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## **Increasing Opportunities for ALL Small Businesses to Succeed**

### **SBA Fiscal Year 2001 Annual Performance Plan**

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## **Overview**

The United States is enjoying one of the most robust economic growth periods in its history. More than 20 million new jobs have been created in the United States since 1992, we have the lowest unemployment and inflation rates in decades, and productivity gains from expanded use of technology have sent the stock market to new highs. Corporate profits and individual wealth have increased, creating a Government surplus that was unthinkable a few years ago. Although not every segment of society has shared equally in the fruits of this prolonged economic expansion, the United States economy is arguably the most robust in the world, becoming more diversified, more global, and more technological.

The extraordinary economic growth over the past 8 years has been fueled in large part by growth in the small business sector. Indeed, many of the most important job creators among big businesses today were small companies only a few years ago, companies such as Federal Express, America online, Intel Corporation, Nike, Apple Computer and Compaq—all recipients of SBA assistance. The number of small businesses is up 49 percent since 1982, and almost a quarter of U.S. households are either starting a business, own a business or investing in someone else's business. More than half of all innovation is attributed to small firms.

According to research done by SBA's Office of Advocacy, small businesses --

- Represent 99 percent of all employers and 52 percent of the private workforce;
- Employ 38 percent of the private workers in the hi-tech field;
- Provide virtually all the net new jobs;
- Provide 51 percent of private sector output and 96 percent of all exporters of goods;
- Provide 35 percent of all Federal contract dollars;

The Small Business Administration was created nearly 50 years ago to ensure a strong and vibrant small business sector. Many things have changed in the half-century, but our mission stays the same -- help small businesses start, grow, and succeed. The Small Business Act states. "It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small business....to maintain and strengthen the overall economy of the Nation." Congress understands that a vibrant small business sector is at the core of our economic growth and to the extent that SBA furthers this economic growth, its support of small business is in the best interest of every citizen.

## **Performance Plan**

On September 30, 1997, SBA published its Five-Year Strategic Plan. Since then, this FY 2001 plan marks the third annual performance plan we have published for our clients and stakeholders. During the past 2 and one half years, we have discussed the

content and the format of our plan with Congressional committee staff, General Accounting Office personnel, and small businesses. As a result, we have restructured our goals to make them more statutorily driven and outcome oriented (e.g., Help small businesses succeed), more clearly linked our strategies and the activities to achieve the goals, integrated the external factors, crosscutting activities, and Office of Inspector General (OIG) management challenges within the major Agency strategies. Finally, we no longer present “lead small business participation in welfare-to-work” and “transform SBA into a 21<sup>st</sup> century leading edge institution” as major strategic goals.

<b>Vision</b>
A Modernized SBA, Increasing Opportunities for <b>ALL</b> Small Businesses
<b>Statutory Mission</b>
1. Maintain and strengthen the Nation’s economy by aiding, counseling, assisting, and protecting the interests of small businesses and by helping families and businesses recover from natural disasters.
<b>Strategic Goals</b>
1. Help small businesses succeed, particularly the New Markets segments, through fair and equitable access to (1) capital and credit, (2) Government contracts, (3) business development, and (4) serve as a voice for small businesses. 2. Help Americans recover from natural disasters, through needed capital and credit.
<b>Modernization: Corporate Management Strategies</b>
1. Ensure effective internal control and oversight, both internally and externally. 2. Modernize Information systems. 3. Expand use of e-commerce. 4. Transition SBA’s workforce into the 21 <sup>st</sup> century.
<b>Core Values</b>
1. We are <b>customer-driven</b> . We create programs that reflect the needs and desires of all small businesses, particularly those that need help the most. 2. We are <b>partnership-based</b> . We deliver our products through dedicated resource partners who understand and work most closely with small firms. 3. We are <b>performance-centered</b> . We measure our success through results that small businesses seek, expect, and care most about. 4. We are <b>employee-oriented</b> . We care about our workforce and ensure that they are well trained, motivated, and positioned to help small businesses.

The SBA Performance Plan sets forth the vision, mission, and overall direction of the Agency, as authorized in the Small Business Act. It also defines our major goals, performance indicators, and strategies to measure our progress and to achieve what Congress expects. This Performance Plan flows from SBA’s Strategic Plan and is a companion piece to the Agency’s FY 2001 budget request.

As dictated by the Results Act (GPRA), this annual plan has two objectives. First, it describes for Congress and taxpayers the value-added of SBA programs for small business (results). Second, it discusses our corporate management strategies to improve program decision-making and foster accountability (modernization).

### **Goals and Corporate Management Strategies**

Our first goal is to **Help Small Businesses Succeed**, particularly those small firms that have not “fully participated in the Nation’s phenomenal economic recovery.” We call these firms “new markets” firms. Some Americans and some places have not had equal access to the economic opportunity during the past several years. We must, therefore, increase sharply the amount of financial, business development, and procurement assistance for America’s minorities, women, veterans, Native Americans, small exporters, and smaller businesses located in low and moderate income (LMI) urban and rural areas. As a “gap lender” who is addressing imperfections in the private market system, SBA has aggressive new multi-year lending goals to guide its efforts. We will continue to work in partnership with major businesses, civic and trade associations, and local community groups to take advantage of their skills in reaching those small firms that need help the most. A big part of our mission will be to draw them into the mainstream of the American economy as envisioned in the Administration’s “new markets” strategy.

Our second goal, **Acting as the Federal Government’s disaster bank**, is to help American businesses and families recover from natural and other widespread disasters. To help victims rebuild their homes and get back to work, we will provide an expedited response to disasters, maintain a high level of disaster loan underwriting quality, and use electronic processes to provide needed credit more quickly, widely, and cost-effectively.

