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INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION**

**BEFORE THE
COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
U.S. SENATE**

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INTRODUCTION

Chairman Rubio, Ranking Member Cardin, and distinguished members of the Committee, thank you for inviting me to testify before you today and for your continued support of the Office of Inspector General (OIG). In the last 6 years, my office has issued 9 reports to the Small Business Administration (SBA) Administrator regarding entrepreneurial development programs and veteran’s business development (VBD) programs.

SBA has set a strategic goal to build healthy entrepreneurial ecosystems and create business-friendly environments. To achieve this goal, SBA provides management and technical assistance training programs that assist small businesses with starting, growing, and competing in global markets. SBA relies mostly on its resource partners, including public or private institutions of higher education and state and local governments, to deliver its entrepreneurial development programs through grants and cooperative agreements.

Within SBA, the Office of Entrepreneurial Development (OED) oversees the majority of programs and services that support small businesses’ training and counseling needs. OED’s programs provide aspiring and current small business owners with a variety of free business mentoring and low-cost training services. OED’s primary resource partners include the following:

- Small Business Development Centers (SBDCs)—An extensive business education network comprised of 63 lead centers managing more than 900 subcenters, hosted by universities and state economic development agencies. The FY 2019 Consolidated Appropriations Act allocated \$131 million for SBA grants to SBDCs.
- Women’s Business Centers (WBCs)—A national network of more than 100 educational centers, which are designed to assist women in starting and growing small businesses. In FY 2019, Congress recommended that SBA use \$18.5 million to award grants to WBCs.
- The SCORE Association (SCORE)—The nation’s largest network of volunteer expert business mentors has more than 10,000 volunteers in 300 chapters. In FY 2019, Congress recommended that SBA use \$11.7 million to award grants to SCORE.

The Office of Veterans Business Development (OVBD) oversees programs and services for veterans, service-disabled veterans, reserve component members, and their dependent survivors interested in starting or growing a small business. The office primarily partners with Veterans Business Outreach Centers to conduct entrepreneurial development workshops and counseling services.

SBA has three separate program offices responsible for awarding, monitoring, and closing out grants to support SBA’s entrepreneurial development grant programs—the Office of Grants Management (OGM), Office of Small Business Development Centers, and the Office of Women’s Business Ownership. OGM, in collaboration with respective program offices, administers most of SBA’s grant programs, except for the SBDC and WBC programs, which have their own grants officers to award, monitor, and close the grants.

OIG'S ROLE

OIG was established within SBA by statute to promote economy, efficiency, and effectiveness and to deter and detect fraud, waste, abuse, and mismanagement in the Agency's programs and operations. During fiscal year (FY) 2018, OIG achieved more than \$224,472,559 million in dollar accomplishments—an elevenfold return on investment to the taxpayers—and made 111 recommendations for improving SBA's operations and reducing fraud and unnecessary losses in the Agency's programs.

OIG audits are conducted in accordance with federal audit standards established by the Comptroller General, and other reviews are conducted in accordance with standards established by the Council of the Inspectors General on Integrity and Efficiency. In addition, we coordinate with the Government Accountability Office to avoid duplicating federal audits.

OIG'S WORK ON ENTREPRENEURIAL DEVELOPMENT AND VETERAN'S BUSINESS DEVELOPMENT PROGRAMS

In the last 6 years, OIG has completed a large body of work on both OED and VBD programs, along with other grant programs outside the purview of this hearing, such as STEP. This body of work points to systemic issues in the Agency's grants management function. Our reviews of those programs resulted in the issuance of consolidated findings in report 19-02 at the beginning of FY 2019.

Report 19-02: Consolidated Findings of OIG Reports on SBA's Grant Programs, FYs 2014–2018

From FY 2014 to FY 2018, we issued nine reports reviewing SBA's management of its SBDC, SCORE, STEP, and B2B programs and grant recipient compliance with grant requirements (see table 1 for a complete listing of the reports). In those reports, we identified significant issues regarding the management of millions of dollars of federal funds allocated for small business expansion and growth, disaster assistance funding, and recovery efforts. In total, we made 57 recommendations to enhance the overall management and effectiveness of programs we reviewed, 53 of which are closed. Despite the program offices' corrective actions to address OIG's recommendations, SBA's decentralized oversight of the Agency's grant programs hampered agencywide improvements. Our consolidated findings of OIG reports on SBA's grant programs identified systemic areas of improvements for grants management.

