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Comptroller General  
of the United States

**Accessible Version**

April 21, 2020  
Jovita Carranza  
Administrator  
U.S. Small Business Administration  
409 3rd Street, SW  
Washington, D.C. 20416

**Priority Open Recommendations: Small Business Administration**

Dear Ms. Carranza:

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 personal attention to areas where open recommendations should be given high priority.<sup>1</sup> In November 2019, we reported that on a government-wide basis, 77 percent of the recommendations we made 4 years ago were implemented.<sup>2</sup> SBA’s recommendation implementation rate was 78 percent. As of February 2020, SBA had 46 open recommendations. Fully implementing these open recommendations could significantly improve SBA’s operations.

Since our April 2019 letter, SBA has implemented two of our five open priority recommendations. To address our recommendation related to data tracking, SBA entered into an agreement with the Department of Agriculture (USDA) to share loan data, enabling SBA to analyze borrower characteristics for loan programs. SBA also took steps to collect unique client data from resource partners. To address our recommendation related to lender compliance with the requirement for lenders to only make SBA 7(a) loans to creditworthy small business borrowers who cannot obtain credit through a conventional lender at reasonable terms, SBA provided evidence that it had required reviewers to document their assessments of a lender’s policies and practices. We ask your continued attention to the remaining three open priority recommendations.

We also are adding five new recommendations related to improving disaster response, cybersecurity, and export promotion, bringing the total number of priority recommendations to eight. (See enclosure for the list of recommendations).

The eight priority recommendations fall into the following four areas:

**Disaster response.**

Two recommendations would improve SBA’s ability to respond to disasters. In February 2020, we recommended that SBA (1) identify and document risks associated with its disaster response and plans to mitigate these risks in its disaster planning documentation, and (2) identify the key elements of a disaster action plan and provide additional guidance to staff on

<sup>1</sup>Priority 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.

<sup>2</sup>GAO, *Performance and Accountability Report: Fiscal Year 2019*, [GAO-20-1SP](#) (Washington, D.C.: Nov. 19, 2019).

how to incorporate these elements into future action plans. In comments on a draft of the report, SBA told us that to address the first recommendation it would identify and document known risks associated with SBA's disaster response and implement a risk-informed approach to its direct response and recovery operations. For the second recommendation, SBA told us the agency would develop the key elements of, and templates for, a disaster action plan. SBA also stated that it would include this information in the agency's Disaster Preparedness and Recovery Plan. By identifying risks and enhancing guidance on action plans, SBA can better design its plans for and implementation of disaster response efforts and help ensure staff are adequately prepared to conduct post-disaster operations.

### **Requirement that lenders assess borrowers' ability to obtain credit elsewhere.**

Two recommendations would improve lender compliance with the credit elsewhere requirement—that lenders only make SBA 7(a) loans to creditworthy small business borrowers who cannot obtain credit through a conventional lender at reasonable terms. In June 2018, we recommended that SBA (1) use its on-site and off-site reviews to routinely collect information on lenders' use of credit elsewhere criteria, and (2) analyze information obtained from its reviews on lenders' use of credit elsewhere criteria. In June 2019, SBA provided us information on 7(a) lender reviews and a lender training schedule on credit elsewhere. In November 2019, SBA provided more information on reviewer training on and communication of best practices to lenders. In April 2020, SBA stated that the agency would provide a response addressing these recommendations by September 30, 2020. SBA has to collect data on criteria used for credit elsewhere justifications for a larger sample of loans and analyze patterns in lender practices to better understand whether 7(a) loans have reached borrowers who cannot obtain credit from other sources at reasonable terms. Improving documentation and information on lenders' use of credit elsewhere criteria would help promote compliance with the requirement and thereby help ensure that the 7(a) program reaches its target population.

### **Cybersecurity.**

We made one recommendation that would help improve SBA's ability to address cyber threats. In July 2019, we recommended that SBA establish a process for conducting an organization-wide cybersecurity risk assessment. SBA agreed with this recommendation and stated it would update its strategy to more clearly address risk tolerance and risk-mitigation strategies and finalize a process for conducting a cybersecurity risk assessment. As of February 2020, this effort was not complete. Improving its ability to assess cyber risks would enhance SBA's ability to protect its information and systems from ongoing cyber threats.

### **Export promotion.**

The last three priority recommendations would help address staffing requirements and improve controls in export promotion grant programs. We recommended in January 2013 that SBA update its hiring plan to more effectively implement statutory requirements for staffing of SBA export finance specialists in Export Assistance Centers across the country. In January 2020, SBA told us the agency had hired additional export finance specialists, bringing the total hired to 25. SBA also told us the agency was establishing a strategy for future hires and requesting fiscal year 2021 funding to hire individuals to fill the remaining five positions. While these steps partially mitigate the shortfall and follow the spirit of the statutory requirement and GAO's recommendation, as of February 2020 SBA had not yet put in place the 30 export finance specialists required by law. Putting in place 30 export finance specialists would ensure compliance with statutory requirements, and help increase exports by small businesses.

We made another two recommendations in March 2019 that SBA (1) establish a process that ensures documentation of states' compliance with total match requirements before grant closeout, and (2) develop an additional process to determine states' compliance with a cash match requirement. SBA generally agreed with both recommendations and said they would develop the necessary processes.<sup>3</sup> In September 2019, SBA told us that these processes would entail responsibilities assigned to program office staff and grants specialists, as appropriate. Further developing and implementing these processes are important steps in ensuring compliance with the statutory requirements of the program.