As an internal management goal, **SBA Modernization** is at the core of our corporate management strategies to improve our business practices, make better decisions, and offer cost effective products and services to the small business community. We are redefining and changing how we do business to put our customers first, foster partnerships and community solutions, and reinvent ourselves to get the job done with less. During FY 2000 and 2001, we will continue to modernize ourselves by:

- Changing our core functions to include business outreach, marketing and improved partner relationship management, relying more extensively on outsourcing, privatization, streamlining, and reengineering;
- Improving internal controls and external program oversight;
- Upgrading and modernizing our information systems;

- Using the Internet and e-commerce to become more accessible to more customers, when and where they need our assistance; and
- Preparing our workforce for the future, especially through training and relocation, to put customers first, use partnerships and technology, and achieve results.

### **The New SBA**

The past several years represent an extraordinary time of change and achievement for SBA. Under the Administration's initiative to "work better and cost less," SBA has been reinventing itself and changing the way it does business. Using its partnerships and business resource partners more extensively, SBA is moving farther away from the direct delivery of products and services. With centralization of business loan approval and processing, sale of its assets, privatization of a third of the disaster home loan program, and increased use of technology (e.g., Internet), SBA's performance outcomes are more accurately "shared" outcomes. The more that SBA can leverage its partnerships, interagency working relationships, and technology tools, the more successful it will be in achieving its mission. To a large extent, the functional focus of the Agency is being transformed from providing direct, unilateral delivery of service to:

- building relationships with our lending and resource partners;
- conducting outreach and marketing;
- providing education and training;
- matchmaking "buyers and suppliers" of service; and
- performing oversight.

Through our new emphasis on oversight and risk management, we are expanding our recent efforts to hold our business resource partners more accountable for prudently delivering effective and efficient help to the small business community.

Historically, SBA has provided four types of service to the small business community: credit/capital assistance (including disaster lending), procurement and Government contracting help, business development, and advocacy. Today, these same products and services are provided, but, in addition, the Agency is functioning as a voice for small business in the face of macro-economic changes and globalization of markets, and ensuring fairness and equity of access for ALL small businesses.

SBA will also continue to work to implement the President's and Congressional calls for regulatory fairness. Throughout the past 6 years, the Agency has devoted energy and skill to act as a voice for small business in reducing burdensome paperwork and unnecessary regulations that hinder growth. SBA will continue to help small firms participate in the regulatory process by offering them a way to communicate more effectively with Federal agencies that regulate them.

## Challenges of the New Century

In the new century, the business world will be more *diverse, technological, and global* than ever before and will require new strategic alliances, new skills, and new ways of doing business. SBA must continue to change the way it does business to adapt to the challenges and opportunities of the new century; namely–

- Serving a more diverse small business sector,
- Using the Internet and e-commerce to be more productive, and
- Recognizing that successful small firms will increasingly do business internationally.

*Diversity—new markets.* In the 21<sup>st</sup> century, demographers project that racial or ethnic majorities will no longer exist in America. The number of minority owned businesses has increased by 168 percent over the past decade; their revenues have grown by an astonishing 343 percent. Women-owned businesses grew by 89 percent over the past decade, about twice as fast as businesses in general. SBA will aggressively continue to support this fastest growing segment of the small business community, as well as other “new markets” segments that have been traditionally ignored by the private sector (e.g., rural and inner city firms, Native American and veteran owned firms, and small exporters).

*Technology – e-commerce.* The Internet and other information and communications technologies are changing the way we work, learn, communicate with each other, and do business. These technologies are shaping our economy and our society in the same way that the steam engine and electricity defined the Industrial Age. Businesses are scrambling to use the Internet to increase productivity, boost exports, cut the time required to develop new products, and forge closer relationships with customers and suppliers. In the next 4-5 years, revenues from business-to-consumer e-commerce will grow to about \$90 billion; revenues from business-to-business e-commerce will amount to \$1.3 trillion.

Small businesses are at the forefront of technological change because they are nimble, close to the customer and account for more than half of all innovation in the United States. On the other hand, despite the explosive growth in computers and technology, there is a “digital divide” among our citizens. Small businesses that do not have the technological knowledge to keep up with or exploit new technologies, such as the Internet, will be at a competitive disadvantage. SBA must become itself an “e-business,” delivering its goods and services over the Internet. But it also needs to help small business take advantage of the Internet to compete not only with businesses in their neighborhood or in their state, but also in other states - and in other countries. SBA plays an important role in doing outreach and providing small businesses with information on how to access technology, how to become electronic, and how to utilize the power of accurate and timely information to be more competitive and to succeed.

The President has challenged the SBA and Department of Commerce to develop strategies to help small businesses overcome barriers to the use of the Internet and e-commerce. These strategies encompass the need to train Federal employees who have contact with small firms on the use of the Internet and e-commerce. They also identify commonly used Government products and forms that should be moved to the Internet to enable small businesses to use the Internet to interact with the Government. Finally, the SBA and Department of Commerce are developing outreach plans to enhance electronic access to information and services that can assist small businesses' development using the Internet and e-commerce. A major core business practice of SBA is to deliver more products and service via the Internet, to become an "e-business," and to educate small businesses on the importance and use of the digital media. Particularly where small firms are concerned, we are committed to eliminating the "digital divide" where those that have access to information and services will become increasingly more competitive and successful. We envision an Internet Economy where every business will have the means to access Government electronically in the near future.

*Globalization.* SBA will also emphasize international markets as a key future source of small business opportunities by providing small firms trade leads, export financing, and export promotion information. With changes in technology and communications, increased efficiency in international capital markets, relaxation of trade barriers, and economic growth in other parts of the world, SBA believes that there is enormous potential for America's small businesses to sell their products and services in other countries. Given the globalization of markets and explosion in the Internet, small businesses are contributing more to the global economy—but not to the extent that they could. The Nation's overall export performance could improve notably if more small and medium sized U.S. companies devoted more of their attention to entering export markets. U.S. exports play an integral role in the U.S. economy, accounting for about 9 percent of Gross Domestic Product (GDP) and supporting more than 11 million jobs in the United States. Therefore, SBA recognizes that for the U.S. to maintain its international competitiveness, we must become more global in our approach and be more aggressive in assisting small businesses enter the export marketplace.

