

Top Management and Performance Challenges

Facing the Small Business Administration in Fiscal Year 2027

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NOTICE:

Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, Section 5274, any nongovernmental organizations and business entities identified in this report have the opportunity to submit a written response for the purpose of clarifying or providing additional context as it relates to any specific reference contained herein. Comments must be submitted to AIGA@sba.gov within 30 days of the final report issuance date. We request that any comments be no longer than two pages, Section 508 compliant, and free from any proprietary or otherwise sensitive information. The comments may be appended to this report and posted on our public website.

Introduction

The U.S. Small Business Administration (SBA) is dedicated to helping small business owners and entrepreneurs pursue the American Dream. From the beginning, SBA's mission has been clear: to help Americans start, build, and grow small businesses. The agency delivers this mission through four core services — expanding access to capital, providing expert counseling and training, helping small businesses compete for federal contracting opportunities, and leading disaster recovery efforts for businesses and communities in need.

SBA leadership has emphasized accountability, program performance, and stewardship of public resources. The Office of Inspector General (OIG) recognizes the agency's engagement in addressing the risks identified in this report and appreciates the agency's focus on ensuring taxpayer dollars are protected.

Pursuant to the Reports Consolidation Act of 2000,¹ OIG has identified the top management and performance challenges facing SBA to meet its mission and deliver services to all entrepreneurs with integrity, efficiency, and measurable results. The Act requires the Inspector General's statement of those challenges to be included in the agency's annual performance and accountability reporting.

OIG has identified the following challenge areas for SBA in fiscal year (FY) 2027:

- Information Technology Systems
- Combating Fraud and Program Oversight
- Financial Reporting and Improper Payments
- Workforce Development

Identification of an issue as a top challenge does not necessarily denote significant deficiencies or lack of attention on SBA's part. Many of the challenges are longstanding, inherently difficult, and will likely continue to be challenges in the coming years. Mitigating the risks associated with the challenges will require consistent attention from agency management and ongoing engagement with Congress, the public, and other stakeholders. We continue to collaborate with SBA program officials in identifying and addressing the top challenges facing the agency.

¹ (d) A report under subsection (a) shall include a statement prepared by the agency's inspector general that summarizes what the inspector general considers to be the most serious management and performance challenges facing the agency and briefly assesses the agency's progress in addressing those challenges. The inspector general shall provide such statement to the agency head at least 30 days before the due date of the report under subsection (a). The agency head may comment on the inspector general's statement but may not modify the statement.

Information Technology Systems

The agency's ability to deliver services to small business owners and entrepreneurs with integrity, efficiency, and measurable results depends on the continuous availability, integrity, and security of its information technology (IT) systems. IT is not a discretionary support function; it is a critical delivery mechanism for nearly every program transaction, applicant interaction, and financial control.

Why is This a Challenge?

Cybersecurity and IT governance are continuous management responsibilities. Modern IT is layered — hardware, networks, operating systems, middleware, applications, identity, and data. A change in one layer can break something several layers away. Complex, interconnected systems require complete inventories, ownership, and governance. This complexity is precisely why effective management of IT systems is a continuous activity. Implementing National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53 controls effectively requires more than applying controls layer by layer: the agency must first inventory and understand its systems, components, interdependencies, and information flows across the technology environment. Without that foundational understanding, the agency risks implementing controls within individual layers while overlooking risks or dependencies that span other layers. This gap is reflected in the Federal Information Security Modernization Act (FISMA) related recommendations concerning inventorying data, cybersecurity risks, and systems.

Failures are often emergent rather than traceable to one component. Security compounds this problem because it is a moving target: defenders must cover every entry point, while an attacker needs only one. Add insider risk, third-party and supply-chain dependencies, and credential sprawl, and the perimeter becomes essentially undefinable. Security patches, vendor end-of-life dates, regulatory changes, and user demand all arrive continuously, placing stability and change in direct tension — every patch is simultaneously a risk reduction and a risk introduction. Unintended impacts can result from patching, which is why NIST SP 800-53 requires agencies to do more than simply “apply a patch.” Patches should be integrated into a formal change and configuration management process that includes appropriate testing and validation, documented approval, and post-implementation monitoring. This is reflected in the FISMA-related recommendations concerning configuration management.

