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April 4, 2019

Linda McMahon

Administrator

U.S. Small Business Administration

409 3rd Street, SW

Washington, D.C. 20416

Priority Open Recommendations: Small Business Administration

Dear Ms. McMahon:

The purpose of this letter is to provide an update on the overall status of the Small Business Administration's (SBA) implementation of GAO's recommendations and to call your continued personal attention to areas where open recommendations should be given high priority.¹ In November 2018, we reported that on a government-wide basis, 77 percent of our recommendations made 4 years ago were implemented.² SBA's recommendation implementation rate was 96 percent. As of February 2019, SBA had 37 open recommendations. Fully implementing these open recommendations could significantly improve SBA's operations.

Since our last letter in March 2018, SBA has implemented four of our six priority recommendations. First, SBA finalized a program evaluation framework for use agency-wide and published several evaluation reports, helping it to assess program effectiveness and improve program performance. Second, SBA developed a plan for managing its software licenses that addressed the weaknesses we had identified, better enabling it to consistently and cost-effectively manage its software agency-wide. Third, SBA centralized its software license management through its Office of the Chief Information Officer, enabling it to more consistently and cost-effectively make agency-wide decisions on software licenses. Fourth, SBA developed a complete commodity information technology (IT) baseline, allowing the agency to have the information it needs to identify opportunities for consolidation that could yield considerable cost savings or avoidance.

We ask your continued attention to the two open priority recommendations we identified in our 2018 letter. We are adding three new recommendations on the credit elsewhere requirement this year, bringing the total number of priority recommendations to five. (See the enclosure for the list of these recommendations.)

The five priority recommendations fall into the three major areas listed below.

Requirement that lenders assess borrower's ability to obtain credit elsewhere.

Three recommendations would improve lender compliance with the credit elsewhere requirement, the requirement that lenders only make SBA 7(a) loans to creditworthy small

¹Priority recommendations are those that GAO believes warrant priority attention from heads of key departments or agencies. They are highlighted because, upon implementation, they may significantly improve government operation, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue.

²GAO, *Performance and Accountability Report: Fiscal Year 2018*, [GAO-19-1SP](#) (Washington, D.C.: Nov. 15, 2018).

business borrowers who cannot obtain credit through a conventional lender at reasonable terms. In June 2018, we recommended that SBA (1) require contractors that perform on-site compliance reviews to consistently document their assessments of a lender's policies and practices, (2) use its on-site and off-site reviews to routinely collect information on lenders' use of credit elsewhere criteria, and (3) analyze information on lenders' use of credit elsewhere criteria obtained from its reviews. Although SBA has indicated that it has taken initial steps to implement these recommendations, the agency needs to provide ongoing reviewer training on the credit elsewhere requirement, expand its collection of information on the use of credit elsewhere criteria, and analyze review findings. Improving documentation and information on lenders' use of credit elsewhere criteria should help promote compliance with the requirement and thereby help ensure that the 7(a) program reaches its target population.

Data tracking.

One recommendation would improve SBA's collection of information about its programs designed to support entrepreneurs. In August 2012, we recommended that SBA consistently collect data on the types of assistance its entrepreneurial programs provide and use that information to help administer its programs. SBA has taken some actions and has other actions planned to implement this recommendation, such as analyzing administrative data from its counseling and training programs to determine if these programs served the same types of clients. By following through on planned actions to collect consistent data, SBA can help decision makers best allocate limited federal resources and make decisions about better administering and structuring the programs.

Export promotion.

The last priority recommendation would help improve export promotion. We recommended in January 2013 that SBA update its plan for hiring additional staff to more effectively implement statutory requirements for staffing of SBA export finance specialists located in U.S. export assistance centers across the country. SBA reported in 2016 that it had made progress by filling 21 of the 30 export finance specialist positions required by law and subsequently reported that it had replaced staff who had retired or departed. However, an SBA official told us in December 2018 that it was not feasible for SBA to hire any more export finance specialists because of limited funding and that the agency had taken mitigating actions to address the shortfall, such as leveraging other field office staff to conduct outreach and promote exporting. Your assistance in ensuring compliance with statutory requirements to increase staffing devoted to export financing could help increase exports by small businesses.

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In March, we issued our biennial update to our high-risk program, which identifies government operations with greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges.³ Our high-risk program has served to identify and help resolve serious weaknesses in areas that involve substantial resources and provide critical service to the public.

Several government-wide high-risk areas, including (1) ensuring the cybersecurity of the nation, (2) improving the management of IT acquisitions and operations, (3) strategic human capital management, (4) managing federal real property, and (5) government-wide personnel security

³GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, [GAO-19-157SP](#) (Washington, D.C.: Mar. 6, 2019).

clearance process, have direct implications for SBA and its operation.⁴ We urge your attention to the government-wide high-risk issues as they relate to SBA. Progress on high-risk issues has been possible through the concerted actions and efforts of Congress, the Office of Management and Budget, and the leadership and staff in agencies, including within SBA.