### **SBA Success**

Small business success remains a primary policy concern of the Clinton Administration and the SBA. The Clinton Administration believes that America's small business community is both the symbol and the embodiment of our economic freedom. This is why the Administration has made concerted efforts to increase small business access to capital, reform the system of government regulations to make it more equitable for small companies, and expand small business access to new and growing markets. Therefore, SBA's value added for the American taxpayer is to help small businesses start, grow, and stay in business – in effect, to achieve entrepreneurial success that continues to con-

tribute to the economic well-being of the Nation.

The following performance indicators are measures of SBA success:

- Number of small firms created, maintained, and/or expanded through SBA supported access to capital, business development, and contract assistance;
- Number of small firms *that need it the most* receiving SBA assistance (New Markets: women, minorities, small borrowers, rural and distressed urban small businesses, Native Americans, veterans, small exporters and start-ups);
- Net new jobs created, revenues generated, and taxes paid by small firms helped by SBA;
- Percentage of Federal procurement going to small businesses;
- Quality and cost effective delivery of disaster assistance;
- Creation of a modernized SBA, reflected in improved program quality and oversight, expanded outreach, reduced cost, and increased productivity.

### **Highlights of FY 2001 Budget Request**

In FY 2001, SBA is requesting \$1.061 billion, approximately \$185 million more than the President's FY 2000 budget request, to support business development, counseling, and technical assistance to more than 1 million entrepreneurs, small business access to \$21 billion in capital and credit, and access to Federal contracts.

We have significantly increased the efficiency of our operations and have already substantially reduced our employment level by more than 20 percent over the past decade, going from more than 4,000 employees to about 3,200 today (excluding disaster program personnel). Our current level of employment is necessary to maintain and properly administer our growing programs and provide the proper level of oversight and monitoring of our \$50 billion loan portfolio and a growing number of resource partners. Given the reduction in personnel and increase in loan portfolio over the past 6 years, risks to the Agency are dramatically higher, particularly as we devolve more programs and services to the private sector.

SBA's budget supports the following *selected* activities in FY 2001:

1. **Advocacy Database and Analysis (\$1.5 million):** This request will permit the Office of Advocacy to assess the effects of macroeconomic policies as well as the economic impact of regulatory policies on small businesses.
2. **Systems Modernization (\$13 million):** This request will enable SBA to continue its multi-year, three phase effort to modernize its information technology. Continued efforts in Phase II will allow the agency to comply with the Joint Financial Management Improvement Program standards.

3. **Information Technology Support (\$7 million):** Funding will upgrade the operating systems (Infrastructure Improvements) and maintain/replace the Agency's desktop computer equipment through a rational "Seat Management" approach.
4. **Workforce Transition (\$4 million):** This request funds the retraining and relocation costs to continue the transition.
5. **7(j) Technical Assistance (\$5 million):** This budget will provide technical and management assistance for 8(a) firms. Through a national network of education and business institutions, SBA can provide a menu of year-round assistance to 8(a) firms.
6. **BusinessLINC (\$6.6 million):** This request will fund additional mentor-protégé relationships in low- and moderate- income areas, to include Native American businesses, and identify small entrepreneurs for linkage to appropriate larger firms.
7. **Electronic Commerce Initiative (\$5 million):** This initiative will help educate small firms on the importance of the digital media, develop on-line education and training tools, offer our goods and services more electronically, and expand portals to help small businesses access information and services from across government.
8. **SBIR Phase III Commercialization (\$15 million):** This program permits the commercialization of Phase II awards developed by SBIR recipients.
9. **HUBZones (\$5 million):** This request will support additional marketing and oversight of the program, will utilize electronic commerce in identifying eligible small firms, and will implement a virtual workplace for staff who work in the HUBZone program.
10. **Microloan Technical Assistance (\$45 million):** Microloan intermediaries will use these funds to provide assistance to Micro loan borrowers.
11. **NMVC Technical Assistance (\$30 million):** The New Markets Venture Capital program offers needed equity capital to businesses in low and moderate income areas. This request provides technical and management assistance to NMVC firms.
12. **SBDC grants (\$85 million), SCORE (\$5 million), Women's Business Center Grants (\$12.0 million), Veteran's Outreach (\$4 million), and SBDC Native (\$3 million):** Each of these requests supports the costs of providing training, counseling, and education by SBA's business resource partners.
13. **One Stop Capital Shops (\$10 million):** These funds will accommodate new openings, to fund existing shops and expand services provided.

- 14. Tribal BICs (\$1.5 million):** These funds will support the Tribal Business Information Centers, by upgrading the technology infrastructure of the current TBICS and expanding services.
- 15. PRIME Technical Assistance (\$15 million):** These funds will serve to implement the Program for Investment in Microentrepreneurs Act of 1999, providing technical assistance to individuals and firms to increase entrepreneurship and business ownership, especially for businesses in the microenterprise area, and to improve the capability of microlenders.

## **Goals**

SBA has two major goals: (1) Helping Small Businesses Succeed, and (2) Helping Americans Recover from Disasters. In this section, our logical format is as follows:

### **GOAL**

#### **Outcome Discussion**

#### **Strategy 1.....**

- performance goals and indicators
- Major FY 2001 initiatives
- Human Capital and Budget Resources
- Selected FY 1999 Accomplishments
- Evaluation
- OIG Management Issues
- Cross-Cutting Issues
- Critical External Factors

#### **Strategy 2....**

### **GOAL 1: HELP SMALL BUSINESSES SUCCEED**

The Small Business Administration's mission is to maintain and strengthen the Nation's economy by aiding, counseling, assisting, and protecting the interests of small businesses to contribute to the economy. Small businesses:

- represent more than 99 percent of all employers and just more than half of the employees in the United States;
- are sources of constant technological change and productivity growth and an integral part of the renewal process that defines market economies; and
- create an essential mechanism by which millions of women, minorities, and socially and economically disadvantaged individuals can enter the economic and social mainstream.

