

SBA called slow to kill duplicative programs and curb improper payments

By Charles S. Clark cclark@govexec.com June 16, 2011

The [Small Business Administration](#) has not responded quickly or thoroughly to demands that it reduce duplication in its programs and cut what some estimate is \$234 million in improper payments made to contractors, according to testimony heard Thursday at a hearing of the Senate Small Business and Entrepreneurship Committee.

[SBA](#) Administrator Karen Mills responded to criticisms from her agency's inspector general and the financial markets director at the [Government Accountability Office](#) with a general summary of accomplishments at a hearing at which a senator and one witness called for the abolition of her agency.

"Over the past two critical years, SBA has helped put \$53 billion in lending support and \$195 billion in federal contracts in [small businesses'] hands," she told the eclectic session titled, An Examination of SBA Programs: Eliminating Inefficiencies, Duplications, Fraud and Abuse. At the same time, she said, "We've counseled, trained and mentored over 2 million who have turned to us to start or grow a business. We've also delivered on our promises, such as the committee's request to reinvent the SBA website, which now boasts more than 3 million users in just six months."

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Still, SBA Inspector General Peggy Gustafson said her office remained very concerned about continued fraud and improper activity in the agency's preferential contracting programs, including the 8(a), service-disabled veteran-owned, and Historically Underutilized Business Zone programs.

"The bottom line is that there is a real societal cost when ineligible companies improperly profit from preferential contracting through fraud and illegal conduct," she said. "This fraud thwarts congressional intent behind these programs and deprives legitimate small businesses of contracting opportunities."

Committee Chairwoman Mary Landrieu, D-La., and ranking member Olympia Snowe, R-Maine, said they convened the hearing both because they sensed a need for SBA to step up its efforts to eliminate programs that GAO in a March [report](#) called duplicative and because of recent *Washington Post* reports suggesting SBA contracts go too often to Washington insiders.

The senators have co-sponsored the 2011 Small Business Contracting Fraud Prevention Act, ([S. 633](#)).

On curbing duplication, Mills said SBA's fiscal 2012 budget eliminates several programs, among them the Community Express and the Coverdell Drug-Free Workplace Program.

But William Shear of GAO said his office finds it "disturbing" that SBA's efforts to collaborate with agencies such as the Agriculture and Commerce departments and [Housing and Urban Development](#) have been slow.

"There's no evidence of seeking compatible practices and procedures or leverage in sharing with partners," Shear said, noting that Agriculture had responded to GAO proposals but SBA had not. SBA's "focus is on design of programs and what is permitted, and not on how they are actually distributed to users," he said.

A recent memorandum of understanding between the two agencies was "too broad and needed more specifics," he said. In reviewing how it is organized, SBA is "reaching out to its field offices rather than looking agencywide."

On reducing fraud and improper payments, Mills said her agency has been "aggressively pursuing misconduct and has removed dozens of bad actors," primarily through "upfront certification and 1,200 [recipient] site visits over the past year." She has debarred 14 ineligible firms referred by the IG's office this year.

Snowe worried the anti-fraud message must be stronger and its culture must change. She said there is confusion about SBA's role as overseer of other agencies' procurement practices and that a legislative fix may be warranted. As Gustafson put it, "The procurement agencies think SBA has the oversight responsibility and SBA thinks the agencies do."

Mills replied that she has been "working across the government in cross-training," including working with the [Veterans Affairs Department](#), Agriculture and Commerce.

But the inspector general said SBA could be better on such programs as surveillance monitoring and preferential contracts for the disadvantaged, saying SBA "evaluated only a limited number" using methods that "weren't thorough."

One ongoing area of disagreement between the administrator and the inspector general is whether improper payments represent only 1.2 percent of loan guarantees in the \$100 billion in contracts (SBA's view) or a sizable 27 percent (the IG's view). Mills said it "depends on the definition of improper. If a loan isn't improperly done if they don't cross all the t's and dot all the i's -- that's a foot fault that can be corrected so the loan guarantee can be honored."

But Gustafson disagreed, saying, "This is a fundamental question of what under the law is improper. It's never just about dotting the i's but always a material position." She said that in the continuing dialogue, SBA is slowly "coming closer to" the IG position.

On a separate topic, Landrieu criticized SBA "for over-collecting funds," saying she was disturbed in the aftermath of Hurricane Katrina that the agency was requiring immediate repayment of 30-year SBA loans by borrowers who had just received emergency community development block grants to rebuild their homes. "It may be too late for Katrina victims, but not for the people recently victimized by tornadoes in Joplin, Mo.," Landrieu said. She said she'd pursue the issue.

Sen. Rand Paul, R-Ky., in discussing SBA loan guarantees, questioned "whether the government should be in this business at all. It's about choice, whether government is superior to market choice," he said. In this time of record deficits, "these things cost money."

Mills replied that during the economic crisis, SBA "put \$42 billion in the hands of small business at low costs," and recalled one sawmill owner in Arkansas telling her, "You saved my business."

The importance of SBA's counseling to small businesses was emphasized by Fran Pastore, president and chief executive officer of the Women's Business Development Council.

Sen. James Risch, R-Idaho., asked private sector panelists about President Obama's draft executive order that would require companies applying for federal contracts to [disclose](#) their campaign contributions.

Kevin Baron, director of government affairs for the American Small Business League, said his members supported the order. "It's not perfect, but it will help with transparency and avoid skewing contracts to those who have connections," he said.

In a bit of drama as the hearing ended, Sen. Scott Brown, R-Mass., upbraided Tad DeHaven, a budget analyst at the libertarian Cato Institute who had called for abolishing SBA. DeHaven had delivered an anecdote about visiting a pizza parlor that had received an SBA loan he said was "discriminatory" against competing pizza vendors. "You don't know the facts behind the loan," Brown told him. "Throwing around that kind of rhetoric doesn't help the political dialogue" in Washington