Table 1: Grant and Program Reports Issued FYs 2014–2018

OIG Report #	Title	Date	Program Office
14-19	Improvements Needed in the SBA’s Oversight of the Financial Management of the District of Columbia Small Business Development Center	9/29/2014	OED
15-15	SBA Needs to Improve Its Management of Disaster Technical Assistance Grants	7/31/2015	OED
16-06	Small Business Development Center Hosted by Middle Tennessee State University	12/18/2015	OED
16-12	The SBA’s Boots to Business Grant Award	3/28/2016	OVBD and OGM
17-09	Audit of New York Small Business Development Center’s Phase 2 Disaster Technical Assistance Grant	3/31/2017	OED
17-10	The SCORE Association’s Disaster Technical Assistance Grant	3/31/2017	OED and OGM
17-11	Review of SBA’s State Trade and Export Promotion Grant Program	5/4/2017	OIT and OGM
18-11	Audit of SBA’s State Trade Expansion Program	1/29/2018	OIT and OGM
18-20	The SBA’s Boots to Business Program	7/19/2018	OVBD and OGM

Source: OIG generated based on review of released reports.

What OIG Found

We identified systemic issues with SBA’s financial and performance oversight across its multiple grant programs. Specifically, SBA’s process to monitor how grant recipients spent federal funds and to assess performance of its grant programs was ineffective. As a result, SBA’s grant programs are at risk of funds not being used for their intended purpose and of not achieving program goals and objectives.

For the SBDC, SCORE, and B2B programs we reviewed, we identified the following systemic financial and performance oversight issues:

Table 2: Systemic Issues in OIG Reports on SBA’s SBDC, SCORE, and B2B Programs Issued FYs 2014–2018

Systemic Issues Identified	Number of Reports	OIG Report Numbers	Entrepreneurial Development Programs
Financial Oversight			
Not enforcing financial reporting requirements	3	14-19, 17-10, 18-20	SBDC, SCORE, B2B
Cost category reimbursements exceeded budget	3	14-19, 15-15, 17-10	SBDC, SCORE
Weak financial review procedures	5	14-19, 15-15, 16-06, 17-09, 17-10	SBDC, SCORE
Incomplete supporting financial documentation	3	15-15, 16-06, 17-10	SBDC, SCORE
Performance Oversight			
Inaccurate and incomplete performance data	3	16-06, 17-10, 18-20	SBDC, SCORE, B2B
Incomplete supporting performance documentation	2	17-09, 17-10	SBDC, SCORE
Not enforcing performance reporting requirements	3	17-09, 17-10, 18-20	SBDC, SCORE, B2B
Weak performance review procedures	2	15-15, 18-20	SBDC, B2B
Performance measures lacked outcome results	2	17-10, 18-20	SCORE, B2B

Source: OIG generated based on review of released reports.

OIG Recommendations

We made four recommendations to enhance SBA’s management and oversight of its grant programs. First, we recommended that SBA assess its decentralized grants management structure to ensure that it performs comprehensive oversight. Additionally, we recommended that SBA establish effective controls to enforce financial and performance reporting requirements. Further, we recommended SBA develop outcome-based measurements to assess the impact of its programs. Lastly, we recommended that SBA train its grants officers and program personnel on its established grants management oversight procedures. SBA management concurred with all four of our recommendations and its planned actions resolved the four recommendations. Although SBA’s OGM is responsible for taking corrective actions to address these recommendations, OED will be impacted by the Agency’s actions since it manages several of the grant programs.