People and processes also introduce risk, not just technology. Most outages trace back to configuration errors, unclear ownership, or communication gaps rather than defective hardware. Scarce specialized talent, competition with private sector pay, and knowledge concentrated in a few individuals compound this.

Finally, IT costs are largely fixed and recurring (licenses, maintenance, staff), while budgets are annual and contested. Large modernization efforts take years; mission needs, leadership, and technology all change during that time.

Agency Actions and Progress

SBA's Office of the Chief Information Officer (OCIO) has suffered from leadership turnover challenges for nearly a decade. OIG's work has substantiated concerns that IT systems were not captured within the agency's inventory and that some systems were managed outside of OCIO's purview, limiting the office's oversight of agency-wide IT operations. Compounding such challenges, budget authority for these systems was not centralized within OCIO. Over the past year, OCIO has been working to baseline its IT operations, though OIG currently cannot attest to the effect or implementation status of many of these actions at this point in time.

In OIG's FY 2025 FISMA review, SBA made progress in 1 of the 10 domains. The incident response domain was rated as optimized, exceeding the baseline for effective security controls. SBA regressed in three domains: information security and continuous monitoring, identity and access management, and risk and asset management. Several of these information security areas were affected by staff resources that were shifted to competing priorities.

Notably, SBA has accomplished the following:

- OCIO reported that it reorganized to consolidate IT positions from all program offices under the Chief Information Officer's leadership. Officials expect that centralizing IT staff will improve system monitoring, cyber threat protection, and OCIO's ability to meet Federal Information Technology Acquisition Reform Act requirements.
- OCIO reported that the centralization effort expanded its IT workforce from roughly 25–30 staff to more than 200.
- SBA has taken initial steps toward implementing the artificial intelligence (AI) governance requirements set by the Office of Management and Budget (OMB) and is continuing to build governance and risk management practices consistent with OMB Memorandum M-25-21 so AI systems remain transparent, accountable, and managed across their lifecycle.

Combating Fraud and Program Oversight

SBA must balance timely access to capital, contracting, counseling, and disaster assistance with effective internal controls to verify eligibility, manage fraud risk, oversee lenders and other third parties, monitor program performance, preserve records, and recover funds when appropriate.

Internal control is a dynamic process that must be continually adapted to the risks and changes an entity faces. As U.S. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* explains, because conditions — objectives, operating environment, applicable laws and regulations, available resources, and risks arising from both internal and external sources — are constantly shifting, monitoring of the internal control system is essential to keeping controls aligned with current conditions rather than the conditions under which they were originally designed.

Monitoring alone, however, is not sufficient. Corrective action is a necessary complement to monitoring activities: identifying a deficiency creates the obligation to remediate it. Management is responsible for ensuring that findings are promptly evaluated, that appropriate corrective actions are determined and implemented, and that remediation is tracked through to completion. Taken together, monitoring and corrective action provide reasonable assurance that internal control continues to support the achievement of the entity's objectives.

Why is This a Challenge?

Federal programs, to include SBA programs, concentrate a rare combination: large sums of money, decisions often being made on self-reported information, and a mandate to pay quickly. Fraudsters target whichever government dollar is easiest to reach.

OIG estimated that weaknesses in pandemic-era financial assistance controls contributed to the disbursement of over \$200 billion in potentially fraudulent Paycheck Protection Program (PPP) loans and COVID-19 Economic Injury Disaster Loans. PPP loans were 100 percent forgivable if an eligible borrower used the funds on allowable expenses.

OIG also identified payment integrity and recovery risks in other pandemic programs. For example, OIG reported that SBA could potentially recover \$9.5 billion in improper Restaurant Revitalization Fund payments and \$1.2 billion in payments to recipients of the Shuttered Venue Operators Grant where necessary reviews have not yet been completed or finalized through monetary recovery.