A number of factors influence the vitality and growth of the small business sector in the United States. These factors include beneficial macroeconomic indicators (e.g., low inflation, stable interest rates, open markets), available work pool, positive legislative and regulatory environment, and availability of government assistance.

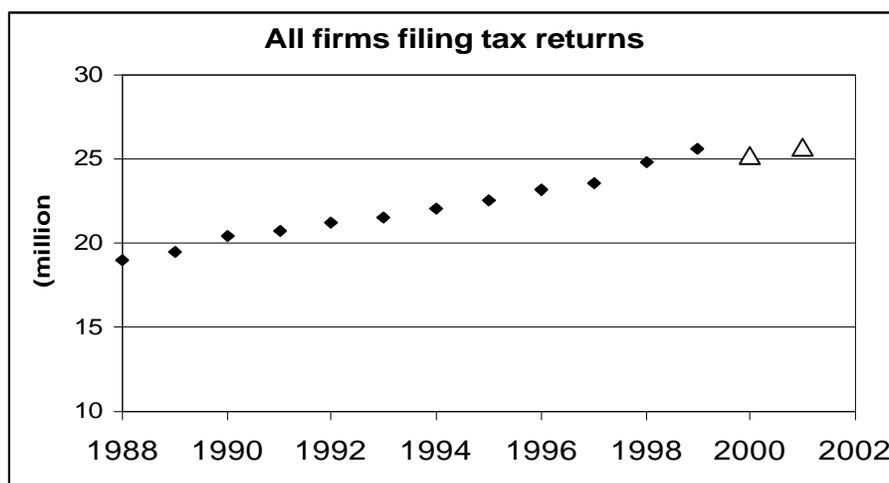
SBA products and services also contribute to the success of the small business community by helping shape the environment in which business operates and by providing direct support to individual firms. First, as a strong voice and advocate for small businesses, SBA influences or shapes the macro-entrepreneurial environment for small

firms to start, grow, and thrive, encouraging supportive legislation, building digital gateways and portals of information, and offering regulatory redress. Second, through its vast network of resource partners and provision of direct services, SBA has a more direct effect on small firms, by opening access to specific markets (e.g., capital access, Government contracting, international trade, innovation and research, and economic development in urban and rural low and moderate-income areas) and in providing developmental assistance.

### Outcomes

Many factors contribute to the overall growth and vitality of the small business sector. Although we do not claim any direct causal relationship, we are confident that SBA programs contribute to increases in the overall number of small businesses, firms with employees, net new jobs, and new market firms.

*Number of Small Businesses.* In 1997, approximately 24 million small businesses filed tax returns with IRS<sup>1</sup>. SBA projects that 25.2 million small businesses will file tax returns in FY 2000 and 26.2 million<sup>2</sup> in FY 2001. The graph shows a steady growth since 1988 with a slight downturn during the 1990-1991 recession.



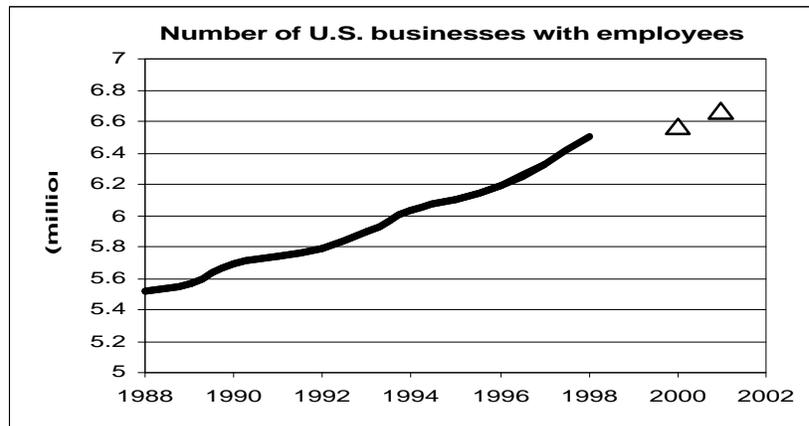
Source: US Dept of Treasury, IRS, Statistics of Income Bulletin (Fall 1998) Table 21

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<sup>1</sup> This number includes all firms with and without employees, and firms where the owner is working part time. However, as only about 15 000 firms have more than 500 employees the IRS data is a very close approximation to the actual number of small firms ( 15,000/ 24 million = 0.06%)

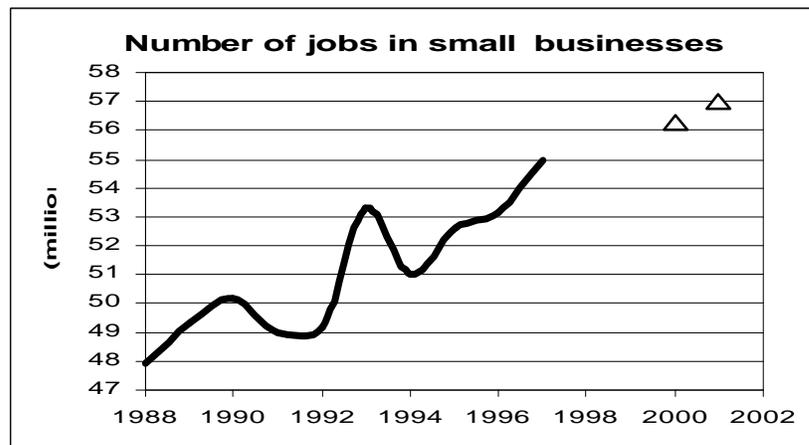
<sup>2</sup> Projection based on a linear regression of values 1988 through 1999.

