Internal Controls

SBA's internal control systems SOP provides guidance on implementing and maintaining effective internal control systems, as required by OMB Circular A-123.[7] OMB Circular A-123 provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal controls.[8]

We leveraged the assessment of internal controls performed during OIG's *Evaluation Report on SBA's FY 2015 Progress in Reducing Improper Payments* (Report Number 16-15, May 13, 2016).

[7] SOP 00 02, *Internal Control Systems* (January 1986).
[8] OMB Circular A-123, *Management's Responsibility for Internal Control* (December 21, 2004).

Appendix II: Sampling Results

Table 3: Improper Payments Comparison for Loan Guaranty Purchase Samples

Sample	Purchase Amount	SBA IP Amount	OIG IP Amount
1	$4,849	$0	$0
2	$12,542	$0	$12,542
3	$30,444	$0	$0
4	$47,338	$0	$0
5	$49,760	$0	$0
6	$117,173	$0	$0
7	$123,442	$0	$0
8	$124,052	$750	$72,873
9	$141,342	$0	$0
10	$163,712	$22,328	$146,828
11	$182,454	$4,824	$167,963
12	$283,941	$0	$0
13	$292,756	$0	$0
14	$341,608	$0	$0
15	$459,214	$0	$0
16	$467,061	$0	$0
17	$543,903	$0	$0
18	$545,453	$0	$0
19	$550,205	$212	$212
20	$650,552	$0	$0
21	$701,602	$0	$0
22	$707,376	$0	$0
23	$797,516	$0	$0
24	$803,984	$3,559	$3,559
25	$1,076,175	$5,157	$5,157
26	$1,178,986	$0	$821,590
27	$1,457,800	$0	$0
28	$2,127,190	$0	$2,127,190
29	$3,606,285	$0	$0
30	$3,842,114	$0	$0
31	$2,046,465	$0	$2,046,465
32	$1,205,359	$12,905	$1,205,359

Source: Generated from audit results.

Appendix III: Questioned Costs

Table 4: Questioned Cost for Loan Guaranty Purchase Samples

Sample	Purchase Amount	OIG Questioned Costs
1	$4,849	$0
2	$12,542	$12,266
3	$30,444	$0
4	$47,338	$0
5	$49,760	$0
6	$117,173	$0
7	$123,442	$0
8	$124,052	$72,123
9	$141,342	$0
10	$163,712	$124,500
11	$182,454	$69,730
12	$283,941	$0
13	$292,756	$0
14	$341,608	$0
15	$459,214	$0
16	$467,061	$0
17	$543,903	$0
18	$545,453	$0
19	$550,205	$0
20	$650,552	$0
21	$701,602	$0
22	$707,376	$0
23	$797,516	$0
24	$803,984	$0
25	$1,076,175	$0
26	$1,178,986	$64,747
27	$1,457,800	$0
28	$2,127,190	$1,903,213
29	$3,606,285	$0
30	$3,842,114	$0
31	$2,046,465	$2,046,465[9]
32	$1,205,359	$1,205,359[10]

Source: Generated from audit results.

[9] OIG Management Advisory Memorandum Report 16-11 previously questioned costs on this loan.
[10] OIG Management Advisory Memorandum Report 16-19 previously questioned costs on this loan.

SBA

OFFICE OF FINANCIAL PROGRAM OPERATIONS

RESPONSE TO AUDIT REPORT

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

TO: Hannibal M. Ware, Acting Inspector General
Office of Inspector General (OIG)

FROM: Jihoon Kim
Acting Director, Office of Financial Program Operations

SUBJECT: Response to the Draft Report on Accuracy of the FY 2015 7(a) Loan Guaranty Purchase Improper Payments Rate

We appreciate the role the Office of Inspector General (OIG) plays in working with management in ensuring that our programs are effectively managed, and for the feedback provided in this draft report.

The SBA strives to ensure proper payments on guaranty purchases consistent with SBA's regulations and policies. The Office of Financial Program Operations (OFPO) continues to focus on improving financial performance through the reduction of improper payments. OFPO management continually develops strategies to reduce improper payments for responsible stewardship of public assets.

OFPO takes great pride in its Quality Improvement Program and the Improper Payment Elimination and Recovery Act (IPERA) review process and is always looking for ways to enhance the effectiveness of the review of guaranty purchase transactions. Since 2015, OFPO has made great strides to improve the IPERA review process, including enhanced loan review checklist, collaboration with the Office of Credit Risk Management, and internal trainings covering common deficiencies and errors in the guaranty purchase review process.

This draft report outlines the OIG's concerns regarding its review of the FY2015 7(a) Loan Guaranty Purchase Improper Payments Rate and identified a total of nine recommendations. Of the recommendations, six are to bring individual loans into compliance and, if not possible, seek recovery from the appropriate lender.

Management's responses to the recommendations in the draft report are noted as follows:

Recommendation #1: Conduct an assessment of the 7(a) loan guaranty purchase improper payments review process to improve improper payment identification. Based on the results of the assessment, implement additional controls to ensure improper payment identification and accurate reporting of the rate.

Agency Response: OFPO will assess the IPERA review process, evaluate if any changes are needed, and implement as appropriate.

<u>Recommendation #2:</u> Revise internal center guidance to ensure that critical lender calculations are verified and/or recalculated.

<u>Agency Response:</u> OFPO will review the center process guidance and revise as appropriate to ensure that loan specialists are verifying critical lender calculations.

<u>Recommendation #3:</u> Revise internal center guidance to ensure the guides are consistent with the appropriate SOPs.

<u>Agency Response:</u> OFPO will review and revise the center process guidance to ensure that there is consistency with the current SOPs.

<u>Recommendations #4-9:</u> Require lender to bring the loans into compliance and, if not possible, seek recovery from the lender.

<u>Agency Response:</u> OFPO agrees to place the loans in the denial review process in HQ, at which time the lender will be provided an opportunity to provide documentation to bring the loan into compliance. If the lender is not able to provide documentation to mitigate the concerns identified, OFPO will seek recovery.