Summary of Actions Taken by SBA to Close the Recommendations

SBA’s OGM has conducted an assessment of the grant management organizational structure to ensure consistent compliance and comprehensive oversight of all SBA grant programs. Officials are finalizing the results and plans to issue a report this summer. Additionally, OGM plans to issue a new standard operating procedure (SOP) for grants management and implement a new grants management system to address this recommendation. The SOP is currently in its second round of clearance. OGM plans to issue it this summer. Further, OGM is still in the process of requesting approval from its internal stakeholders to move forward on its business request to implement a new grants management system. OGM told us they plan to implement the new

grants management system the end of FY 2020. OGM included the training and development plans in its revised SOP, which it plans to issue this summer. It anticipates that training will begin in FY 2020, but it may take until FY 2021 for there to be a budget allocation for training activities.

GRANTS MANAGEMENT CHALLENGES

Our identification of systemic risks in the Agency's grants programs led us to identify grants management as one of the most serious management and performance challenges facing the Agency in FY 2019. In FY 2018, SBA administered more than \$247 million in grants and cooperative agreements to its resource partners and other nonfederal entities to provide technical assistance and training programs to develop small businesses. With recent governmentwide emphasis on grant management reform, it is SBA's responsibility to develop processes and policies to ensure that its grants programs effectively and efficiently accomplish program objectives. However, our reviews of SBA's grant programs, including entrepreneurial development and VBD programs, continue to identify systemic issues with SBA's accuracy of grant data for both financial and performance reporting, ineffective oversight, and inadequate standard operating procedures.

OGM officials acknowledge that there are systemic issues within its grants management processes and plan to address these issues by implementing a new grants management system, implementing policies to establish an overarching oversight function for all SBA's grants, establishing training requirements for grants officers, and focusing resources on closing out grants to comply with Grants Oversight and New Efficiency Act requirements. Further, an OGM official conducted an assessment of the grant management organizational structure to ensure consistent compliance and comprehensive oversight of all SBA grant programs and is finalizing the results, which it plans to issue this summer. It is my understanding SBA is currently updating its standard operating procedure pertaining to federal assistance, which seeks to incorporate recommendations made by my office.

Report 19-12, SBA's Oversight of SCORE Association

On April 25, 2019 we published 19-12, SBA's Oversight of the SCORE Association, our most recent report on an entrepreneurial development program. This audit found that program officials did not effectively oversee SCORE's use of federal funds.

SCORE is an entrepreneurial development program administered by the Office of Entrepreneurship Education within OED. SCORE is the single cooperative agreement recipient for the program. Established in 1964 as a national, volunteer nonprofit organization, SCORE has been an SBA resource partner for 54 years. SCORE provides business and technical assistance to existing and emerging small business owners nationwide.

Our audit objectives were to determine whether SBA has effective oversight to ensure SCORE spent federal funds in accordance with cooperative agreement requirements and measured and achieved program goals. To answer our objectives, we reviewed SCORE's FY 2017 federal award of \$10.5 million and the first quarter of SCORE's \$11.5 million FY 2018 award. We

judgmentally selected three SCORE chapters and the National SCORE Office for review. We conducted site visits and obtained documentation from the National SCORE Office in Herndon, VA; the Washington, DC, Chapter; the New York City Chapter; and the Greater Seattle Chapter. Additionally, we interviewed personnel and obtained documentation from the Office of Entrepreneurship Education.

What OIG Found

Program officials need to make major improvements to ensure effective oversight of the SCORE program. We found that program officials did not effectively oversee SCORE's use of federal funds. Specifically, we found that SCORE commingled federal funds with unrestricted donations and used federal funds for unallowable, unallocable, and unsupported costs. We also found that SCORE inappropriately solicited donations for mentoring services, charged for publication materials that did not include the required SBA acknowledgement statement, and improperly managed funds used for cosponsored activities.

As a result, we questioned \$713,986 of costs that did not adhere to the cooperative agreement requirements or were not properly supported. Also, program officials did not accurately measure or report SCORE's performance goal achievements. Further, program officials established only one outcome-based performance measure, which limited SBA's ability to assess whether the program achieved its intended purpose.

