United States Government Accountability Office

Report to Congressional Committees

November 2019

SBA MICROLOAN PROGRAM

Opportunities Exist to Strengthen Program Performance Measurement, Collaboration, and Reporting

GAO-20-49

GAO Highlights

Highlights of GAO-20-49, a report to congressional committees

Why GAO Did This Study

SBA's Microloan Program integrates microlevel financing (loans up to $50,000) with training and technical assistance for small businesses, including those owned by women, low-income, veteran, and minority entrepreneurs. The John S. McCain National Defense Authorization Act for Fiscal Year 2019 included a provision for GAO to review the program.

This report examines (1) characteristics of borrowers and intermediaries in the Microloan Program, (2) program oversight of intermediaries and borrowers, (3) program performance measures, and (4) collaboration within SBA and with other agencies.

GAO reviewed program documents; analyzed SBA demographic and performance data; reviewed documents on similar programs from the Departments of the Treasury and Agriculture; and interviewed agency officials. GAO also reviewed documents and interviewed officials from a non-generalizable sample of 10 intermediaries, selected to provide a range in the number of loans made and average loan size.

What GAO Recommends

GAO is making five recommendations to SBA, including that it enhance program guidance on data collection and performance measurement, explore opportunities for additional collaboration with other federal agencies, and develop plans for providing additional public reporting on the program. SBA agreed with three recommendations and partially agreed with two. GAO maintains that its recommendations should be fully addressed to improve the program.

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SBA MICROLOAN PROGRAM

Opportunities Exist to Strengthen Program Performance Measurement, Collaboration, and Reporting

What GAO Found

GAO analysis of data for the Small Business Administration's (SBA) Microloan Program found that in 2014–2018, approximately 80 percent of microloans went to borrowers who identified themselves as women-owned, veteran-owned, or minority-owned businesses or low-income. In addition, most of the intermediaries (nonprofit lenders) that provide the loans participated in at least one other federal microlending activity. For example, 73 percent of intermediaries (122 of 168) in the program are also Department of the Treasury's Community Development Financial Institutions (designated private-sector financial institutions).

SBA has mechanisms in place for oversight of intermediaries and borrowers, including some established in response to recommendations of the SBA Office of Inspector General (OIG). For example, SBA

- developed a plan for conducting site visits of intermediaries, and
- updated guidance for documentation requirements from certain borrowers.

SBA also requires intermediaries to report various loan and borrower information into the program's data reporting system.

The Microloan Program has data collection and performance measurement procedures, but GAO identified identified weaknesses in these efforts. For example, one of the objectives of the program is to assist low-income borrowers, but program guidance does not define low-income. Another program objective is to develop and provide timely, accurate, and useful output and outcome data. However, GAO and the SBA OIG found deficiencies in how some information on borrower business outcomes was collected and recorded. As a result, SBA lacks quality information to help assess program performance in these areas. SBA also has not taken steps to ensure its planned new data reporting system will capture information needed for assessing program performance. Specifically, as of August 2019, SBA had not taken appropriate advance planning steps—such as involving relevant offices in SBA or considering what data will be needed to assess program performance.

The Microloan Program collaborates informally with other SBA programs on oversight and other activities, but has little collaboration—for example, no information-sharing agreements—with other federal agencies that engage in microlending activities. As a result, the program may be missing opportunities to enhance collaboration and leverage existing resources from agencies that collect similar types of data. In addition, although SBA reports some aggregate data on the financial performance of the program, it does not include data on the populations served. Publicly reporting such data, as other agencies do, could provide greater transparency around program results and achievements.

Contents

Abbreviations

CDFI	Community Development Financial Institution
OIG	Office of Inspector General
SBA	Small Business Administration
SOP	standard operating procedure
Treasury	Department of the Treasury
USDA	Department of Agriculture

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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November 19, 2019

The Honorable Marco Rubio
Chairman
The Honorable Benjamin L. Cardin
Ranking Member
Committee on Small Business and Entrepreneurship
United States Senate

The Honorable Nydia Velázquez
Chairwoman
The Honorable Steve Chabot
Ranking Member
Committee on Small Business
House of Representatives

The Small Business Administration's (SBA) Microloan Program integrates microlevel financing with training and technical assistance for women, low-income individuals, minority entrepreneurs, and other small businesses that need small amounts of assistance.[1] SBA is authorized to provide loans of up to $50,000 to eligible small businesses, through intermediary lending institutions (generally nonprofit lenders). By offering financing and support to these businesses, the Microloan Program aims to support job creation and retention for small businesses that would have difficulty securing funding from conventional channels. The program has grown in recent years—from about 3,900 small business loans totaling

[1]13 C.F.R. § 120.700. First authorized in 1991, the statutory purposes of the Microloan Program include "(i) [assisting] women, low-income, veteran. . ., and minority entrepreneurs and business owners and other such individuals possessing the capability to operate successful business concerns; (ii) [assisting] small business concerns in those areas suffering from a lack of credit due to economic downturns; (iii) [establishing] a microloan program to be administered by the Small Business Administration (I) to make loans to eligible intermediaries to enable such intermediaries to provide small-scale loans. . . to startup, newly established, or growing small business concerns for working capital or the acquisition of materials, supplies, or equipment; [and] (II) to make grants to eligible intermediaries that, together with non-Federal matching funds, will enable such intermediaries to provide intensive marketing, management, and technical assistance to microloan borrowers. . . ." 15 U.S.C. § 636(m)(1)(A). To fulfill its mission, SBA developed standard operating procedures that include the following program objectives: continued availability of training and technical assistance; broad geographic coverage, including availability in rural areas for the borrowers; appropriate portfolio management and proper administration of grant funding; and the development and provision of timely, accurate, and useful output and outcome data.

approximately $55.8 million in 2014 to about 5,400 loans totaling approximately $76.9 million in 2018. The average microloan was approximately $14,000 in 2018, and the 147 technical assistance grants in that year totaled more than $31 million.[2]

The John S. McCain National Defense Authorization Act for Fiscal Year 2019 included a provision for GAO to review SBA's Microloan Program.[3] This report examines (1) the characteristics of intermediaries and borrowers in the Microloan Program; (2) program oversight of intermediaries and borrowers; (3) program performance measures; and (4) collaboration within SBA and with other agencies. We focused our review on calendar years 2014-2018.

For all our objectives, we reviewed Microloan Program documentation, including the standard operating procedures (SOP) and a data reporting system manual. We interviewed SBA headquarters and district officials and representatives of a nongeneralizable sample of 10 Microloan Program intermediaries, selected to include a range of sizes based on the number of loans made and average loan amount. We also selected intermediaries monitored by different SBA district offices, among other factors.[4] These interviews provided insight into the intermediaries' perspectives on the Microloan Program and illustrative examples of how different types of intermediaries participated in the program.

To describe the characteristics of intermediaries and borrowers, we reviewed program documents and analyzed SBA demographic and performance data. Specifically, we reviewed loan, borrower, and intermediary program information. We assessed the reliability of these data by reviewing relevant documentation, performing electronic data checks, and interviewing Microloan Program officials and deemed them sufficiently reliable for the purpose of reporting intermediary and borrower

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[2]To analyze loans provided by the Microloan Program, we obtained data as of February 2019, from the data reporting system for calendar years 2014–2018. To analyze technical assistance grants provided for the Microloan Program, we obtained data as of July 2019 for calendar years 2014–2018. Our analysis throughout the report is based on these data, unless otherwise specified.

[3]Pub. L. No. 115-232, § 853(d), 132 Stat. 1636, 1885 (2018).

[4]For more details on our intermediary selection, see appendix I.

characteristics.[5] We also reviewed documents from other federal agencies and interviewed officials, including those at the Departments of the Treasury (Treasury) and Agriculture (USDA). We selected these other federal agencies because they had programs with purposes, activities, and use of funds that were similar to those of the SBA Microloan Program.

To examine program oversight, we reviewed SBA's Office of Inspector General (OIG) reports.[6] To identify steps to monitor fraud, we reviewed relevant agency documents including site visit checklists for intermediaries' annual reviews. In addition, we reviewed the program's SOP to determine procedures for data reporting and other requirements.

To assess performance measures, we reviewed the Microloan Program's statute and regulations and Office of Management and Budget guidance.[7] We reviewed SBA data from 2014 to 2018 to determine what data were collected to assess program performance. We reviewed SBA's annual performance plans and reports for the Microloan Program and other programs, as well as SBA's framework and best practices for program evaluation and associated data collection. We compared Microloan Program data collection and performance measures practices against relevant federal internal control standards.[8] Further, we reviewed documents related to SBA's plans for a new Microloan Program data reporting system.

To examine collaboration within SBA and with other agencies, we reviewed materials related to other SBA lending and technical assistance programs and documentation from Treasury and USDA programs in

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[5]Additionally, we assessed the reliability of borrower business outcome data, such as annual gross revenues, whether a borrower remains in business, and number of jobs supported by the microloan at the time of loan repayment. However, we did not find these data reliable for our purposes. We discuss this issue later in the report.

[6]See Small Business Administration, Office of Inspector General, *Audit of SBA's Microloan Program*, 17-19 (Washington, D.C.: Sept. 28, 2017); and *SBA's Administration of the Microloan Program under the Recovery Act*, ROM-10-10 (Washington, D.C.: Dec. 28, 2009).

[7]Office of Management and Budget, *Preparation, Submission and Execution of the Budget*, Circular No. A-11, (Washington, D.C.: June 2019); and *Federal Data Strategy–A Framework for Consistency*, M-19-18 (Washington, D.C.: June 4, 2019).

[8]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: Sept. 2014).

which intermediaries participate. We compared Microloan Program collaboration against key practices identified in our prior work on interagency collaboration.[9] We also interviewed officials from SBA, Treasury, USDA, and program intermediaries about collaboration. See appendix I for more information on our scope and methodology.

We conducted this performance audit from November 2018 to November 2019 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.