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As you know, in 2019 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.<sup>4</sup> 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—(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) the government-wide personnel security clearance process—have direct implications for SBA and its operations.<sup>5</sup> 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 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 Reform, House of Representatives. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

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<sup>3</sup>GAO, *Small Business Administration: Export Promotion Grant Program Should Better Ensure Compliance with Law and Help States Make Full Use of Funds*, [GAO-19-276](#) (Washington, D.C.: Mar. 12, 2019).

<sup>4</sup>GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, [GAO-19-157SP](#) (Washington, D.C.: Mar. 6, 2019).

<sup>5</sup>[GAO-19-157SP](#). See pages 178-184 for Ensuring the Cybersecurity of the Nation, pages 123-127 for Improving the Management of IT Acquisitions and Operations, pages 75-77 for Strategic Human Capital Management, pages 78-85 for Managing Federal Real Property, and pages 170-177 for the Government-wide Personnel Security Clearance Process.

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 the letter, please do not hesitate to contact me or Daniel Garcia-Diaz, Managing Director, Financial Markets and Community Investment at [garciadiazd@gao.gov](mailto:garciadiazd@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 46 open recommendations, as well as those additional recommendations in the high-risk areas for which SBA has a leading role. Thank you for your attention to these matters.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Gene L. Dodaro". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Gene L. Dodaro  
Comptroller General  
of the United States

Enclosure - 1

cc: William Manger, Associate Administrator, Office of Capital Access  
Dorrice Roth, Acting Chief Financial Officer, Office of Performance Management and  
Chief Financial Officer  
David M. Glaccum, Associate Administrator, Office of International Trade

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

### **Disaster Response**

*Small Business Administration: Disaster Loan Processing Was Timelier, but Planning Improvements and Pilot Program Evaluation Needed. GAO-20-168. Washington, D.C.: Feb. 7, 2020.*

**Recommendation:** The Associate Administrator for the Office of Disaster Assistance should identify and document risks associated with its disaster response and plans to mitigate these risks in its disaster planning documentation.

**Action Needed:** SBA agreed with the recommendation. SBA noted that relevant agency offices would collaborate to identify and document known risks associated with SBA's disaster response and implement a risk-informed approach to its direct response and recovery operations. To fully implement this recommendation, SBA should identify potential risks that could impede its ability to provide disaster assistance and ways to mitigate these risks. Once identified, SBA should incorporate these risks and their mitigation into its disaster planning documentation.

**Recommendation:** The Associate Administrator for the Office of Disaster Assistance should identify the key elements of a disaster action plan and provide additional guidance to staff on how to incorporate these elements into future action plans.

**Action Needed:** SBA agreed with the recommendation. SBA noted that the agency would develop the key elements of and templates for a disaster action plan, provide guidance to field operations centers, and update the agency's Disaster Preparedness and Recovery Plan. To fully implement this recommendation, SBA should develop a standard template for field operation centers to use when developing action plans to guide their initial disaster response.

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

**Contact information:** [shearw@gao.gov](mailto:shearw@gao.gov) or (202) 512-8678

### **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 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 reviews).

**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](mailto:shearw@gao.gov) or (202) 512-8678

## Cybersecurity

*Cybersecurity: Agencies Need to Fully Establish Risk Management Programs and Address Challenges. GAO-19-384. Washington, D.C.: July 25, 2019.*

**Recommendation:** The Administrator of SBA should establish a process for conducting an organization-wide cybersecurity risk assessment.

**Action Needed:** SBA agreed with the recommendation. SBA stated that the agency was finalizing a process for conducting an organization-wide cybersecurity risk assessment. As of February 2020, SBA had not completed this effort.

**Director:** Nick Marinon, Information Technology and Cybersecurity

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## 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 of 2010, or provide evidence that it has done so.

**Director:** Kimberly Gianopoulos, International Affairs and Trade

**Contact information:** [gianopoulosk@gao.gov](mailto:gianopoulosk@gao.gov) or (202) 512-8612

*Small Business Administration: Export Promotion Grant Program Should Better Ensure Compliance with Law and Help States Make Full Use of Funds. GAO-19-276. Washington, D.C.: March 12, 2019.*

**Recommendation:** The Administrator of SBA should establish a process that ensures documentation of states' compliance with the total match requirement before grant closeout.

**Action Needed:** SBA generally agreed with the recommendation. SBA stated that it would establish a process that ensures documentation of state recipients' compliance with the total match requirement before grant closeout. To fully implement this recommendation, SBA should create and maintain documentation of the agency's annual analysis and determination that grant recipients have or have not met the total match requirement.

**Recommendation:** The SBA Administrator should develop a process to determine states' compliance with the cash match requirement.

**Action Needed:** SBA generally agreed with our recommendation. SBA stated that it would develop a process to determine states' compliance with the cash match requirement. To fully

implement this recommendation, SBA should create and document an annual agency process to determine whether grant recipients have or have not met the cash match requirement.

**Director:** Kimberly Gianopoulos, International Affairs and Trade

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(Job Code 103760)