Copies of this report are being sent to the Director of the Office of Management and Budget and appropriate congressional committees, including the Committees on Appropriations, Budget, and Homeland Security and Governmental Affairs, United States Senate; and the Committees on Appropriations, Budget, and Oversight and Government Reform, House of Representatives.

In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

I appreciate SBA's continued commitment to these important issues. If you have any questions or would like to discuss any of the issues outlined in this letter, please do not hesitate to contact me or Lawrence L. Evans, Jr., Managing Director, Financial Markets and Community Investment at evansl@gao.gov or 202-512-8678. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Our teams will continue to coordinate with your staff on all of the 37 open recommendations. Thank you for your attention to these matters.

Sincerely yours,

A handwritten signature in black ink that reads "Gene L. Dodaro". The signature is written in a cursive style with a large, prominent "D" and "A".

Gene L. Dodaro
Comptroller General
of the United States

Enclosure(s) – 1

cc: William Manger, Associate Administrator, Office of Capital Access

Tim Gribben, Chief Financial Officer and Associate Administrator, Office of Performance Management and Chief Financial Officer

David M. Glaccum, Associate Administrator, Office of International Trade

⁴For a full discussion of these high-risk areas, see pages 178-181, 123-127, 75-77, 78-85, and 170-177, respectively, of our 2019 high-risk report.

Enclosure -- **Priority Open Recommendations to the Small Business Administration (SBA)**

Credit Elsewhere Requirement

Small Business Loans: Additional Actions Needed to Improve Compliance with the Credit Elsewhere Requirement. GAO-18-421. Washington, D.C.: June 5, 2018.

Recommendation: The Administrator of SBA should require reviewers to consistently document their assessments of a lender's policies and practices.

Action Needed: SBA generally agreed with the recommendation. SBA stated that it has instructed reviewers to document their assessments of lenders' policies and practices. To fully implement this recommendation, SBA should put into operation its plans to provide ongoing training and monitoring of reviewers' performance with respect to the credit elsewhere requirement and documentation requirements.

Recommendation: The Administrator of SBA should use its on-site and off-site reviews to routinely collect information on lenders' use of credit elsewhere criteria as part of its monitoring of lender practices related to the credit elsewhere requirement.

Action Needed: SBA generally agreed with the recommendation. To fully implement this recommendation, SBA should put into operation its plan to collect information on lenders' use of the credit elsewhere criteria when conducting reviews that include loan file reviews, whether performed at the lender's location (on-site reviews) or virtually (off-site views).

Recommendation: The Administrator of SBA should analyze information on lenders' use of credit elsewhere criteria obtained from its reviews to identify lenders that may be at greater risk of noncompliance and to inform its selection of lenders for further review for credit elsewhere compliance.

Action Needed: SBA generally agreed with the recommendation. To fully implement this recommendation, SBA should implement its plan to analyze credit elsewhere compliance data obtained from reviews conducted virtually and at the lender's location to identify lender-level portfolio trends or elevated lender risk to inform its selection of lenders for further review for credit elsewhere compliance.

Director: William B. Shear, Financial Markets and Community Investment

Contact information: shearw@gao.gov or (202) 512-8678

Data Tracking

Entrepreneurial Assistance: Opportunities Exist to Improve Programs' Collaboration, Data-Tracking, and Performance Management. GAO-12-819. Washington, D.C.: August 23, 2012.

Recommendation: The Administrator of the Small Business Administration should consistently collect information that would enable the agency to track the specific type of assistance programs provide and the entrepreneurs they serve and use this information to help administer its programs.

Action Needed: SBA had no comments on this recommendation. To fully implement this recommendation, SBA needs to complete a number of planned actions, such as conducting four program evaluations in fiscal year 2019 to better understand the types of businesses served by the programs and determining how it can use this information to help it administer these programs.

Director: William B. Shear, Financial Markets and Community Investment

Contact information: shearw@gao.gov or (202) 512-8678

Export Promotion

Export Promotion: Small Business Administration Needs to Improve Collaboration to Implement Its Expanded Role. GAO-13-217. Washington, D.C.: January 30, 2013.

Recommendation: To more effectively implement SBA's expansion of Office of International Trade field staff as required by the Small Business Jobs Act of 2010, the Administrator of SBA should update SBA's plan for additional Office of International Trade staff to include funding sources and time frames, as well as possible efficiencies from clearly defining roles and responsibilities and leveraging other entities' export assistance resources.

Action Needed: SBA agreed with this recommendation but noted resource constraints. To fully implement this recommendation, SBA needs to provide documentation of a plan for complying with staffing requirements for export finance specialists in the Small Business Jobs Act, or provide evidence that it has done so.

Director: Kimberly Gianopoulos, International Affairs and Trade

Contact information: gianopoulosk@gao.gov or (202) 512-8612

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