Background

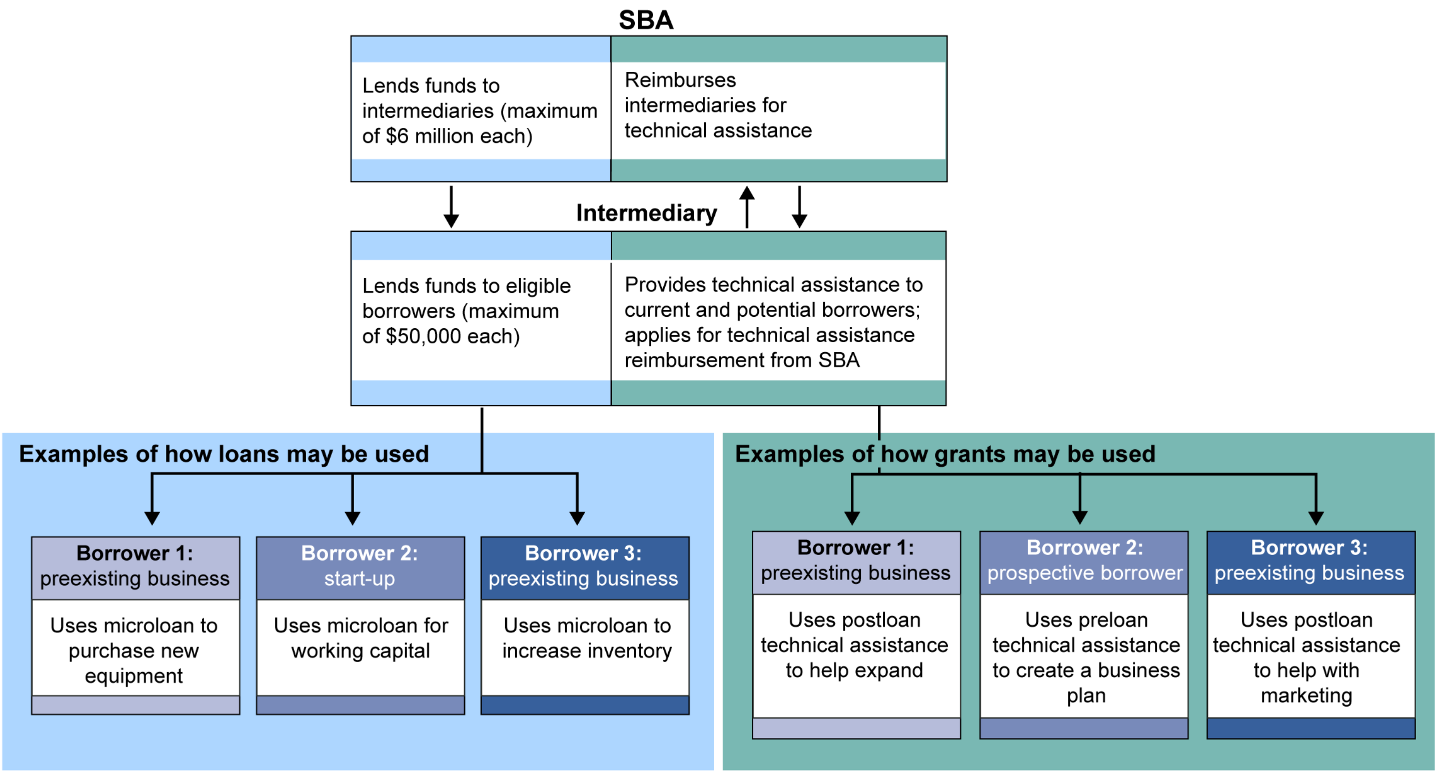
SBA's Microloan Program

The Microloan Program provides participating lenders, called intermediaries, with loans and grants to help them provide loans, training, and technical assistance to borrowers (see fig. 1). SBA is authorized to provide up to $6 million in direct loans to each of its intermediaries.[10] In turn, the intermediaries provide small-scale, fixed-rate term loans (6 years or less) at a maximum amount of $50,000—microloans—to eligible borrowers to use for working capital and to acquire materials, supplies, furniture, fixtures, and equipment. The program also provides grants to reimburse intermediaries for marketing, management, and technical assistance provided to current and prospective borrowers. Not more than 50 percent of the grant funds may be used to provide technical assistance to prospective borrowers.

[9] *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, GAO-12-1022 (Washington, D.C.: Sept. 27, 2012); and *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

[10] By statute, the total amount outstanding and committed to an intermediary from the business loan and investment fund established under 15 U.S.C. Chapter 14A must not exceed $750,000 in the first year of participation in the Microloan Program, and must not exceed $6 million in the remaining years. The latter limit has been increased over time, most recently in August 2018.

Figure 1: How the Small Business Administration's (SBA) Microloan Program Works



Source: GAO analysis of Small Business Administration (SBA) information. | GAO-20-49

By law, prospective intermediaries must meet eligibility requirements and be private nonprofit entities or quasi-governmental economic development entities.[11] The Microloan Program Office evaluates intermediary applications and, with relevant SBA district offices, monitors those admitted as intermediaries through ongoing oversight, which

[11]In addition to the entities listed, an agency or nonprofit established by a Native American Tribal Government also is eligible to act as an intermediary. Each applicant must have a minimum of 1 year of experience making microloans to small businesses and providing intensive marketing, management, and technical assistance to its borrowers.

includes daily, quarterly, annual, and periodic reviews.[12] The SOP outlines the steps the Microloan Program Office must conduct, which include daily data review and analysis as well as quarterly review and risk assessments, primarily led by financial analysts.[13] In addition, SBA district offices are to conduct annual site visits using a checklist from the Microloan Program Office to document an intermediary's compliance with program rules and regulations and overall quality of the data reported to SBA on its microloans. Oversight of loans includes reviews of data submitted, reconciliation of information in loan files, and communication with borrowers receiving the loan. District offices share site visit results with the Microloan Program Office.

Oversight of technical assistance grant funding is conducted by the Microloan Program Office, the Office of Grants Management, and district offices. Specifically, according to the Microloan Program SOP, intermediaries submit requests for reimbursement on a quarterly basis to the Microloan Program Office (with documentation including detailed expenditures, financial reports, and narratives on the technical assistance provided). Thereafter, requests are submitted to the Office of Grants Management for review and payment processing. If oversight procedures identify that program terms and conditions were violated, SBA may pursue enforcement actions, including suspension, pre-revocation sanctions such as accelerated reporting or loan repayment requirements, and revocation of authority to participate in the Microloan Program.[14]

[12]According to officials, as of October 2019, due to an agency realignment, the Microloan Program operates as part of the Microenterprise Development Division within the Office of Financial Assistance in SBA's Office of Capital Access. (The realignment eliminated the Office of Economic Opportunity). As of October 2019, the division had 10 staff (one director and nine financial analysts). Sixty-two of SBA's 68 district offices are responsible for monitoring intermediaries. The district office responsible for monitoring each intermediary is determined based on the geographic location of the intermediary's main office. Some intermediaries may operate in multiple states and some states may have multiple active intermediaries. SBA reviews coverage areas as part of the intermediary application process.

[13]Intermediaries submit status information on active microloans, quarterly reports, and audited financial statements. The Microloan Program uses the web-based Microloan Program Electronic Reporting System as a portal for intermediary reporting of program activities. In this report, we refer to the Microloan Program Electronic Reporting System as the "data reporting system".

[14]Grounds for enforcement actions are defined in 13 C.F.R. §120.1425. Types of enforcement actions are defined in 13 C.F.R. §120.1540.

Other Federal Agencies That Engage in Microlending Activities

Other federal agencies engage in microlending activities. For instance, Treasury administers the Community Development Financial Institutions (CDFI) Fund, which finances designated private-sector financial institutions, called CDFIs. Through six programs, including the CDFI Program, the CDFI Fund helps generate economic opportunity in underserved low-income communities by increasing access to financial services in these communities.[15] The CDFI Program provides financial assistance awards and technical assistance awards, which may be used by CDFIs for microlending activities.[16]

Other programs focus on microlending in rural areas—for example, USDA's Rural Microentrepreneur Assistance Program and the Farm Service Agency's Microloan Program.[17]

[15]The six programs in the CDFI Fund are the CDFI Program, the Native American CDFI Assistance Program, the Bank Enterprise Award Program, the Capital Magnet Fund, the New Markets Tax Credit Program, and the CDFI Bond Guarantee Program.

[16]Financial assistance awards are monetary awards that support the financial activities of CDFIs. Technical assistance awards are grants that support capacity-building activities of CDFIs. According to Treasury, CDFIs also may use financial assistance awards for purposes other than microlending activities—for example, to finance businesses and the development of affordable housing, commercial real estate, and community facilities; support community-based social service organizations; and provide mortgages, basic banking services, and financial literacy training to people in underserved communities.

[17]USDA's Rural Microentrepreneur Assistance Program provides loans and grants to intermediaries. The intermediaries then make loans of not more than $50,000 to small businesses to help them start or grow, and provide training and technical assistance. USDA's Farm Service Agency Microloan Program does not operate through intermediaries—it provides direct loans to borrowers for purchasing or making improvements to a farm or ranch and operating it. For purposes of this report we use "USDA Microloan programs" when we discuss both of these programs together.

Most Intermediaries Participate in Multiple Federal Lending Programs and the Demographics of Borrowers Varies

Most Intermediaries Participated in Other Federal Lending Programs in 2014–2018

The majority of Microloan Program intermediaries participated in at least one other federal microlending activity or SBA lending or technical assistance program (and may receive funding from other federal, state, and local sources). For example, our analysis found that of the 168 intermediaries in the Microloan Program from fiscal year 2014 to 2018,

- 122 (approximately 73 percent) participated in Treasury's CDFI Program,
- 30 (approximately 18 percent) participated in USDA's Rural Microentrepreneur Assistance Program,
- 45 (approximately 27 percent) participated in SBA's Community Advantage Program, and
- 21 (approximately 13 percent) were also SBA Women's Business Centers.[18]

Most intermediaries had been in the Microloan Program for at least 5 years. About 73 percent of the Microloan Program intermediaries participating in the program from 2014 to 2018 had participated since

[18]Community Advantage is an SBA pilot program that delivers Section 7(a) guaranties for loans of $250,000 or less. The 7(a) Program is SBA's largest loan program and partially guarantees loans from participating lenders to eligible small businesses that cannot obtain credit through a conventional lender at reasonable terms. Women's Business Centers offer training and counseling to women business owners to help them overcome continuing barriers to success. According to SBA officials, Microloan Program intermediaries also may participate in SBA's 504 Loan Program, which provides financing to small businesses through certified development companies for fixed assets such as real estate or equipment.

2014 or earlier. During that time frame, 22 intermediaries left the program and 23 intermediaries joined the program.[19]

Majority of Borrowers Represented at Least One Designated Demographic or Socioeconomic Category

Borrower Demographic and Socioeconomic Information

One of the statutory purposes of the Microloan Program is to assist entrepreneurs in designated demographic and socioeconomic groups, such as women, low-income individuals, veterans, and minorities. Our analysis of SBA data found that from 2014 to 2018, approximately 80 percent of microloans went to borrowers who identified themselves as representing at least one of the following designated categories for which SBA maintains data.[20]

- **Women-owned businesses.** Approximately 46 percent of microloans went to businesses owned by women.[21]
- **Minority-owned businesses.** Approximately 39 percent of microloans went to business owners who identified themselves as Asian, American Indian or Alaskan Native, or African-American.

[19]According to the SOP, intermediaries can leave the Microloan Program at any point by providing written notification and repaying all amounts owed to SBA. Intermediaries may choose to leave for various reasons, such as staff changes to the intermediary's senior leadership.

[20]Intermediaries report borrower data based on information provided in borrowers' applications. SBA requires intermediaries to submit borrower data within 7 days of closing the loan. Furthermore, SBA requires intermediaries to provide selected data variables—which include some borrower information—to fulfill the program's reporting requirements. To assess the reliability of these data, we reviewed the data and performed data reliability checks on the number of missing or invalid data entries. We also interviewed SBA officials and intermediaries about data quality procedures and use of the data reporting system. We determined that the data were sufficiently reliable for describing intermediary-reported information on borrower characteristics.

[21]In SBA's data reporting system, women-owned business includes the following categories (1) from 0 to 50 percent ownership; (2) from 51 percent to 99 percent ownership; and (3) 100 percent ownership. But, according to SBA officials, SBA defines women-owned businesses as those businesses in which women hold 51 percent or greater ownership. For our purposes, we analyzed the data based on SBA's definition.