SBA manages a disaster loan portfolio exceeding \$250 billion, including more than \$63 billion in loans that are delinquent, in default, or accelerated, meaning the full remaining balance has been declared immediately due. OIG identified opportunities for SBA to improve collection and recovery practices, including the use of available collection tools and strategies. So far, by not using all available tools, SBA has reduced its likelihood of recovering disaster assistance funds and missed opportunities to mitigate financial losses.

SBA's flagship lending and contracting programs provide access to billions of dollars to the nation's small businesses. The agency must stay vigilant to protect taxpayer dollars and ensure funds are directed toward eligible small businesses and entities. For example, the 7(a) loan program is SBA's principal vehicle for providing entrepreneurs with access to credit they cannot obtain elsewhere. Generally, non-bank lenders, including mission-driven small business lending companies, are not regulated by other federal entities and are therefore primarily regulated and examined by SBA.

OIG has found SBA could improve its oversight of non-bank lenders to promote program integrity and reduce financial loss. Our analysis of 7(a) loans disbursed from 2016 to 2023 identified that loans made by small business lending companies significantly underperformed, related to default rates, compared to loans made by other lender types. We have also found that other non-bank lenders, specifically financial technology companies and other state-regulated finance companies, made \$14.2 billion in suspected fraudulent PPP loans at a rate more than five times higher than loans made by traditional lenders.² It is noted that lenders without SBA experience were included in the program to service underserved or non-bank businesses.

Agency Actions and Progress

- SBA leadership reported that they implemented new verification measures and, in FY 2025, launched an audit of the 8(a) Business Development Program that requested eligibility documentation from every program participant.
- In January 2026, SBA reported that it suspended 1,091 firms — 25 percent of 8(a) participants — for failing to provide the requested documentation. The agency continues to review submissions and take action so only eligible participants benefit.

² SBA Office of Inspector General, 25-04, *SBA's Oversight of Non-Bank Lenders and Third-Party Service Providers Associated with PPP Loans* (November 13, 2024).

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- In FY 2025, SBA reversed many actions taken by SBA program officials in 2023 and 2024 that increased risk to the 7(a) lending program. In FY 2023, within the 7(a) lending program, SBA program officials increased reliance on non-bank lenders, lowered underwriting standards, eliminated lender fees, and instituted a “Do What You Do” underwriting standard.
- SBA reported that, in FY 2025, it purchased over \$5 billion in defaulted guaranteed loans to honor SBA’s guaranties — an amount that exceeded the additional resources available to fund these claim payments. The defaulted loans involve multiple years, including those originated under the 2023–2024 policy changes. Significantly, the 2025 changes made by SBA leadership restored lender fees, promoting integrity within the program and mitigating risk to the taxpayer.

Financial Reporting and Improper Payments

Effective financial management with strong internal controls more quickly and accurately prevents improper payments and detects potential fraud schemes. Accurate financial reporting is also essential in providing Congress, the President, and the American public with reliable data on how the agency manages taxpayer funds.

Why is This a Challenge?

Independent public auditors have issued a disclaimer of opinion for several consecutive years. A disclaimer means that an auditor was unable to obtain sufficient information to determine whether the organization's financial statements are accurate.

SBA has not fully complied with improper payment reporting requirements over the last several years and has not addressed repeated recommendations. Notably, the agency did not conduct required risk assessments in 2025, potentially leaving programs susceptible to improper payments unknown to management. SBA also did not accurately report improper payment rates for some of its programs and had improper payment and unknown payment rates over the statutory rate of 10 percent for three of its pandemic-era programs: PPP Loan Forgiveness, PPP Loan Guaranty Purchases, and Shuttered Venue Operators Grant. To reduce improper and unknown payments in these programs, SBA will need to continue strengthening its efforts to address the underlying causes.