OIG Recommendations

We made 11 recommendations to improve SBA's oversight of SCORE's use of government funds and its reporting of performance results. Notably, we recommended that SBA implement financial oversight procedures of the SCORE program to ensure the program office enforces the cooperative agreement requirements, require that SCORE chapter leadership are trained on properly generating and using program income, and recover or remedy the unallowable and unsupported costs. SBA should also correct the inaccurate FY 2017 performance results for the SCORE program and implement procedures to prevent future reporting inaccuracies. Additionally, SBA should establish additional outcome-based program goals and measurements to assess whether the program achieved all its objectives.

Summary of Actions Taken by SBA to Close the Recommendations

Based on the documentation SBA provided to OIG demonstrating that it had implemented the recommendations, we closed 3 of the 11 recommendations prior to issuing the report. Specifically, OED implemented new compliance review procedures for SBA SCORE liaisons' annual reviews of SCORE chapters, prohibited SCORE from serving as a fiscal agent for SBA cosponsored activities, and worked with the Office of Management and Budget and SCORE to establish an additional outcome-based performance measure.

IMPACT OF INFORMATION TECHNOLOGY CHALLENGES

In report 19-12, we found that SBA did not ensure it accurately measured the effectiveness of the SCORE program. In particular, we encountered problems with SBA's performance system of record, Entrepreneurial Development Management Information System (EDMIS). Program officials reported inaccurate results for SCORE's number of clients trained and number of clients mentored performance measures to Congress in SBA's FY 2019 Congressional Budget Justification and FY 2017 Annual Performance Report. Program officials reported inaccurate performance results for number of clients trained because SCORE uploaded erroneous data to EDMIS due to an incorrect database query. Additionally, program officials reported inaccurate performance results for the number of clients mentored because SCORE experienced data loss for every quarter it uploaded into EDMIS.

Program officials stated that since EDMIS was the system of record for program performance, they did not consider other sources to verify the completeness and accuracy of the performance data. Program officials told us it was SCORE's responsibility to ensure it uploaded accurate performance data in EDMIS. Prior OIG and the Government Accountability Office reports have identified systemic issues with the performance data reported in SBA's EDMIS system.¹ These technology lapses continue to impact program management.

In addition, in regard to financial accounting systems, program officials did not perform sufficient reviews to ensure that SCORE adhered to the federal requirements for quarterly financial reporting. Also, they did not ensure that SCORE established effective internal controls over its use of federal funds. Further, despite the longstanding partnership between SBA and SCORE, program officials did not keep track of the total cost of the program and did not perform a complete financial examination of SCORE. Compounding these issues, SCORE relied on more than 300 accounting systems to track federal funds, which affected its ability to perform effective oversight. As a result, of the \$2,127,876 of expense and revenue transactions tested, SCORE used \$713,986 of federal funds, or nearly 34 percent, for questioned or unsupported expenses and revenue.

CONCLUSION

Building healthy entrepreneurial ecosystems and creating business-friendly environments is an important goal within SBA's strategic plan. SBA's grant programs, which aim to provide management and technical assistance training to small businesses for the purpose of starting, growing, and competing in global markets, are key to achieving this goal. OIG's body of work points to systemic issues in the Agency's grants management function. SBA officials acknowledge these systemic issues and have documented plans to address them. Information technology will be a critical component to implementing necessary internal controls and monitoring performance to assess the effectiveness of the grant programs.

¹ SBA OIG Report 17-10, The SCORE Association's Disaster Technical Assistance Grant (March 31, 2017); SBA OIG Report 17-09, Audit of New York Small Business Development Center's Phase 2 Disaster Technical Assistance Grant (March 31, 2017); SBA OIG Report 14-19, Improvements Needed in the SBA's Oversight of the Financial Management of the District of Columbia Small Business Development Center (September 29, 2014); and GAO-08-49, Opportunities Exist to Improve Oversight of Women's Business Centers and Coordination Among SBA Programs (November 16, 2007).

We will continue to provide independent, objective oversight to improve the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. Our focus is to keep SBA leadership, our congressional stakeholders, and the public currently and fully informed about the problems and deficiencies in the programs as identified through our work. We value our relationship with the Committee and the Congress at large, and we look forward to working together to address identified risks and the most pressing management challenges facing SBA.