Approximately 16 percent of microloans went to Hispanic or Latino business owners.[22]

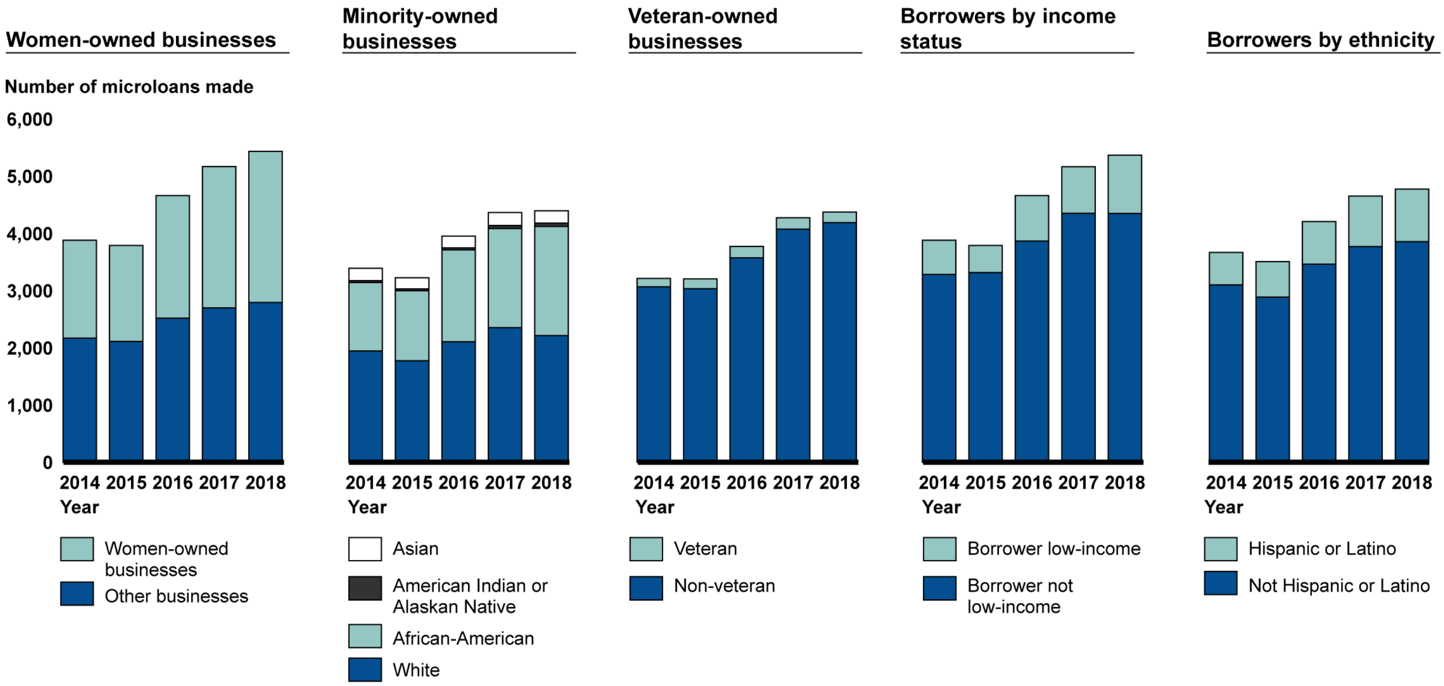
- **Income status (Low-income/Not low-income).** Approximately 16 percent of microloans went to low-income business owners.[23]
- **Veteran-owned businesses.** Approximately 4 percent of microloans went to business owners with veteran status.

Figure 2 shows the number of loans made in each of these designated categories.

[22]A borrower may fall into more than one category. In SBA's data reporting system, race and ethnicity data are collected as separate variables. For borrower race, the options include American Indian or Alaska Native, Asian, Black or African American, Native Hawaiian or Other Pacific Islander, Unanswered, or White. For borrower ethnicity, the choices include Hispanic or Latino, Not Hispanic or Latino, or Unknown/Not Stated. Therefore, in some instances, the variables are not mutually exclusive. For example, a borrower may identify as both Asian and Hispanic or Latino. For a single loan application that includes multiple borrowers, SBA's system allows the intermediary to report each borrower's race individually. According to SBA officials, only the primary borrower (the first borrower listed in the loan application) is used in reporting of race.

[23]The SBA Microloan Program data reporting system collects information on low-income status but does not provide a definition of low-income in the program SOP, lender manual, or data dictionary. We discuss this issue later in the report.

Figure 2: SBA Microloan Program, Number of Loans by Designated Demographic and Income Category of Borrower, 2014–2018



Source: GAO analysis of Small Business Administration (SBA) Microloan Program data. | GAO-20-49

Note: The American Indian or Alaskan Native category also includes the Native Hawaiian or Other Pacific Islander category. Race and ethnicity are collected as separate variables. SBA requests, but does not require, that intermediaries provide the race reported by their borrowers. Borrowers who identify their origin as Hispanic or Latino may be of any race. Sixteen percent of responses included the option "unanswered" for race. SBA does not require intermediaries to collect data on borrower race through alternative means—such as visual observation—when borrowers decline to self-report.

Borrower Delinquency and Default Rates

From 2014 through 2018, our analysis of approximately 23,000 SBA microloans found that approximately 3 percent of borrowers were delinquent (defined as loans more than 30 days late but up to 120 days late) in their payments to intermediaries. In addition, we found that approximately 7 percent of borrowers defaulted on their loans to intermediaries.[24] According to SBA officials, the intermediaries' default rate to SBA has been at or below 2 percent since the program's inception in 1991.

[24]According to the Microloan Program SOP, any microloan with a payment that is more than 120 days late is considered to be in default and must be charged off before the next set of quarterly reports is due. For the purposes of our analysis, defaulted loans include loans that intermediaries charged off.

Characteristics of Borrowers' Businesses

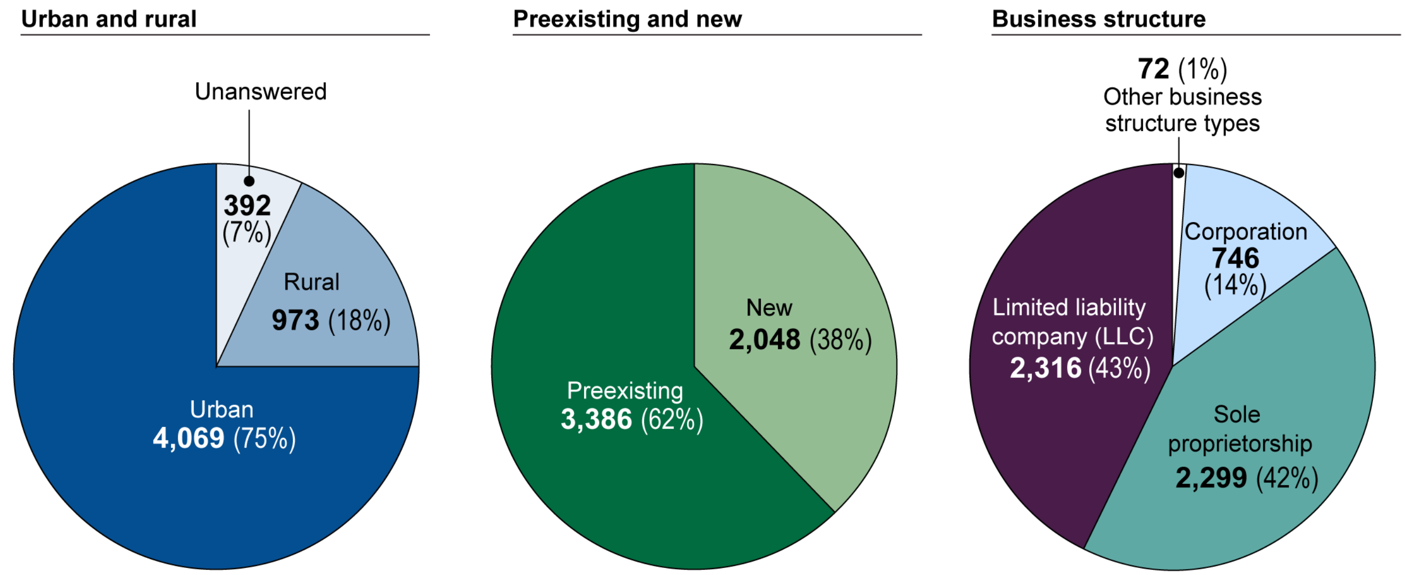
In 2018, about 75 percent of microloans went to borrowers in urban areas (see fig. 3).[25] In addition, about 62 percent of microloans went to preexisting (as opposed to new) businesses. In addition, the majority of the borrowers who received microloans had business structures that were either sole proprietorships (approximately 42 percent) or limited liability companies (approximately 43 percent).[26] Corporations received about 14 percent of the loans.[27]

[25]According to the Microloan Program SOP, one of the objectives of the Microloan Program is to ensure broad geographic availability of the program, including in rural areas and Historically Underutilized Business Zones. SBA's Historically Underutilized Business Zone Program provides federal contracting preferences to small businesses located in economically distressed areas that employ residents of the areas. SBA does not collect the Historically Underutilized Business Zone data in its data reporting system for the Microloan Program. According to officials, SBA uses mapping software of intermediaries' territory to analyze geographic and Historically Underutilized Business Zone coverage. According to SBA officials, prior to October 2018, intermediaries determined and entered borrower location data. After October 2018, SBA used geocoding based on the borrower's address to determine if a borrower was a rural or urban borrower.

[26]Sole proprietorships are unincorporated businesses that individuals operate by themselves. Limited liability companies have characteristics of both partnerships and corporations. Like a partnership, profits can be passed through and are taxable to the owners, known as members; like a corporation, the company is a separate and distinct legal entity and its owners are insulated from personal liability for its debts and liabilities.

[27]The remaining borrowers who received loans in 2018 had business structures that included partnerships, joint ventures, and nonprofit organizations.

Figure 3: Characteristics of Businesses Borrowing from the SBA Microloan Program, 2018



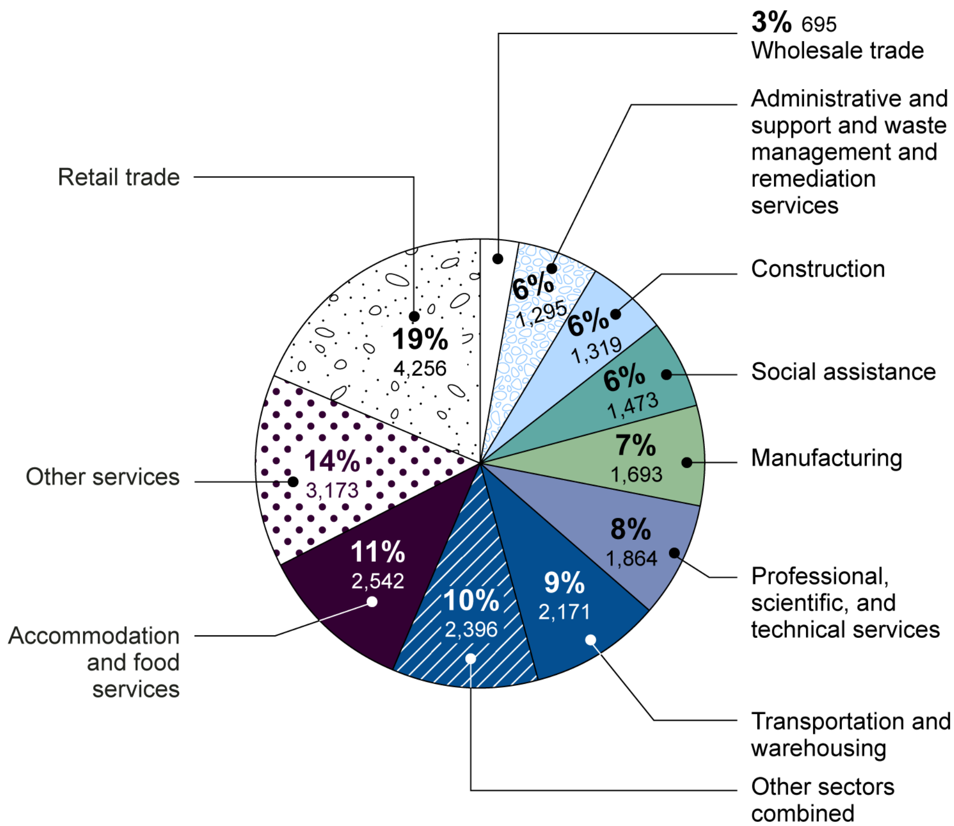
Source: GAO analysis of Small Business Administration (SBA) Microloan Program data. | GAO-20-49

Note: For location of borrowers in urban and rural areas, unanswered includes responses in which the field was left blank. Other business structures included partnerships, joint ventures, and nonprofit organizations.

Microloans went to small businesses in a variety of industries from 2014 to 2018, and no one sector dominated. For instance, the share of loans going to businesses in any one industry sector varied from 1 to 19 percent.[28] Figure 4 represents those industry sectors that had 3 percent of loans or more.

[28]Industries are categorized using the North American Industry Classification System codes that borrowers provide at the time of microloan application. Federal regulations prohibit certain business types from receiving SBA business loans, such as private clubs and life insurance companies. 13 C.F.R. § 120.110. According to officials, SBA tracks loan distribution and concentration by industry, but does not have a set allowable distribution of industry sectors.