For 7(a) loan guaranty purchases, disaster assistance loans, and PPP loan guaranty purchases, SBA has been unable to accurately identify root causes and implement corrective action plans. Since the agency is not accurately identifying the root causes, its corrective action plans have remained ineffective. Improving improper payment reporting across all programs will give stakeholders assurance that the agency is acting as a good steward of taxpayer money.

Agency Actions and Progress

- Although SBA has received disclaimers of opinions in its financial statements audits for the last 6 years, the FY 2025 audit results indicate progress. For example, the agency remediated 2 material weaknesses and closed 36 recommendations. Furthermore, SBA successfully downgraded a third material weakness to a significant deficiency. However, the agency must still address four material weaknesses, one significant deficiency, and three instances of non-compliance with laws and regulations to obtain a clean audit opinion.
- SBA managers have taken initial steps to enhance agency-wide oversight and improve alignment of strategic goals with performance. Specifically, the agency approved a charter for a new SBA-wide oversight body, held an inaugural meeting of an external advisory committee on internal controls and remediation, and took action to link executive performance plans to financial statement audit remediation goals. However, the agency must still develop and continue sustained practices that improve risk assessment, clarify responsibility, and ensure management can identify, monitor, and remediate control deficiencies in a timely and consistent manner.

Workforce Development

The agency's ability to deliver services to small business owners and entrepreneurs with integrity, efficiency, and measurable results depends on a workforce with the right skills, experience, and leadership. Workforce development is not solely a hiring or training function; it is a continuous management responsibility to align staff capabilities with mission requirements, preserve institutional knowledge, and prepare employees to assume increasingly complex responsibilities. SBA leadership indicated this is a significant challenge area; consequently, OIG will plan additional oversight work in this area.

GAO designated strategic human capital management as a government-wide high-risk area in 2001, and it remained on the 2025 High-Risk List. In 2025, GAO reported that 20 high-risk areas were affected in part by skills gaps or inadequate staffing. This government-wide context underscores the importance of workforce development, but assessing SBA's challenge requires agency-specific evidence of capability gaps and their effects on mission delivery.

Why is This a Challenge?

Workforce needs change as programs, technology, organizational structures, and available resources change. SBA reported that its planning emphasis over the past 2 years has shifted toward rightsizing, reducing management layers, and consolidating functions while prioritizing critical and statutorily required hiring. Workforce planning, such as the agency's annual staffing plans, connect resources with projected mission requirements and identify how hiring, development, retention, and succession efforts will address remaining gaps.

SBA reported that its most significant skill gaps are in its leadership pipeline, disaster enterprise workforce, and enterprise-wide AI capability. These areas present distinct but related risks. An insufficient leadership pipeline can weaken continuity and supervision; gaps in disaster workforce capabilities can affect readiness and service delivery; and limited AI proficiency can constrain the agency's ability to evaluate and use emerging tools responsibly.

SBA's reported hiring results do not support applying a government-wide characterization of slow hiring to the agency, reportedly 34 days below the Office of Personnel Management (OPM) requirement. However, timely offers alone do not establish whether SBA can attract and retain the specialized talent it needs. Management must evaluate offer acceptance rates, hard-to-fill positions, and attrition alongside processing times to determine whether available pay flexibilities, career pathways, and developmental opportunities address demonstrated recruitment and retention barriers.

Strategic talent management includes planning for the potential loss of institutional knowledge as employees retire or otherwise leave the agency. SBA reported that 12.5 percent of its workforce is eligible to retire, down from 15 percent in FY 2024 and FY 2025. Eligibility does not establish when employees will leave, but the concentration of experienced staff in particular leadership or mission-critical positions may expose individual functions to the loss of essential knowledge. Agency-wide percentages, therefore, must be supplemented by ongoing analyses of vulnerable occupations and functions, supported by deliberate succession planning and knowledge transfer.

Finally, workforce development requires sustained attention beyond a single reorganization or training cycle. SBA expects most identified skill gaps to be addressed within 6 to 24 months, depending on role complexity and current proficiency. Demonstrating that these gaps have narrowed will require measurable baselines, accountable officials, and assessments of applied skills.