*Small Businesses with Employees.* Currently, there are 6.5 million small firms with employees. SBA projects there will be 6.6 million and 6.7 mill in FY 2000 and FY 2001, respectively.



Source: SBA, Office of Advocacy estimate using data provided by the U.S. Dept of Labor.

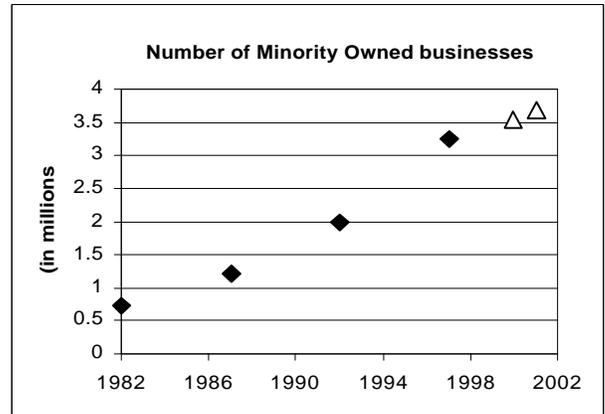
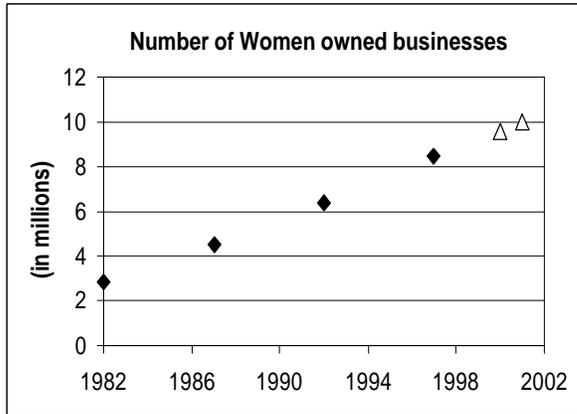
*Small Business Job Creation.* The number of jobs in small businesses has varied substantially since 1988. In FY 1997, small businesses provided 55.0 million jobs. SBA estimates that small businesses will provide 56.3 and 57 million jobs in FY 2000 and FY 2001, respectively. A SBA/Census database indicates that between 1990 and 1995, 76.5 percent of all new jobs came from small firms with less than 500 employees and about 49 percent came from firms with less than 20 employees. Start-up firms provided about a third of the total new jobs.



Source: SBA, Office of Advocacy, SBA. From data provided by Census.

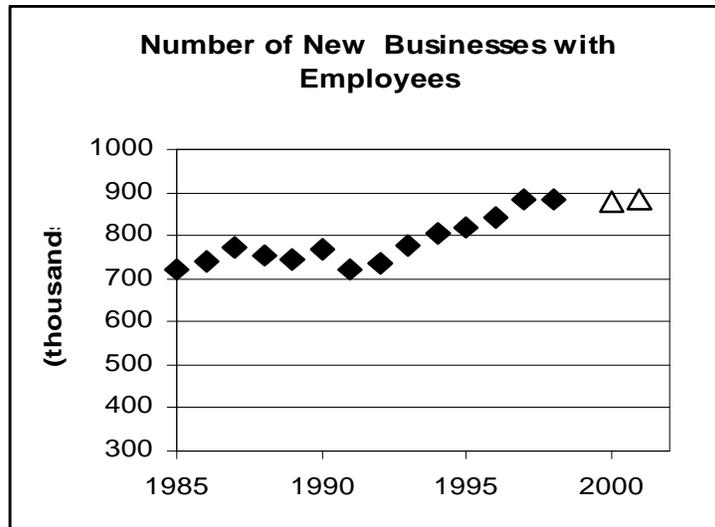
*Increased Women and Minority Ownership of Small Businesses:* The New Markets strategy will increase small business ownership by women, minorities, veterans, as well as stimulate small business startups and growth in inner cities, rural areas, HUBZones, Empowerment Zones and Low and Moderate Income (LMI) areas. The figures show that:

- Women-owned small businesses have increased significantly from 4.1 million in 1987 to 8.5 million in 1997. SBA projects that 9.6 million small businesses will be owned by women in FY 2000 and 10.0 million in FY 2001.
- The number of minority owned small businesses has grown significantly since 1988 and at an increasing rate since 1994. SBA projects there will be 3.5 million small businesses in FY 2000 and 3.7 million in FY 2001 owned by minorities.



Source: SBA Office of Advocacy, "Women in Business", October, 1998 and SBA Office of Advocacy, "Minorities in Business", April, 1999.

*Number of New Businesses.* Through its programs SBA seeks to help entrepreneurs start up new businesses. The next graph shows that the number of new firms has been increasing steadily since 1992. SBA's projection is for 880,000 and 884,000 new businesses in FY 2000 and FY 2001, respectively.



Source: Office of Advocacy, based on data prepared by Census under contract.

*Increased Number of Jobs Created by SBA Clients.* A number of studies have attempted to estimate the job creation effects of SBA programs. Examples include the 7(a) loan program and biannual study on the impact of the Small Business Development Center program. Some SBA programs estimate job creation from client data or trade associations, e.g., Microloans, Certified Development Company program, and SBIC program. Others capture data on job creation by directly asking clients about the likely impact on jobs retained or created as a result of program participation. Using available data, the number of jobs created have been estimated as follows:

**SBA Client Job Creation/Retention**

	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>
SBIC	74,000	89,000	117,000	126,000	135,000
504—Certified Development Co	127,587	113,966	113,966	156,519	197,115
Microloan	1,784	1,745	1,800	3,300	3,900
SBDC	N/A	56,000	N/A	TBD	N/A
Jobs maintained by disaster help	N/A	N/A	55,610	TBD	TBD
Jobs created by Export loans	5,000	5,340	5,040	6,940	12,640

Data sources:

SBIC: Based on an historical average of survey results from the National Association of Small Business Investment Companies and the Investment Advisory Council, the SBIC program estimates that \$32,500 invested ( \$33,313 for FY 2000-2001) results in one new job for FY 1997-1999.