Figure 4: SBA Microloan Program Loans by Industry Sector, 2014–2018



Source: GAO analysis of Small Business Administration (SBA) Microloan Program data. | GAO-20-49

Note: The “other services” category includes businesses such as automotive repair, personal and household goods repair, and personal care and laundry services. “Other sectors combined” includes public administration, finance, and insurance, which range from 1 percent to 3 percent of the loans provided from 2014 to 2018.

SBA Has Taken Steps to Improve Monitoring of Intermediaries

SBA Took Steps to Address Oversight Deficiencies Identified by Its Office of Inspector General

In 2017, the SBA OIG issued a report that found continuing weaknesses in the Microloan Program's oversight practices and performance measurement.[29] It reported that SBA had not effectively implemented recommendations made in 2009 related to improving data integrity and verification in SBA's data reporting system and developing additional performance metrics to assess program outcomes such as collecting information on technical assistance to assess its impact and effectiveness on borrowers.[30]

Overall, the OIG reported in 2017 that SBA did not conduct adequate program oversight on the Microloan Program to measure program performance and ensure program integrity. The OIG said it found issues with SBA's ability to validate microloan data and capture outcome-based measures. The OIG listed internal control weaknesses as a result of the following:

- SBA did not have a plan for conducting site visits of intermediaries as part of its oversight;
- SBA did not have an adequate information system or clear SOPs for the program;
- SBA did not have funding available for system improvements; and
- SBA's data in the Microloan Program Electronic Reporting System for nearly half the sample of loans reviewed did not match information in intermediaries' loan files.[31]

[29]Small Business Administration, Office of Inspector General, 17-19.

[30]Small Business Administration, Office of Inspector General, ROM-10-10.

[31]In its review of a sample of 52 microloan files in the 2017 report, the OIG found that data for 27 of the loans did not match the information included in the intermediaries' loan files. The OIG also found that intermediaries did not have sufficient documentation to support that they originated and closed 44 of the 52 loans in accordance with SBA requirements. Projected to the population of loan files, these deficiencies affected the reliability of the data reported to SBA by the intermediaries.

The OIG's 2017 report made four new recommendations, including that SBA (1) develop a site visit plan to further monitor microloan portfolio performance and ensure program results could be evaluated programwide, and (2) update its SOP to clarify requirements regarding evidence needed for how borrowers use the microloans and documentation to support that borrowers undertook efforts to obtain credit elsewhere (when applying for loans of more than $20,000) but were unable to obtain comparable funding.[32]

According to the OIG, SBA implemented these two recommendations. For example, in 2018, the Microloan Program Office, in conjunction with the Office of Credit Risk Management, developed a standardized checklist that district officials use for carrying out site visit reviews of intermediaries. In addition, SBA updated SOP guidance in July 2018 to include more specific language about documentation requirements for microloans over $20,000.

The OIG's other two recommendations had not been implemented as of August 2019.[33] These recommendations were that SBA (1) update the data system manual to reflect the system's current capabilities, and (2) continue efforts to improve the Microloan Program Electronic Reporting System (that is, the data reporting system). We further discuss system development and data issues later in this report.

[32]The SOP required intermediaries to maintain evidence that the proceeds of the microloan were used for the purpose for which the application was made. However, the OIG found in its file review that 32 files did not contain adequate evidence. For example, receipts or copies of checks related to purchases were not retained. In addition, the SOP stated that microloan files must contain documentation supporting that borrowers applying for $20,000 or more could not obtain similar rates and terms from private-sector lenders. But the OIG identified 20 microloan files that did not have adequate support for credit elsewhere. For example, the OIG found in some cases borrowers indicated on the application that they were not denied credit elsewhere.

[33]According to SBA officials, the OIG granted an extension for implementing the recommendations until March 2020, to allow more time for the development of the new data reporting system.

SBA Monitors Intermediaries through Reporting Requirements and Site Visits

Reporting Requirements

SBA monitors financial performance for loans made to intermediaries by reviewing metrics, such as funds available in intermediaries' revolving funds, total collateral, and principal balance of loans. SBA requires intermediaries to submit quarterly reports that include bank statements for microloan revolving funds and loan loss reserve funds.[34] The reports contain information to help SBA monitor delinquency and default rates. Intermediaries also must annually submit financial statements—including single audits—to SBA.[35] According to the program's SOP, SBA financial analysts use these annual submissions to examine the use of Microloan Program funds, financial positions of intermediaries, and operational issues experienced by the intermediary.

Moreover, intermediaries must report various loan and borrower data into SBA's reporting system throughout the term of the loan. SBA requires intermediaries to report basic identifying information for each microloan

[34]Intermediaries are required to set up microloan revolving and loan loss reserve funds with financial institutions. Intermediaries use microloan revolving fund accounts to hold proceeds from SBA loans, contributions from nonfederal sources, and payments from microloan borrowers, and to fund microloans and repay the direct loans made by SBA. Intermediaries also use microloan revolving funds to establish loan loss reserve funds, which in turn cover shortages caused by delinquencies or losses on microloans. Both the microloan revolving and loan loss reserve funds, as well as the microloan notes are collateral for repayment of loans to SBA.

[35]A single audit is an organization-wide audit that focuses on the recipient's internal controls and compliance with laws and regulations governing federal awards. We previously reported that it should be viewed as a tool that raises relevant or pertinent questions rather than as a document that answers all questions. See GAO, *Single Audit Survey of CFO Act Agencies*, GAO-02-376 (Washington, D.C.: Mar.15, 2002). According to SBA's Analyst Procedure Manual, intermediaries subject to the Single Audit Act (those expending more than $750,000 in a single fiscal year) must submit audits prepared in accordance with 2 C.F.R. Part 200—such audits would include financial statements detailing the use of Microloan Program funds, financial position of the intermediary, operational issues as noted by the auditing accountant, and any exceptions or concerns noted by the auditing accountant.

within 7 days of loan closure. Among other metrics, intermediaries must input loan data—including amount, purpose, and interest rate.[36]

According to the SOP, if SBA finds performance or compliance issues after its reviews and analyses, it first tries to work with intermediaries to resolve the issues. If the issues remain unresolved, SBA generally will send corrective action letters and ask problematic lenders to voluntarily withdraw from the program before pursuing further actions. Intermediaries with serious or ongoing compliance issues may be subject to proposed or formal enforcement actions. For example, the Microloan Program Office may refer the intermediary to SBA's Office of Credit Risk Management, which works with the Microloan Program on formal enforcement actions.[37] According to officials, since the program's inception in 1991, SBA has taken one formal enforcement action that resulted in removal of an intermediary. According to the SOP, if an intermediary defaults or leaves the program, SBA has the right to all proceeds in the intermediary's revolving and loan loss reserve funds and the microloan notes, up to the amount owed to SBA under the Microloan Program.

Site Visits

SBA developed a two-part form for its site visit reviews—the first part captures information related to the intermediary's operations and the second part captures information from a review of a sample of intermediary loan files and files related to provision of technical

[36]To submit the microloan information to SBA's data reporting system, intermediaries must provide the loan's closing date and amount, SBA loan number, borrower's name, identification, Employer Identification Number or Social Security number, and race. Intermediaries may select "unanswered" if they do not wish to disclose the borrower's race. To have "complete" status in the system, intermediaries must report loan parameters (such as purpose, installment amount, months to maturity, and collateral required); borrower demographics (for example, veteran status and ethnicity); business characteristics such as type of industry, date of formation, and organizational type (sole proprietorship, corporation, or partnership); and business outcomes (jobs created and jobs retained).

[37]The Office of Credit Risk Management oversees SBA's lending partners to identify unacceptable risk profiles and, if appropriate, enforce loan program requirements to improve and manage the risk of individual lending partners as well as the aggregate risk of SBA's loan portfolio. According to its SOP, the Office of Credit Risk Management's monitoring practices for Microloan Program intermediaries reflect the unique contribution of the program to SBA's mission, potential program integrity and program reputational risk, and the relatively small dollar level of risk.

assistance.[38] According to the SOP, once the site visit checklist is completed, the district office submits it to the Microloan Program Office for review. The program office shares the results of the site visit review with the intermediary. Based on the results, the intermediary may be required to take corrective actions and provide periodic status reports until issues are resolved to SBA's satisfaction. As previously discussed, serious or ongoing compliance issues may be referred to the Office of Credit Risk Management.

We interviewed staff at four district offices that monitored a total of 21 intermediaries. In our review of 10 site visit forms (for intermediaries we interviewed), we found the first part included information on the intermediary, such as staffing changes and technology systems used to capture information on technical assistance and loan administration. In our review of the second part related to the loan file review, we noted that some forms indicated the district office reviewer identified items not in compliance with requirements, such as missing documentation related to technical assistance or fees charged that were higher than allowed.

SBA Takes Some Steps to Monitor for Fraud in the Microloan Program

SBA monitors intermediaries for fraud in the Microloan Program at different stages of the program. During the application process, the program's SOP outlines

- a verification step during the intermediary application process to determine if the intermediary has outstanding debt or delinquency on other federal loans at the onset of its involvement in the program, and
- a review of the debarment status of intermediaries to determine eligibility for entering into contracts with the federal government.

The site visit checklist also recommends, but does not require, that intermediaries conduct the same verification of prospective microloan borrowers. In our review of site visit checklists for 10 intermediaries, all

[38]Each district office is responsible for scheduling and conducting an annual site visit for each intermediary in its district and obtaining the necessary information to complete the site visits. The financial analysts in the Microloan Program Office are responsible for briefing the district office reviewer on the intermediary being visited. At least three microloans are required to be reviewed during a site visit, including (1) at least one loan exceeding $20,000 to determine compliance with the "no credit elsewhere" test; (2) at least one loan currently reported by the intermediary as being delinquent to determine loan servicing proficiency; and (3) microloans associated with different SBA loans to determine compliance with maximum microloan interest rate rules.

but two had not conducted this borrower verification for all three of its borrowers.

Moreover, during the monitoring process, according to officials, steps may be taken to determine if fraud has occurred including

- reviewing intermediaries' quarterly bank statements to ensure funds are being disbursed in accordance with program requirements; and
- conducting background checks on intermediary staff who work on the program.

According to officials, SBA has begun an agencywide effort to educate staff on the Fraud Reduction and Data Analytics Act and the GAO Fraud Risk Management Framework.[39] In 2018, SBA's Office of Continuous Operations and Risk Management held its first fraud risk-management workshop, which included several SBA offices. In addition, according to SBA officials, there are monthly meetings to discuss risks to the agency across departments and programs, including fraud. As of July 2019, SBA had developed a draft Fraud Advisory Council Charter. According to officials, once it is finalized, time frames will be determined for implementation of a fraud risk-management framework at the office level. SBA has indicated one of its priorities for implementation of fraud risk measures will be the 7(a) Program.

[39]The Fraud Reduction and Data Analytics Act of 2015 created requirements for agencies to establish financial and administrative controls for managing fraud risks. Pub. L. No. 114-186, 130 Stat. 546 (2016). GAO's Fraud Risk Management Framework was designed to aid agencies and federal managers in their effort to combat fraud and preserve integrity in government programs, and help them take a more strategic, risk-based approach to managing fraud risks and developing effective antifraud controls. GAO, *A Framework for Managing Fraud Risks in Federal Programs*, GAO-15-593SP (Washington, D.C: July 2015).

SBA Microloan Data Collection and Performance Measurement Have Weaknesses

SBA's Microloan Data Reporting System Does Not Fully Capture Some Data Needed to Measure Performance

SBA's data reporting system for the Microloan Program has data fields to collect information on borrower income status and borrower business outcomes, but lacks data fields for technical assistance information. We and the SBA OIG found deficiencies in how some information was collected and recorded.

Borrower Income

Although one of the purposes of the Microloan Program, according to statute, is to assist low-income borrowers, the program's guidance does not clearly document the definition of low-income. Program officials said that they had provided a definition of low-income during training offered to intermediaries, but they did not have documentation of the definition.[40]

When intermediaries enter a new loan in the current Microloan Program data reporting system, they are prompted to enter two income-related data fields: (1) a yes-or-no prompt on whether the borrower is low-income, and (2) the borrower's annual income. Our review of program data from 2014 to 2018 showed that intermediaries provided the yes-or-no response in almost all (about 99 percent) instances but provided borrower annual income only about 28 percent of the time. The lender manual for SBA's current data reporting system lists both fields as optional and SBA officials confirmed that information on income status is not required. Because program guidance does not define low-income, it is unclear what criteria intermediaries are using when they record a borrower as such. If intermediaries use inconsistent definitions to determine whether borrowers are low-income, SBA may not be able to accurately assess the extent to which the Microloan Program assists low-income borrowers.