Agency Actions and Progress

SBA reported that it historically maintained a strategic workforce plan and succession plan, supported by program office workforce plans, to identify mission-critical positions, workforce gaps, hiring priorities, and succession needs. The agency indicated it is adapting these efforts to its reorganized structure and the OPM Annual Staffing Plan model. These actions provide a basis for more integrated planning, but their effectiveness will depend on sustained implementation and demonstrated workforce outcomes.

Notably, SBA reported the following actions, though OIG has not independently verified this reporting:

- **Human capital realignment:** In July, SBA announced a new Office of the Chief Human Capital Officer integrating the Office of Human Resources Solutions and People Operations Disaster Division, with a stated focus on customer service and mission needs.
- **Hiring performance:** Reduced reported time from announcement to offer from 51 days in FY 2026's first quarter to 47 days in the second quarter and 46 days in the third quarter.
- **Workforce planning:** Developed workforce distribution and mission-critical occupation dashboards and adopted OPM's Annual Staffing Plan model to support hiring forecasts and alignment with agency priorities.

- **Skills development:** Provided centralized training in project management, data analytics, and leadership, including leadership opportunities spanning GS-9 through GS-15 and Treasury Executive Institute opportunities for GS-14s, GS-15s, and senior executives. SBA also reported targeted mentoring, on-the-job learning, job aids, AI workgroups for all employees with an AI license, and an AI learning pilot for the human resources mission-critical occupation.
- **Succession and knowledge transfer:** Uses retirement eligibility, occupation, leadership, and competency data to identify vulnerable functions and inform succession planning, knowledge transfer, and developmental opportunities. Aligned with the President's Management Agenda, SBA reported that it has focused on early career talent over the past year and a half. In FY 2026, 10 summer interns were onboarded, and multiple internships were extended through fall because of their significant contributions. Additionally, in FY 2026, SBA stated that 17 percent of the new hires were early career talent. Prior to FY 2026, the agency hired 15 student interns, converted them into permanent positions after successful completion of their program, and invested annually in other Pathways programs (e.g., recent graduates, the former Presidential Management Fellows program).
- **Enterprise competency assessment:** SBA stated that it plans to conduct an enterprise competency assessment in FY 2027 to measure progress and refine future investments. Evaluating these efforts should include assessing whether identified skill gaps narrow against established baselines, critical positions have qualified successors, staffing forecasts reflect workload requirements, and employees demonstrate improved proficiency.
- **Leadership pipeline:** SBA reported it is re-engaging with programs that build and maintain the leadership pipeline. First, new supervisor training ensures the agency has skilled leaders at the entry level and prepares them for higher-level critical leadership roles. In FY 2026, SBA indicated that 67 new supervisors participated in this training. Second, leadership learning journeys are structured, multi-month learning pathways focused on core leadership competencies for employees at the GS-9 to GS-13 levels. These pathways have seen significant participation, with 142 employees taking part. The agency also holds monthly Supervisory Community of Practices where various leadership topics are taught and discussed. Attendance at the most recent session was 89 supervisors. Employee survey data suggests strong satisfaction with SBA supervisors, with 85 percent positive perceptions, indicating that the programs for training SBA supervisors are strong.

Organizational realignment, completed hiring actions, and training participation are important activities, but do not by themselves establish that workforce risks have been reduced.

Make a Difference

To promote integrity, economy, and efficiency, we encourage you to report instances of fraud, waste, or mismanagement to the OIG Hotline.*

Visit our [OIG Hotline website](#).

Write or visit:

U.S. Small Business Administration
Office of Inspector General
Investigations Division
409 Third Street SW (5th Floor)
Washington, D.C. 20416

* In accordance with the Inspector General Act of 1978, codified as amended at 5 USC 407 and 420(b)(2)(B), confidentiality of a complainant's identity is mandatory absent their consent to release such information, or the inspector general determines disclosure is unavoidable during the course of the investigation.