504: Actual data on jobs received from CDCs making the loans combined with loan disbursement data from Loan accounting data base.

Microloan: Estimated jobs created.

SBDC: Estimate made in SBDC Biannual National Impact Study based on a survey of SBDC clients.

Disaster jobs: Number of jobs in firms receiving SBA Disaster Business Loans.

Export loans: 20 jobs created for each \$1 million in export sales according to Department of Commerce.

We have identified four strategies to ensure that small businesses succeed: (1) improve access to capital and credit; (2) increase access to Government contracts and procurement assistance; (3) increase access to business development assistance, and (4) act as a voice and advocate to create a favorable legislative and regulatory environment. SBA managers use related outputs for measuring performance on each of these strategies, e.g., numbers of loans, Government contracts, training sessions, and regulatory hearings. Outputs, in turn, contribute to the Agency’s overall intended outcome – small business success.

**Strategy 1: Improve Access to Capital and Credit**

Small businesses cite inadequate access to capital and credit as one of the most serious impediments to their success. Therefore, working in partnership with approximately 7,000 private sector lenders, SBA offers guaranteed loans to qualified small businesses that

cannot secure loans in the commercial marketplace to meet their working capital, real estate, equipment, international trade, or equity capital needs.

SBA is the “gap lender” for entrepreneurs in the United States. Its mission is to provide capital to entrepreneurs who cannot obtain it from conventional lenders. As a gap lender, SBA assumes more risk than the conventional lender, which is often expressed in terms of the entrepreneur’s lower level of collateral, limited track record, low debt service coverage, and/or erratic pay history. Start-ups, turn-arounds, and rapidly expanding businesses are among SBA’s key constituents.

SBA offers general business loan guaranties, equity financing, and surety bond guaranties through five umbrella programs: (1) the General Business Guaranty loan programs(7(a)), including export working capital loans; (2) the Certified Development Company (CDC) or 504 program; (3) Microloan program, (4) the Small Business Investment Company (SBIC) program, including the New Markets Venture Capital (NMVC) program, and (5) the Surety Bond Guaranty program.

SBA has a number of different loan products:

- **Microloans:** loans of \$25, 000 or less.
- **7(a) loans**
  - **Low Doc and SBAExpress:** loans \$50 ,000 to \$250, 000.
  - **Other 7(a) loans**
- **Export loans**
  - **Export working capital loans:** short-term working capital to exporters. Of up to \$833,333
  - **International Trade loans:** up to \$1,250, 000 for a combination of fixed-asset (facilities and equipment) financing and Export Working Capital Program (EWCP) assistance. The fixed-asset portion of the loan guaranty cannot exceed one million (\$1,000,000.00) dollars and the non-fixed asset portion cannot exceed \$750,000.00.
- **504 loans:** provides businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings, in amounts up to \$1 million.

**Performance Goal 1: Provide gap lending and investments of approximately \$18.3 billion**

<b>Program</b>	<b>FY 2000 Number Est.</b>	<b>FY 2000 Dollars Est.</b>	<b>FY 2001 Number Est</b>	<b>FY 2001 Dollars Est</b>
Microloans (guaranty and direct)	2,200	\$32.5M	2,600	\$60.0M
7(a) loans (gross original loan approvals)	54,300	\$10.7B	56,000	\$11.5B
504 loans (gross original loan approvals)	5,500	\$3.0B	6,000	\$3.8B
Export loans*	550	\$205M	600	\$224M
SBIC	3,200	\$1.8 B	3,500	\$2.5B

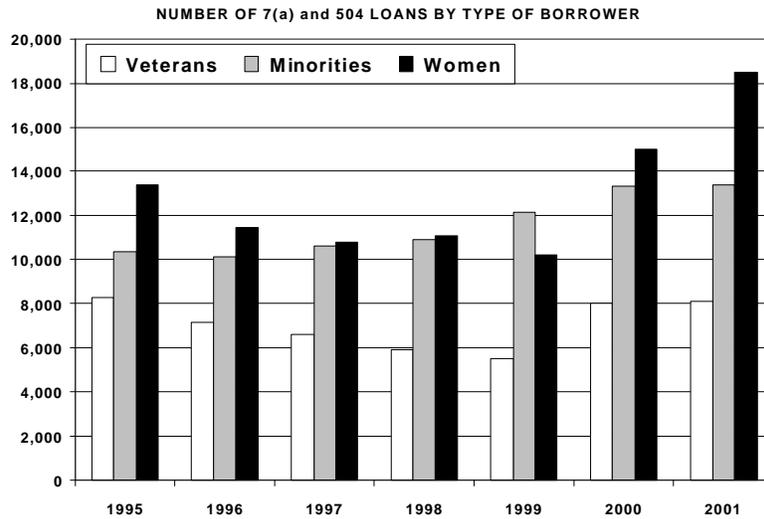
New Markets Venture Capital	N/A	\$40M	N/A	\$150M
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(Historical statistics on number of loans and loan volumes can be found in the credit program appendix)

\*Export working capital and international trade loans (included in 7(a) loan data.