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[40]Officials told us that the definition of low-income used in training was income below 150 percent of the poverty line.

Borrower Business Outcomes

According to its guidance, one of the objectives of the Microloan Program is to develop and provide timely, accurate, and useful output and outcome data. SBA's OIG recommended in 2009 that the Microloan Program develop additional performance metrics to measure borrowers' business outcomes, such as number of businesses still in operation after receiving a microloan.[41] A subsequent OIG review in 2017 reported that management had not effectively implemented corrective action for the 2009 recommendation and recommended improving the data reporting system to support outcome-based performance measures.[42] Two of the four recommendations made in the 2017 OIG report had not been implemented as of August 2019: that SBA update the data system manual to reflect the system's current technology capabilities and that SBA continue efforts to improve the current data reporting system.[43]

According to officials, in response to the 2009 OIG report, SBA has collected three data fields related to borrowers' business outcomes since 2010:

1. whether a borrower remains in business;
2. the borrower's gross annual revenue; and
3. the number of jobs supported by the microloan at the time of loan repayment.[44]

Our review of 2014 to 2018 data found that borrower business outcome data were missing approximately 30 percent of the time for each of the three data fields. According to SBA and the lender manual for the current data reporting system, intermediaries are prompted to record borrower business outcomes when they indicate that a microloan has been paid in

[41]Small Business Administration, Office of Inspector General, ROM-10-10.

[42]Small Business Administration, Office of Inspector General, 17-19.

[43]SBA initially targeted the end of fiscal year 2018 for implementing updates to the data system manual and the end of fiscal year 2019 for implementing the new data reporting system. Microloan Program officials told us the OIG granted an extension for implementing the recommendations until March 2020, to allow more time for the development of the new data reporting system.

[44]The number of jobs supported by the microloan at the time of loan repayment differs from the Microloan Program's "jobs supported" performance indicator in SBA's annual performance report, which is based on data that the intermediary collects from the borrower at the beginning of a loan.

full or charged off. However, four of the 10 intermediaries we interviewed said that they record jobs created and business revenue data only once, within 7 days after closing on the microloan, and do not update the data upon loan repayment or charge-off. As a result, we could not determine the overall business outcomes of the program's borrowers due to these deficiencies.

Our review of current SBA guidance found one reference to inputting data on borrower business outcomes, which included a "screen shot" of the prompt intermediaries would see, but did not detail the specifics of when or how intermediaries should collect and update this information from borrowers. Moreover, program officials explained that intermediaries are not currently required to report these data fields. Program officials told us that SBA plans to update its guidance and make reporting of some borrower business outcomes mandatory under the new data reporting system. However, as of August 2019, SBA had not detailed steps for updating guidance for borrower business outcomes in the new data reporting system, which is expected to be implemented in March 2020.[45]

Technical Assistance Provided

SBA's OIG recommended in 2009 that the Microloan Program require intermediaries to report on the technical assistance they provide for each loan and to use these data to analyze the effect the technical assistance may have had on the success of microloan borrowers.[46] A subsequent OIG review in 2017 found that management had not effectively implemented corrective action for the 2009 recommendation, and that improvements programmed by a contractor in fiscal year 2011 to capture technical assistance in the data reporting system were never completed.[47] A 2018 OIG report on SBA grants programs, which includes the grants management office for the Microloan Program, found deficiencies in how SBA assessed performance of technical assistance grants. One of the

[45]SBA initially targeted completion of the new data reporting system for the end of fiscal year 2019. Microloan Program officials told us the OIG granted an extension for implementing the recommendation until March 2020, to allow more time for the development of the new data reporting system.

[46]Small Business Administration*,* Office of Inspector General, ROM-10-10.

[47]Small Business Administration*,* Office of Inspector General, 17-19.

recommendations was for SBA to establish outcome-based measures to assess the impact of its grant programs agencywide.[48]

Microloan Program officials said that the current data reporting system dates to 2003 and was developed to collect loan-related information and that the contractor had been unable to modify it to collect technical assistance data. The Microloan Program currently collects technical assistance data as a quarterly aggregate that does not identify the amount or type of technical assistance provided to each borrower. According to SBA, it is in the process of determining how to use the aggregate technical assistance data in conjunction with its loan data to analyze the impact of technical assistance on loan performance. Technical assistance data is not collected in the data reporting system, but SBA plans to capture the aggregate data in the new data reporting system. As of August 2019 the specifications for the development of the new system had not yet outlined changes to how technical assistance information would be collected. As previously noted, the current projected completion date for the new data system is March 2020. However, officials were not sure whether the system would be completed by that date and were not able to provide a timeline of planned steps needed to implement the system.

As stated in its SOP, an objective of the Microloan Program is to develop and provide timely, accurate, and useful output and outcome data. Moreover, federal standards for internal control require management to use quality information and implement control activities through policies.[49] Quality information should be appropriate, current, complete, accurate,

[48]The SBA OIG also reported on deficiencies in the agency's financial and performance oversight across grant programs, including by the grants management office for the Microloan Program. The OIG made three other recommendations to SBA: (1) assess its decentralized management structure to ensure that it performs comprehensive oversight; (2) establish controls to enforce financial and performance reporting requirements; and (3) train its grants officers and program personnel on its established grants management oversight procedures. In response, according to SBA officials, the agency has been evaluating its organizational structure for grants management, developing training for grants program personnel, implementing program controls to ensure recipient reporting requirements are met, and ensuring grant applications include planned outcome measures. According to SBA officials, the recommendation to train its grants officers and program personnel was implemented. But as of August 2019, the other three recommendations had not been implemented. Small Business Administration, Office of Inspector General, *Consolidated Findings of Office of Inspector General Reports on SBA's Grant Programs, Fiscal Years 2014-2018*, 19-02 (Washington, D.C.: Nov. 8, 2018).

[49]GAO-14-704G.

accessible, and provided on a timely basis. Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system. Additionally, the Federal Data Strategy directs agencies to align data inputs with performance measures and other outputs to support informed decision-making.[50]

SBA has not provided clear guidance to intermediaries about data collection on borrower income and business outcomes in terms of a clear definition or what type of information to collect or input into the system. In addition, SBA has not updated its guidance or data system to collect information on technical assistance provided. The manual for the current data system lists data fields for borrower income and business outcomes but does not define them or discuss how intermediaries should collect or update the data. Furthermore, SBA has not fully implemented a prior OIG recommendation to update the manual. Officials said they plan to update guidance as the new data system is completed. However, as previously stated, officials do not have a specific timeline for planned steps to implement the new data system. As a result, management lacks quality information to help assess program performance in these areas.

SBA Does Not Have Performance Indicators to Report If Microloans Are Provided to Designated Populations

While SBA tracks the number of women, low-income, veteran, and minority entrepreneurs served by the Microloan Program, it does not report performance indicators—measurable values on the level of progress—for providing microloans to these designated populations.[51] SBA most recently revised the performance indicators for the Microloan Program in its fiscal year 2016 annual performance plan. The current performance indicators are

- number of small businesses assisted by microloans,
- number of jobs supported by microloans,
- thousands of dollars in loans approved by SBA to microlenders,

[50]Office of Management and Budget, M-19-18.

[51]Under Office of Management and Budget guidance, agencies must establish performance goals as part of their annual performance plans. A performance goal includes a performance indicator—a measurable value that indicates the state or level of progress toward the goal—a target, and a time period. Office of Management and Budget, Circular No. A-11.

- thousands of dollars in loans approved by lenders to borrowers,
- number of small businesses counseled by microlenders, and
- number of grant-eligible microlenders.

While SBA sets annual targets for these overall performance indicators and reports actual numbers to determine if the targets have been met for the Microloan Program, it does not include goals related to which designated populations are being served.[52] In its annual performance plans for fiscal years 2012–2014, the Microloan Program reported a performance indicator for assistance to small businesses from underserved markets, which included women, veterans, and minorities, but that indicator was discontinued as of the fiscal year 2015 annual performance plan.[53]

By contrast, SBA has reported performance indicators for assistance to small businesses from underserved markets by the 7(a) and 504 loan programs since fiscal year 2010.[54] In addition, SBA's fiscal year 2020 annual performance plan has performance indicators for assistance to underserved small businesses for the Small Business Investment Company Program, which included businesses owned by women, veterans, or minorities, or which are located in underserved geographic areas, such as low-income areas. In response to a GAO recommendation, SBA in 2016 issued improved guidance to program licensees on how to report investments in minority-, women-, and

[52]These goals and indicators are similar to those of other SBA loan programs such as the 7(a) program and the 504 program, which guarantees second-lien loans from certified development companies to small businesses to support major fixed-asset purchases.

[53]For instance, the fiscal year 2013 target for small businesses assisted in underserved markets was 3,400 and the actual was 3,600.

[54]The 7(a) and 504 programs had performance indicators for assistance to small businesses in underserved markets from fiscal year 2010 to fiscal year 2017 and performance targets for assistance to small businesses in emerging markets from fiscal year 2018 through the most recent annual performance plan (fiscal year 2020). The definition for emerging markets includes emerging populations (veterans, women, and minorities) and places (Historically Underutilized Business Zones, rural areas).

veteran-owned businesses.[55] SBA implemented the performance targets for assisting these underserved small businesses through the Small Business Investment Company Program in fiscal year 2018 because it wanted to begin measuring the program's performance against its mission, according to SBA's fiscal year 2018 annual performance plan.[56] Treasury's CDFI Program, which supports lenders (including the majority of Microloan Program intermediaries), also publishes performance indicators for assistance to underserved communities.

As noted earlier, one of the statutory purposes of the Microloan Program is to assist women, low-income, veteran, and minority entrepreneurs. In addition, federal internal control standards suggest management define objectives in specific and measurable terms.[57] Office of Management and Budget guidance states that performance goals, indicators, and targets should reflect objectives including the program's mission as reflected in statutory requirements.[58] SBA has performance indicators for an agency priority goal for fiscal years 2018–2019 that targets socially and economically disadvantaged areas and includes the Microloan Program and other SBA loan programs, such as the 7(a) and the 504 Programs.[59] However, because SBA does not have separate performance indicators for the Microloan Program to determine how many women, low-income, veteran, and minority entrepreneurs are being served, the agency lacks a key mechanism for assessing the extent to which the program achieves its statutory purposes.

[55]GAO, *Small Business Investment Companies: Characteristics and Investment Performance of Single and Multiple Licensees*, GAO-16-107 (Washington, D.C.: Jan. 27, 2016). Under the Small Business Investment Company Program, SBA licenses privately owned and managed investment funds that provide capital to small businesses. The investment funds use their own capital plus funds that are borrowed at favorable rates because SBA guarantees the loan obligation. We recommended that SBA provide clear and specific guidance to program licensees on how to collect and report data on their investments in minority, women, and veteran-owned businesses. Upon providing detailed guidance to licensees, this recommendation was closed as implemented.

[56]Small Business Administration, *FY 2018 Congressional Budget Justification and FY 2016 Annual Performance Report* (Washington, D.C.).

[57]GAO-14-704G.

[58]Office of Management and Budget, Circular No. A-11.

[59]Small Business Administration, *FY 2020 Congressional Budget Justification and FY 2018 Annual Performance Report*. Under the GPRA Modernization Act of 2010, agency priority goals are to reflect the agency's highest priorities and have ambitious targets that can be achieved within a 2-year period. 31 U.S.C. § 1120(b)(1).

SBA Has Not Taken Steps to Ensure New Data System Will Capture Information Needed for Assessing Program Performance

As of August 2019, SBA was in the early stages of development of a new data reporting system for the Microloan Program. SBA secured funding to develop the system and created a statement of objectives and a list of system requirements. But SBA has not yet developed a specific timeline for implementation and steps detailing how long-standing deficiencies related to assessing program performance will be addressed. More specifically, as of August 2019, SBA had not taken appropriate advance planning steps to include the involvement of relevant offices within SBA or consideration of data needed to assess program performance.

Involvement of Relevant Offices within SBA

Although SBA officials told us the Microloan Program office and the information technology office were working on gathering stakeholder input about technical requirements and had consulted with intermediaries about their data systems and reporting needs, other offices within SBA have yet to be consulted. Officials said that, as of August 2019, no one from SBA's Office of Program Performance, Analysis, and Evaluation (which leads performance measurement and evaluation activities) had been involved in the development of the new data reporting system.[60] SBA's guide to designing data collections recommends that program managers solicit the input of evaluation experts early in the process of developing data plans.[61] SBA officials stated that they were unaware of the guide and that because the data system is still in development, they have not yet determined which offices would be involved.

Consideration of Data Needed for Performance Measurement

According to SBA's guide to designing data collections, the most cost-effective administrative data systems consider data needed for performance measurement and impact evaluation at the outset. The absence of these data can lead to less reliable and costlier evaluations. In particular, the guide recommends that program managers develop a program logic model—a graphical representation of linkages between program activities and expected outcomes—before designing data collections. As mentioned earlier, the Microloan Program has not yet taken any specific steps to specify the types of data needed to assess business outcomes or technical assistance in the development of the new

[60]According to SBA officials, as of October 2019, due to an agency reorganization, the Office of Program Performance, Analysis, and Evaluation replaced the previous office that was called Office of Performance Management.

[61]Small Business Administration, *Building Smarter Data for Evaluating Business Assistance Programs: A Guide for Practitioners* (Washington, D.C.: May 2017).

system or developed a logic model to link these elements with expected outcomes.

Officials stated they had not outlined these steps as they were early in the process of developing the new data system. Officials said that the new system may collect data using different formats or definitions from the current data reporting system, and it will collect additional data that is not currently reported. According to SBA, the new system will implement needed improvements for data on business performance and technical assistance, addressing the OIG's 2009 and 2017 findings, but officials could not provide more specifics on what the system would include. Without appropriate advance planning as it develops the new data reporting system for the Microloan Program, SBA may not be fully able to address repeat audit findings and assess how well the program achieves its objectives.

SBA's Microloan Program Has Limited Collaboration with Other Federal Agencies and Does Limited Public Reporting

Microloan Program Collaborates within SBA but Has Limited Collaboration or Data Sharing with Other Agencies

Informal Collaboration within SBA

The Microloan Program collaborates informally with other SBA programs on oversight and other activities. For instance, as previously mentioned, from 2014 through 2018, 45 (27 percent) of Microloan Program intermediaries participated in Community Advantage, a pilot program that delivers Section 7(a) loan guaranties of $250,000 or less.[62] Officials told us that SBA collaborates within its Office of Capital Access, which includes the Microloan and Community Advantage Programs, to minimize duplication of intermediary applications to SBA programs. However, the officials said the Microloan Program does not conduct significant collaboration within SBA on data collection, and the Microloan Program uses a data reporting system different from those of other SBA loan programs.[63]

Officials we interviewed in some SBA district offices told us that their offices are informed about the participation of Microloan Program intermediaries in other SBA programs within their jurisdiction, and that oversight for the programs may happen concurrently. For example, a district office might receive a report related to the Community Advantage program.

Officials at one district office also stated that they use reports, findings, and recommendations from other SBA programs as an opportunity to offer support and technical assistance to Microloan Program intermediaries in their district. District officials at another office told us they coordinate training opportunities across SBA programs—by inviting specialists, for example, from SCORE and Small Business Development Centers to attend training with Microloan Program intermediaries.

Limited Collaboration with Other Federal Agencies

SBA's Microloan Program generally does not have significant collaboration with other federal agencies that engage in microlending activities with purposes similar to the Microloan Program (see table 1).[64] Approximately 73 percent of SBA Microloan Program intermediaries are

[62]Microloan Program intermediaries are one of four categories of lenders eligible for Community Advantage. Lenders that qualify for participation based on their status as Microloan Program intermediaries must show continued compliance with Microloan Program requirements when renewing delegated authority for originating Community Advantage loans.

[63]SBA uses E-Tran to collect its 7(a) and 504 Program data. SBA uses the Microloan Electronic Reporting System to collect Microloan Program data.

[64]For the purposes of this report, we include Treasury's CDFI Program, USDA's Rural Microentrepreneur Assistance Program and its Farm Service Agency's Microloan Program as other federal programs. We selected these programs based on their similarity in purpose to SBA's Microloan Program, use of funds, loan amount, and use of technical assistance grants. For more details on our methodology, see appendix I.

also CDFIs, and 18 percent are also participants in USDA's Rural Microentrepreneur Assistance Program.

Table 1: Federal Programs That Provide Microloans or Engage in Microlending Activities

Program	Purpose	Use of funds	Maximum loan amount	Technical assistance offered
Small Business Administration Microloan Program	Assist women, low-income, veteran, and minority entrepreneurs, and other small businesses in need of small amounts of financial assistance.	• Purchase equipment and supplies • Working capital	$50,000	Yes
Department of the Treasury Community Development Financial Institutions (CDFI) Program	Use federal resources to invest in CDFIs and to build their capacity to serve low-income people and communities that lack access to affordable financial products and services.	• Financial products and services • Development services • Loan loss reserves • Capital reserves[a]	$2 million[b]	Yes
Department of Agriculture (USDA) Farm Service Agency Microloan Program	Assist the financing needs of family farms, beginning farmers, niche and nontraditional farm operations, farms participating in direct marketing, produce sales, and nontraditional growing methods.	• Farm Ownership funds: to acquire or enlarge a farm or make a down payment on a farm • Operating Loan funds: for input and equipment	$50,000 $50,000[c]	Yes
USDA Rural Microentrepreneur Assistance Program	Provide microentrepreneurs with (a) the skills necessary to establish new rural microenterprises; and (b) continuing technical and financial assistance related to the successful operation of rural microenterprises.	• Working capital • Debt refinancing • Purchase equipment and supplies • Improve real estate	$50,000	Yes

Source: GAO analysis of selected federal program documentation. | GAO-20-49.

[a]In addition, 15 percent of total award can be used on direct administrative expenses related to the above activities. Direct administrative expenses are direct costs (as defined in 2 C.F.R. § 200.413), which are incurred by the recipient to carry out the financial assistance project.

[b]These Financial Assistance awards can include loans, grants, equity investments, deposits, and credit union shares.

[c]Each loan type (Farm Ownership Loans and Operating Loans) is limited to $50,000. The combined maximum loan amount for the program is $100,000.

SBA officials stated that the agency does not collaborate with other agencies with regard to intermediaries' participation in other programs. SBA officials noted that the Microloan Program Office does not have a strategic goal related to collaboration with other agencies that engage in similar community development lending and technical assistance activities. An SBA official participates on the CDFI Fund's Community Development Advisory Board as the SBA Administrator's designee.[65] According to board minutes from the 2017 and 2018 annual meetings, board members examined the status of microlending in the United States, and the designee outlined the approximate number of SBA Microloan Program intermediaries operating in one or more federal loan programs, and discussed intermediary activities within multiple federal programs. However, there was no formal or direct involvement of other SBA officials from the Microloan Program Office on this board.

SBA and USDA have a memorandum of understanding that seeks to strategically align efforts to promote stronger rural businesses and agricultural economies, but there has not been specific coordination around the SBA Microloan Program. According to some SBA district officials with whom we spoke, collaboration is limited to marketing of lending programs and community outreach. For example to help ensure that rural borrowers are aware of federal lending programs, SBA and USDA invite each other's staff to attend events that take place in rural areas. However, SBA and USDA do not share program data, such as intermediary involvement in related lending programs or loan amounts received by either agency.

No Collaboration to Share or Leverage Similar Data

SBA does not collaborate with other agencies to share information on intermediaries' participation in other programs or to share other types of data. According to SBA officials, intermediaries voluntarily notify SBA about funding they receive from other agencies, but SBA does not systematically collect such information.

According to officials, SBA does not have information-sharing agreements with USDA or Treasury for the Microloan Program. SBA and other agencies operating community development lending and technical assistance programs collect similar types of data. The selected programs we reviewed all collect information on lending activity or loan performance, such as interest rate and outstanding loan balance. All the

[65]The Board advises the Director of the CDFI Fund on policies regarding the activities of the CDFI fund. The Board is required to meet at least once a year and has 15 members. The six agency members are the Administrator of the Small Business Administration and the Secretaries of the Departments of Agriculture, Commerce, Housing and Urban Development, Interior, and Treasury. The nine remaining members are private citizens appointed by the President.

selected programs also collect borrower and business data, such as industry classification of the business.

In 2008, we reported that—due to similarities between their programs—opportunities existed for SBA and USDA to improve their collaboration.[66] We stated that improved collaboration could more effectively leverage each agency's strengths and help achieve program and agency goals, such as improving small business opportunities in underserved communities. SBA and USDA implemented both of our previous recommendations by increasing collaboration efforts, which focused on general marketing and technical assistance efforts between the two agencies. However, specific collaborative efforts related to the Microloan Program were not a part of these actions.

More generally, among the practices we previously identified for federal agencies to enhance and sustain their collaboration are (1) identifying and addressing needs by leveraging resources, and (2) establishing compatible policies and procedures to operate across agency boundaries.[67] However, SBA's Microloan Program Office has not explored the potential benefits of increasing its collaboration with Treasury's CDFI Fund and USDA's microloan programs—efforts that include similar community development lending and technical assistance activities. According to officials, identifying opportunities to collaborate with other agencies by sharing data or other information has not been a focus for the program or the agency. As a result, SBA may be missing opportunities that could enhance oversight and evaluation of its program.

Given the interagency collaboration currently in place with Treasury and USDA, SBA could benefit from exploring more specific information sharing and from leveraging data collection resources on the Microloan Program with these agencies. For instance, increased information sharing from Treasury and USDA on their microlending activities could provide a more comprehensive understanding of how intermediaries use microloans, the types of borrowers that receive the funds, and the types of performance goals and measures collected across the agencies.

[66]See GAO, *Rural Economic Development: Collaboration between SBA and USDA Could Be Improved*, GAO-08-1123 (Washington, D.C.: Sept. 18, 2008).

[67]GAO-06-15.

Public Reporting for the Microloan Program Is Limited

SBA publicly reports some aggregate data on the financial performance of its Microloan Program, but this does not include data related to populations served. As noted earlier, SBA publishes some data on loans to intermediaries and program outcomes in its congressional Budget Justifications and Performance Reports. Available data include

- number of small businesses assisted by microloans,
- number of jobs supported by microloans, and
- amount of loans made to intermediaries and borrowers.

SBA's current data reporting system lacks the capabilities to provide additional public data, including aggregate borrower data, according to agency officials. While SBA publishes specific information about loans to intermediaries, including annual unpaid principal balance, number of approved loans, charge-off amount and rates, and post charge-off recovery amounts and rates, it does not publish data on aggregate microloan borrower demographics or the types of businesses served by the program. SBA officials told us that they plan to explore increasing the public availability of data as they develop the new data reporting system.