**Performance Goal 2: Increase number of loans to 18,439 for women-owned businesses, 13,384 for minority-owned firms, and 8,020 for veteran-owned firms<sup>3</sup>.**

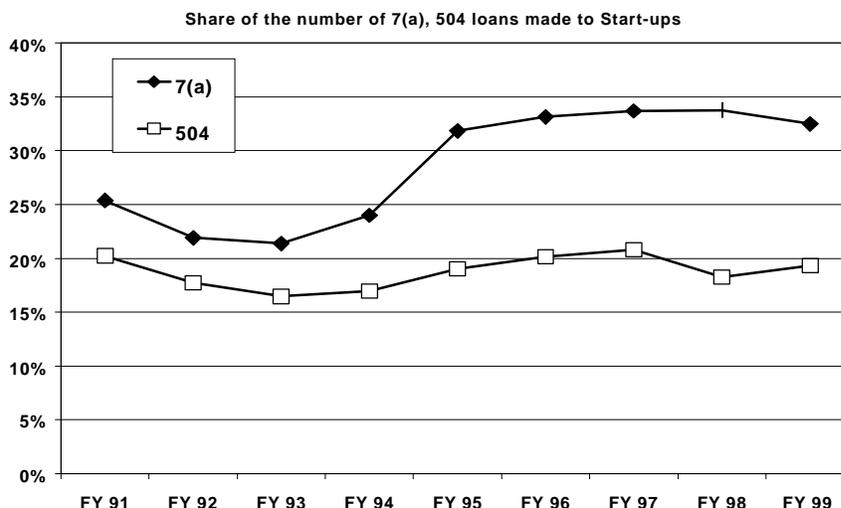
Based on increased efforts by SBA and its resource partners, the number of 7(a) and 504 loans to minorities have increased in FY 1999 and will continue to increase in FY 2000 and 2001 with our focus on outreach and lender relationship management.



Source: SBA's Loan Original Approval Data Base.. Definition. Classification based on 51 percent ownership of business. Chart reflects data as of September 30 each fiscal year

SBA contributes significantly to economic development by providing access to capital and credit for start-up firms. Start-ups are defined as firms less than or equal to 6 months old before 1997 and firms less than or equal to 24 months old since 1997. The 504 program has had a relatively stable share of loans to start-ups while the 7(a) program has provided a significantly larger share of loans to start-ups beginning in FY 1994 and peaking in FY 1995. This was in large part due to the introduction of the LowDoc program in FY 1994 which provided guaranteed loans of up to \$100,000 through a simple one page application form.

<sup>3</sup> See Credit Program Performance appendix for data on numbers and dollar volume of loans by credit program as well as credit program performance indexes.



Source: 7(a) and 504 Loan Original Approval Data Base

**Performance Goal 3: Improve loan portfolio management, increase currency rates, decrease purchase rates and increase recovery rates.**

SBA is taking a number of steps to improve its portfolio management, such as creating an Office of Lender Oversight, a Risk Management Committee and new information systems as well as liquidation improvement activities. The projected actual and projected targets of performance are shown in the table below.

Performance Measures and Indicators	FY 1997	FY 1998	FY1999	FY 2000	FY 2001
<b>Currency rate</b>					
7(a)	76.0%*	89.0%	90.0%	90.5%	91.0%
504	97.4%	97.9%	98.4%	98.7%	99.0%
Disaster	84.9%	86.5%	87.5%	88.0%	88.5%
<b>Net Cash collected as % of loans purchased</b>					
7(a)	22.20%	21.90%	22.50%	23.00%	23.50%

**Performance Goal 4: Increase export sales by SBA clients to \$537 million**

The United States accounts for 20 percent of the world's output, but only 12 percent of the world's exports. Less than 7 percent of the 1.6 million manufacturing and intermediary firms in the U.S. are exporters. According to SBA data, small businesses with 500 employees or less account for 52 percent of employment, 51 percent of private sector output, but only about 20-30 percent of U.S. exports. The Nation's overall export performance could improve notably if more small companies participate more in the export markets. According to former Secretary of the Treasury, Robert Rubin, four factors

impede exporting: (1) Strength of the US economy, (2) Fear of unstable overseas markets, (3) Inadequate access to export information, and (4) Inadequate access to the right kinds and amounts of trade financing. We are addressing the last two impediments.

To achieve our export goals, we are developing new lending partners, particularly those who specialize in financing international transactions and creating a risk analysis tool to help increase the amount of export capital for small businesses and partnering with other federal and state and local agencies to provide export information and education. Based on an estimate of export sales for each million dollars loaned, we can estimate the amount of export sales created by our small exporter clients.

<b>Performance Measures and Indicators</b>	<b>FY1997 Actual</b>	<b>FY1998 Actual</b>	<b>FY 1999 Actual</b>	<b>FY2000 Estimate</b>	<b>FY2001 Estimate</b>
Export sales by SBA Clients	\$376M	\$413M	\$349M	\$492M	\$537M

Data source: Loan Accounting Data Base for loans dollar volume – see Data validation appendix for calculation of export sales.

**Performance Goal 5 : Provide \$4.5 billion in equity capital for 3,500 financings**

Small Business Investment Companies (SBICs), which are licensed, regulated, and partly financed by the SBA, are privately owned and managed investment firms that provide venture capital and start-up equity financing to promising small businesses. Small businesses qualifying for assistance from the SBICs are able to receive equity capital, long-term loans, and expert management assistance. Most importantly, tax revenues generated each year from successful SBIC investments more than cover the cost of the program.

<b>SBIC Performance Measures and Indicators</b>	<b>FY1997 Actual</b>	<b>FY1998 Actual</b>	<b>FY 1999 Actual</b>	<b>FY2000 Estimate</b>	<b>FY2001 Estimate</b>
\$ invested by SBICs	\$2.4B	\$3.2B	\$4.2B	\$4.2B	\$4.5B
# of firms invested in	2,731	3,456	3,096	3,200	3,500
% firms 50% minority invested in	26%	26%	17%	17%	17%
% firms 50% women invested in	8%	6%	6%	6%	6%

**Performance Goal 6: Issue 10,000 surety bonds**

The Surety Bond Guaranty program is a public-private partnership that assists small contractors to obtain bid and final contract bonds to perform work for which they are qualified. These contractors lack the required experience and financial strength to get bonding through standard surety channels. To increase contractor participation and raise the total number of surety bonds for small firms, SBA will increase outreach, surety participation, and the maximum eligible contract amount. This will result in an increase in the average contract amount.