Other federal agencies that engage in similar microlending activities provide public reporting related to program data and program outcomes. For instance, Treasury's CDFI Fund provides a repository of data, as well as an industry report based on annual certification data. According to the CDFI Fund's strategic plan, the purpose of this public report is to increase the CDFI Fund network's access to and ability to use CDFI Fund data; enable CDFIs to compare their performance against their peers; and expand the amount and type of data that the CDFI Fund makes available to the public for research purposes.[68]

In addition, USDA publicly reports program information—such as number and amount of loans, and default rates—in its congressional Budget Justification and Agency Financial Report. As part of its strategic goals, USDA also aims to make data publicly available in an efficient and timely

[68]According to a Treasury official, an organization is required to be certified as a CDFI to be eligible for most of the CDFI Fund's programs. Once a CDFI has been certified, it must submit an Annual Certification and Data Collection Report to allow the CDFI Fund to assess whether the organization is in compliance with certification rules and monitor any changes in the organization's financial and other data. Certified CDFIs are required to submit these reports within 90 days of the end of their fiscal year.

manner to help its program participants meet their goals and objectives more efficiently.[69]

According to federal internal control standards, management should externally communicate quality information to achieve the entity's objective.[70] External parties to these communications can include regulators, government entities, and the general public. Furthermore, beginning in January 2020, agencies will be required to examine ways to make their data available by default under Title II of the Foundations for Evidence-Based Policymaking Act of 2018.[71] Among other things, agencies will be required to facilitate collaboration with nongovernment entities to understand how they value and use government data, and implement methods to respond to quality and usability issues. Agencies also will be required to prioritize disclosure of data that would be in the public interest.

In our discussions with SBA officials, as of August 2019 they had not yet developed plans to provide more data about the Microloan Program that would be in the public interest. Providing more public data—such as aggregate borrower demographic and business data—on the program could provide greater transparency on how SBA has been achieving the purpose and objectives of the Microloan Program. Furthermore, increased data reporting, as is conducted for the CDFI Program, could increase the availability of data on the Microloan Program. In turn, this could enhance the ability of intermediaries to gain insights on strategies used by their peers and assist the public in gaining a greater understanding of the federal role in microlending.

Conclusions

The SBA Microloan Program can be an important funding source for small businesses that have difficulty accessing loans from conventional channels, including businesses owned by women, low-income, veteran, and minority entrepreneurs. But certain limitations exist in the program's performance measurement, collaboration efforts, and public reporting:

[69]We did not assess the reliability of the data in USDA or Treasury reports during the course of this audit.

[70]GAO-14-704G.

[71]Foundations for Evidence-Based Policymaking Act of 2018, Pub. L. No.115-435, §§ 201-2 132 Stat. 5529, 553 (2019).

- Program guidance for intermediaries' data reporting is lacking. Most notably, it does not define low-income, explain how to report on borrower business outcomes, or require collection of information on what technical assistance has been provided to borrowers. Enhancing the intermediaries' guidance could help ensure more reliable and consistent program data.
- The Microloan Program does not have annual performance targets for the assistance provided to women, low-income, veteran, and minority entrepreneurs. As a result, SBA cannot readily assess how well the program is achieving its statutory purposes of serving these designated populations.
- In developing its new data reporting system, SBA has not yet taken key steps indicative of effective planning—such as involving staff from its program evaluation office or identifying linkages between program activities and expected outcomes. Without such planning measures, the new data reporting system may not be as effective.
- SBA's Microloan Program Office has limited collaboration and information-sharing with other federal agencies that engage in similar microlending activities. As a result, SBA may be missing opportunities to enhance existing collaborative efforts and leverage existing resources from these agencies.
- The Microloan Program publicly reports only limited data—for example, no statistics are published on aggregate borrower demographics or types of businesses served. Publicly reporting more data could provide greater transparency on the program.

Addressing these issues would help ensure the Microloan Program can measure its performance and more effectively achieve its statutory goals of helping small businesses in need of financial assistance.

Recommendations for Executive Action

We are making the following five recommendations to SBA:

The Director of the Office of Financial Assistance should review and enhance guidance for the Microloan Program to ensure definitions of data collected, such as income, are clear and instructions are comprehensive for data needed, such as for borrower business outcomes and technical assistance. (Recommendation 1)

The Directors of the Office of Financial Assistance and Office of Program Performance, Analysis, and Evaluation should develop a performance target to assess the Microloan Program's progress in achieving its statutory purpose of assisting women, low-income, veteran, and minority entrepreneurs. (Recommendation 2)

The Directors of the Office of Financial Assistance and Office of Program Performance, Analysis, and Evaluation should ensure that appropriate advance planning occurs during the development of the new Microloan Program data reporting system by involving relevant offices within SBA in system design and considering data needed to assess program performance. (Recommendation 3)

The SBA Administrator should explore opportunities for additional interagency collaboration and information sharing with other federal agencies that engage in microlending activities, such as Treasury and USDA, and take steps to implement new collaborative efforts as warranted. (Recommendation 4)

The Director of the Office of Financial Assistance should examine ways to incorporate public reporting of additional Microloan Program information into the design of the new data reporting system. (Recommendation 5)

Agency Comments and Our Evaluation

We provided a draft of this product to SBA, Treasury, and USDA for their review and comment. SBA provided written comments that are reprinted in appendix II. SBA, Treasury, and USDA provided technical comments that we incorporated, as appropriate. In its written comments, which are summarized below, SBA agreed with three recommendations and partially agreed with two recommendations.

SBA agreed to review and enhance guidance for the Microloan Program (Recommendation 1), including by clearly defining low-income; involve relevant offices in SBA in the design and development of the new data reporting system for the Microloan Program and consider data needed to assess program performance (Recommendation 3); and examine ways to incorporate public reporting of additional program information (Recommendation 5).

SBA partially agreed with our second recommendation. SBA agreed to provide aggregate demographic and socioeconomic data collected from borrowers but cited challenges with data collection because of the voluntary basis on which the information is provided by loan applicants. However, the voluntary nature of certain data should not preclude SBA from establishing a performance target for assisting populations designated by statue as intended program participants. As we stated in the report, SBA already tracks the number of women, low-income, veteran, and minority entrepreneurs served by the program and previously reported a performance indicator for assistance to small businesses from these underserved markets. SBA's concerns could be addressed, for example, by disclosing in its performance reports the inherent limitations of the available data, including the percentage of borrowers who chose not to report demographic and socioeconomic information. Without a performance target for assistance to demographic and socioeconomic groups designated by statute, SBA lacks a key mechanism for assessing the extent to which the program achieves its statutory purposes.

SBA also partially agreed with our fourth recommendation noting collaborative efforts it has undertaken and stating that such efforts are most successful when there is synergy and commitment on both sides. SBA stated that it would continue seeking additional collaboration opportunities with other federal agencies that operate similar or complementary programs. In the draft report, we acknowledged SBA's existing collaborative efforts with Treasury and USDA. But we reported that SBA does not systematically collect information on intermediaries' participation in other programs, does not have information-sharing agreements with USDA or Treasury for the Microloan Program, and has not focused on identifying new opportunities for collaboration. SBA could build on existing collaborative efforts and benefit from exploring additional information sharing with Treasury and USDA and leveraging data collection resources.

We are sending copies of this report to the appropriate congressional committees, the Acting Administrator of the Small Business Administration, the Secretaries of Treasury and USDA, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.

William B. Shear

William B. Shear
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

This report examines (1) the characteristics of intermediaries and borrowers in the Small Business Administration's (SBA) Microloan Program, (2) program oversight of intermediaries and borrowers, (3) program performance measures, and (4) collaboration within SBA and with other federal agencies. We focused our review on calendar years 2014-2018.[1]

For all of our objectives, we reviewed Microloan Program documentation. We reviewed the program's standard operating procedures (SOP), the lender's user manual for the Microloan Program Electronic Reporting System, and analyst operations manual.[2] Further, we interviewed SBA officials from the Office of Financial Assistance, Office of Capital Access, Office of Credit Risk Management, Office of Grants Management, Office of Field Operations, Office of Program Performance, Analysis, and Evaluation, and the Office of Executive Management, Installation and Support Services.[3] We also conducted interviews with representatives from a non-generalizable sample of 10 Microloan Program intermediaries and four corresponding district offices.[4] These interviews provided insight into the intermediaries' perspectives on the Microloan Program and illustrative examples of how different types of intermediaries participated in the program.

We selected intermediaries to include a range of sizes based on the number of loans and average loan amount. Our selection consisted of six

[1]To analyze loans provided by the Microloan Program, we obtained data as of February 2019, from the data reporting system for calendar years 2014-2018. To analyze technical assistance grants provided for the Microloan Program, we obtained data as of July 2019 for calendar years 2014-2018. Our analysis throughout the report is based on these data, unless otherwise specified.

[2]SBA's data reporting system is known as the Microloan Program Electronic Reporting System and contains information self-reported by intermediaries.

[3]According to officials, as of October 2019, due to an agency realignment, the Microloan Program operates as part of the Microenterprise Development Division within the Office of Financial Assistance in SBA's Office of Capital Access. (The realignment eliminated the Office of Economic Opportunity). Moreover, due to an agency reorganization, the Office of Program Performance, Analysis, and Evaluation replaced the previous office that was called Office of Performance Management.

[4]The Microloan Program uses nonprofit lenders, known as intermediaries, to help them provide loans, training and technical assistance to small business borrowers.

large intermediaries, two medium, and two small.[5] These intermediaries were located in different regions across the country and monitored by different SBA district offices and included intermediaries that provided loans to borrowers in urban or rural areas or both areas. Lastly, some of the intermediaries selected participated in other federal microlending programs. Of the district offices, we selected four offices that included a range in the number of intermediaries that were required to be monitored. Two district offices oversaw six or more intermediaries, one oversaw three intermediaries, and one oversaw one intermediary.

To identify characteristics of intermediaries in the Microloan Program, we obtained Microloan Program data, as of February 2019, from the data reporting system and reviewed intermediaries' websites and documents. We analyzed program data from 2014 to 2018, which contained loan, borrower, and intermediary information. More specifically, we analyzed data on intermediaries' loan performance (such as loan delinquency and default); borrowers' business characteristics (such as location in urban or rural areas; pre-existing or new business; industry sector); and business ownership structure (such as sole proprietor or partnership). We also analyzed designated borrowers' demographic and socioeconomic categories (for example, women, minority, ethnicity, veteran and income status). Additionally, we used data supplied by SBA and the Department of the Treasury (Treasury) and the Department of Agriculture (USDA) to identify intermediaries that participated in other SBA programs or other federal programs and interviewed officials. We selected the other federal agencies because they had programs with purposes, activities, and use of funds that were similar to those of the SBA Microloan Program. We assessed the reliability of the data by reviewing relevant documentation, performing electronic data checks, and interviewing Microloan Program officials. As a result, we deemed these data sufficiently reliable for the purpose of reporting intermediary and borrower characteristics.

To evaluate oversight of the program, we reviewed SBA's Office of Inspector General (OIG) reports.[6] To identify steps to monitor fraud, we

[5]For purposes of our report, we define the size of an intermediary based on the number of loans closed between January 2014 and January 2019: large intermediaries are those that closed more than 200 loans, medium intermediaries are those that closed between 51 and 200 loans, and small intermediaries are those that closed from 0 to 50 loans.

[6]Small Business Administration, Office of Inspector General, *Audit of SBA's Microloan Program*, 17-19 (Washington, D.C.: Sept. 28, 2017); and *SBA's Administration of the Microloan Program under the Recovery Act*, ROM-10-10 (Washington, D.C.: Dec. 28, 2009).

reviewed relevant agency documents, including the program SOP, site visit checklists SBA district offices use during their annual reviews of all intermediaries, and documentation describing the status of SBA's implementation of fraud risk management. In addition, we reviewed the program's SOP to determine data reporting and other requirements. We also conducted interviews with SBA officials, district offices, and intermediary representatives to understand how oversight was conducted of the Microloan Program.

To assess program performance measures, we reviewed the Microloan Program's authorizing statute and implementing regulations, as well as Office of Management and Budget guidance.[7] We analyzed SBA intermediary-reported data from 2014 to 2018 to assess the information collected on borrower business outcomes as well as on technical assistance. We conducted an independent data reliability assessment by reviewing relevant documentation, performing data checks, and interviewing SBA Microloan Program officials. As a result of this assessment, we found a high percentage of incomplete and missing data and deemed the data on borrower business outcomes were insufficiently reliable for our purposes of determining how the Microloan Program assisted businesses.[8]

We also reviewed other documentation relating to technical assistance, the program's data reporting system and to performance goals, evaluation, and practices. More specifically, we reviewed documentation describing the technical assistance intermediaries provided to borrowers. We reviewed documents related to SBA's plans for procuring a new Microloan Program data reporting system to replace the current system, including technical requirements, and the statement of objectives. We also reviewed SBA's annual performance plans for fiscal years 2010–2020 and performance reports for fiscal years 2009–2018 for the Microloan Program and other lending programs such as the 504 and 7(a) Programs, as well as SBA's framework and best practices for program

[7]Office of Management and Budget, *Preparation Submission, and Execution of the Budget*, Circular No. A-11 (Washington, D.C.: June 2019); and *Federal Data Strategy–A Framework for Consistency*, M-19-18 (Washington, D.C.: June 4, 2019).

[8]Borrower business outcome data includes annual gross revenues, whether a borrower remains in business, and number of jobs supported by the microloan at the time of loan repayment.

evaluation and associated data collection.[9] We also compared Microloan Program data collection and performance management practices to relevant internal control standards.[10] Additionally, we interviewed other organizations that participate in microlending in the United States and Europe to learn about their performance measures.

To evaluate the Microloan Program's collaboration with other SBA programs and other federal agencies that engage in microlending activities, we reviewed materials related to other SBA programs, such as Community Advantage and Women Business Centers.[11] We selected these SBA programs based on the similarity of lending and technical assistance services offered and the involvement of Microloan Program intermediaries in these programs. We included the CDFI Program at Treasury and Microloan programs at USDA (Rural Microentrepreneur Assistance Program and Farm Service Agency Microloan Program) because these programs were similar in purpose, use of funds, loan amount, and use of technical assistance. We also reviewed an existing memorandum of understanding between SBA and USDA and documentation on SBA's role in the Community Development Advisory Board—an interagency board created by statute to advise on the policies of the CDFI Fund. Further, we reviewed agencies' congressional budget justifications, strategic plans, and financial reports to determine existing efforts and proposed plans for publicly reporting program information. We assessed the program's collaboration efforts against our prior work on interagency collaboration that identified key practices and considerations for implementing collaborative mechanisms and relevant internal control standards.[12] We also interviewed officials from SBA headquarters and

[9]The 504 Loan Program provides financing to small businesses for fixed assets such as real estate or equipment. The 7(a) Program is SBA's largest loan program and partially guarantees loans from participating lenders to eligible small businesses that cannot obtain credit through a conventional lender at reasonable terms.

[10]GAO, *Standards for Internal Control in the Federal Government,* GAO-14-704G (Washington, D.C.: Sept. 2014).

[11]Community Advantage is an SBA pilot program that delivers guaranty loans of $250,000 or less to meet the credit, management, and technical assistance needs of small businesses in underserved markets. Women's Business Centers offer training and counseling to women business owners to help them overcome continuing barriers to success.

[12]GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms*, GAO-12-1022 (Washington, D.C.: Sept. 27, 2012); and *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

district offices, Treasury and USDA, and Microloan Program intermediaries to obtain information on the program's interagency collaboration.

We conducted this performance audit from November 2018 to November 2019 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.

Appendix II: Comments from the Small Business Administration

U.S. Small Business Administration

October 15, 2019

Mr. William B. Shear, Director
Financial Markets and Community Investment
U.S. Government Accountability Office
Washington, D.C. 20548

Dear Mr. Shear:

Thank you for providing the U.S. Small Business Administration (SBA) with a copy of the U.S. Government Accountability Office (GAO) draft report titled *"SBA Microloan Program: Opportunities Exist to Strengthen Program Performance Measurement, Collaboration, and Reporting"* (GAO-20-049). The Draft Report discusses (1) the characteristics of intermediaries and borrowers in the Microloan Program; (2) program oversight of intermediaries and borrowers; (3) program performance measures; and (4) collaboration within SBA and with other agencies.

The Office of Capital Access ("OCA") for SBA has primary responsibility for all of the Agency's small business loan programs. By program size, this includes the 7(a) Loan Program with $30 billion in annual authority (including the 7(a) Community Advantage Loan Pilot), the 504 Loan Program with $15 billion in annual authority, and the Microloan Loan Program which in FY2019 received $42.4 million in lending authority and $31 million to fund training and technical assistance grants to its participating intermediary lenders. All of the business loan programs, including Microloans are supported within OCA by the Office of Financial Assistance (OFA) which provides 7(a), 504 and Microloan policy and program development including Microloan reporting and grant administration, the Office of Financial Program Operations (OFPO) which includes loans servicing and liquidation functions, the Office of Performance Systems Management (OPSM) which provides our electronic lending platforms, and the Office of Credit Risk Management (OCRM) which oversees lender participation and compliance in the programs.

The SBA has realigned/reorganized two offices that are mentioned in GAO's draft report. First, the Office of Economic Opportunity no longer exists within the Agency as a result of a realignment with the OFA. As a result, the Microloan Program is now called the Microenterprise Development Division (MDD) and is one of 4 divisions under OFA. Second, the Office of Performance Management no longer exists within the Agency as a result of a reorganization with the new office now titled Office of Program Performance, Analysis, and

Mr. William B. Shear
U.S. Government Accountability Office
October 15, 2019

Evaluation (OPPAE).

SBA has the following comments with respect to the recommendations:

(l) *The Director of the Office of Economic Opportunity should review and enhance guidance for the Microloan Program to ensure definitions of data collected, such as income, are clear and instructions are comprehensive for data needed, such as borrower business outcomes and technical assistance.*

SBA agrees with this recommendation and will take necessary steps to enhance guidance for the Microloan Program by providing intermediaries with a clear definition for low-income and comprehensive guidance to ensure appropriate data is obtained.

(2) *The Directors of the Office of Economic Opportunity and Office of Performance Management should develop a performance target for the assistance the Microloan Program provides to demographic and socioeconomic groups, which can include women, low-income, veteran, and minority entrepreneurs.*

SBA partially agrees with this recommendation. The SBA Microloan Program manager will ensure that the intermediaries participating in the Program are mission-based lenders with a focus on underserved markets, which can include women, low-income, veteran and minority entrepreneurs. SBA will provide aggregate demographic and socioeconomic data collected from Microloan Program borrowers, while being mindful that the information is collected by the intermediaries from microloan applicants who provide it on a voluntary basis and SBA is prohibited by statute from reviewing microloans before they are approved by intermediaries. Since the information is provided by the loan applicants to the intermediaries on a voluntary basis, it is not necessarily inclusive of all borrowers, nor can its accuracy be verified by the Agency.

(3) *The Directors of the Office of Economic Opportunity and Office of Performance Management should ensure appropriate advance planning is taken in the development of the new Microloan Program data reporting system by involving relevant offices within SBA in its design and considering data needed to assess program performance.*

SBA agrees with this recommendation. The Microloan Program manager will consult with the Director of OPSM and OPPAE to appropriately plan and design enhancements to its data reporting system that ensure adequate data is included to assess program performance.

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Mr. William B. Shear
U.S. Government Accountability Office
October 15, 2019

(4) *The SBA Administrator should explore opportunities for additional interagency collaboration and information-sharing with other federal agencies that engage in microlending activities, such as Treasury and USDA, and take steps to implement new collaborative efforts as warranted.*

SBA partially agrees with this recommendation. SBA reaches out to other Federal Agencies and is most successful when there is synergy and commitment on both sides. SBA will continue its outreach to seek additional collaboration opportunities with Treasury (Community Development Financial Institutions (CDFI) Fund), HHS-Office of Refugee Resettlement (ORR), USDA Rural Development, and Commerce-Economic Development Administration. SBA will look for opportunities to collaborate with other federal agencies that operate similar or complementary programs.

The SBA currently has an MOU with USDA and collaborates by co-marketing and training, and co-branded media materials regarding SBA's Business Loan Programs and USDA Rural Development programs. SBA also collaborates with HHS – Office of Refugee Resettlement to exchange Microloan program information and inform potential participants in both programs on Program requirements and the benefits of using both. SBA has received applications from prospective Microloan Program intermediaries as a result of this collaboration. SBA provides information on the benefits of other Federal Agency programs and resources when conducting training with Intermediaries. This guidance helps to expand and diversify their Federal funding sources and secure all the tools available to deliver multiple products and programs needed by their clients.

(5) *The Director of the Office of Economic Opportunity should examine ways to incorporate public reporting of additional Microloan Program information into the design of the new data reporting system.*

SBA agrees with this recommendation. The Director of the Office of Financial Assistance will explore public reporting of additional Microloan Program information.

In addition, SBA has the following concerns with some of the Sections of the Draft Report:

- In the opening section "What GAO Found", GAO describes the intermediary lenders that participate in the SBA Microloan Program as "generally nonprofit lenders".

  All Microloan Program participants are non-profit lenders.

- In the last paragraph of the section "SBA Has Taken Steps to Improve

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Mr. William B. Shear
U.S. Government Accountability Office
October 15, 2019

Monitoring of Intermediaries" GAO mentions that two OIG recommendations had not been implemented as of August 2019.

SBA and OIG have agreed that these recommendations are not due until March 31, 2020.

- In the last paragraph of the section "Reporting Requirements" GAO identifies SBA's collateral as including the "proceeds in the intermediary's microloan repayment funds, up to the amount owed to SBA under the Microloan Program".

  This description of SBA's collateral fails to include the proceeds in the intermediary's loan loss reserve account, and the microloan notes which are also SBA's collateral.

- In the last paragraph of the section "SBA Takes Some Steps to Monitor for Fraud in the Microloan Program" SBA would like GAO to make several corrections.

  SBA would like the first sentence to be corrected to say, "SBA has begun an agency-wide effort to educate staff on the Fraud Reduction and Data Analytics Act (FRDAA) and the GAO Fraud Risk Management Framework." SBA asks that the second sentence be changed to say "In 2018, SBA held its first fraud risk management workshop which was led by the Office of Continuous Operations and Risk Management (OCORM), Office of the Chief Financial Officer (OCFO), Office of Inspector General (OIG) and Office of General Counsel (OGC)." SBA requests that the word "program" be replaced by the word "office" in the fifth sentence and that the phrase "including the Microloan Program" be removed. Finally, SBA requests that the final sentence be modified to say "...one of its priorities..." instead of "...its first priority..."

- In the section "Borrower Business Outcomes" GAO states that "intermediaries are prompted to record borrower business outcomes when they indicate that a microloan has been paid in full".

  This is partially true, but the intermediary is also prompted when a microloan is reported as charged off. SBA will continue to provide enhanced guidance and training to its intermediaries in order to reduce the number of non-reported outcomes.

- In the section "Technical Assistance Provided" GAO states that "SBA plans to

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Mr. William B. Shear
U.S. Government Accountability Office
October 15, 2019

collect microloan level technical assistance data".

SBA does not plan to collect microloan level technical assistance data. SBA currently collects aggregate technical assistance data from each intermediary, each quarter (i.e. the total number of pre-loan and post-loan TA hours provided to all borrowers and prospective borrowers) and plans to continue collecting this aggregate data going forward. This data is currently collected outside the MPERS system and will be part of the planned enhancements to the data reporting system. SBA is in the process of determining how to best incorporate this data with its loan data to analyze the impact of TA on loan performance.

- In the final paragraph of this section, GAO states "SBA has not fully implemented a prior OIG recommendation to update the manual".

  SBA and OIG have agreed that the update to the manual will be due at the same time as the completion of the reporting system enhancements (March 31, 2020).

We appreciate the opportunity to comment on this draft report and for taking our views into consideration.

Sincerely,

John A. Miller for

William M. Manger, Jr.
Associate Administrator
Office of Capital Access

SBA

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5

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

William Shear at (202) 512-8678 or shearw@gao.gov

Staff Acknowledgments

In addition to the contact named above, Nadine Garrick Raidbard (Assistant Director), Meredith P. Graves (Analyst in Charge), Benjamin Bolizter, Gabriel Camacho, Jill Lacey, Kathryn Lenart, Loren Lipsey, Ian P. Moloney, Kirsten Noethen, Barbara Roesmann, Jena Sinkfield, and John Yee made key contributions to this report.

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