<b>Surety Bond Performance Measures and Indicators</b>	<b>FY1997 Actual</b>	<b>FY1998 Actual</b>	<b>FY 1999 Actual</b>	<b>FY2000 Estimate</b>	<b>FY2001 Estimate</b>
# bonds issued to Contractors	16,313	13,305	9,399	9,500	10,000

Source: Agency MIS report

### **Major Initiatives in FY 2001**

- *Loan Monitoring and Lender Oversight.* With a larger loan portfolio serviced and liquidated by lenders, SBA will continue to improve the oversight of its lending programs. We will continue our Small Business Lending Company (SBLC) and Preferred Lender Program (PLP) reviews; expand and standardize our reviews of non-PLP, non-SBLC lenders, Microloans and CDCs; and establish an early warning system of indicators and graduated enforcement remedies.
- *Relationship Management.* Implement a new lender relationship program designed to streamline and improve our interactions with our 7(a) lending partners.
- *Asset Sales.* Improve information gathering from lenders and field offices to sell SBA assets. Pursue sales that will complete the sales of any business loans and majority of disaster loans left after the year 2000 sales.
- *Partnerships.* Expand the strategic alliances to provide lending and advisory services to veterans, Native Americans, women and other new market entrepreneurs.
- *Export Lending.* Use an on-line risk assessment tool to increase the number of guaranteed export loans by helping SBA lenders determine quickly if an export transaction is creditworthy, and by assessing the soundness of the transaction in accordance with generally accepted business standards for trade financing.
- *Certified Development Company Reintervention.* Further streamline the 504 program based on the evaluation of the CDC liquidation pilot. Make regulatory changes to the Premier Certified Lenders Program (PCLP) and permit PCLPs to foreclose, litigate, and liquidate loans made under the 504 program.
- *New Markets Venture Capital (NMVC) program.* License 10 to 20 NMVCs to provide equity capital and technical assistance to small businesses in rural, urban, and Low and Moderate Income (LMI) areas.
- *Surety Bond Outreach.* Increase contractor participation and raise the total number of surety bonds issued for small businesses. Also increase surety participation and increase the maximum eligible contract amount.

- *General Business Loan Guaranties.* Extend 7(a) lending authority to 100 new and different types of lenders including low-income credit unions and USDA intermediary program lenders, to lend to local businesses in the \$10,000-\$75,000 range.
- *Microloan.* Increase the number of intermediaries in the direct *Microloan* program to 500 and approve 2,600 loans in FY 2001. Seek legislation to allow SBA to dramatically expand the number beyond that in future years.
- *Surety Bond.* Increase maximum contract amount from \$1.25 million to \$2 million; begin work on the design of a system that will allow electronic submission of surety bond applications and claims and improve program oversight by increasing the number of audits and reviews.
- *Technical Assistance (TA) Provider.* Expand the number of TA providers to low income and very low income entrepreneurs who benefit from Program for Investment in Microentrepreneurs (PRIME) grants.
- *Export Risk Analysis on-line (EXR-Online).* Upon successful completion of piloting the EXR-Online in Region I, go nationwide to increase lender participation.
- *One-Stop Capital Shops (OSCS).* Expand OSCS into 31 Empowerment Zones.

### Human Capital and Budget Resources

SBA has staff in nearly 100 field locations who provide a variety of credit services to small businesses. With lenders assuming more of the responsibilities for normal loan making, servicing and liquidation, SBA personnel are handling more complex lending and liquidation decisions in the districts. They are also judging economic development needs and providing oversight to ensure that quality lending is occurring and that the appropriate segments of the small business community are being served

### Program Level of SBA Financial Assistance Programs

<b>Programs</b>	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Actual</b>	<b>FY 2000 Estimate</b>	<b>FY 2001 Estimate</b>
7(a) Loans*	\$9.5B	\$9B	\$10.2B	\$10.7B	\$12.6 B
Export Loans <sup>4</sup>	\$158M	\$165M	\$232M	\$205M	\$224M
CDC Loans	\$1.4B	\$1.8B	\$2.0B	\$3.0B	\$3.75B
Microloans (direct)	\$7.5M	\$10.7M	\$14.4M	\$29.5 M	\$60 M
Microloans (guarantee)	\$3M	\$3.7M	\$1.2M	\$3.0 M	\$0
Microloan (tech Assist)	\$9.9M	\$14.0M	\$19.1M	\$23.2 M	\$45 M
<b>SBIC</b>	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>

<sup>4</sup> included in 7(a)

Participating Securities	\$234M	\$700M	\$1.0B	\$1.4B	\$2.0 B
Debentures	\$139M	\$462M	\$352M	\$450M	\$500 M
New Mkts Venture Cap	-	-	-	\$40M	\$150 M
NMVC Tech Assistance	-	-	-	\$9M	\$30 M
<b>Surety Bonds</b>	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>
Revolving fund	\$3.7M	\$3.5M	\$3.3 M	\$0M	\$0M
Surety Bond Guarantee <sup>5</sup>	\$699M	\$524M	\$421M	\$1,672M	\$1,672 M

\* Gross loan approvals

## Selected FY 1999 Accomplishments

### *Business Loans*

- Approved approximately 44,000 general business loans for nearly \$10.2 billion (an increase of 13 percent in dollars from FY 1998) and 5,300 Certified Development Company loans for \$2.0 billion (an increase of 11 percent in dollars compared with FY 1998).
- Instituted safety and soundness examination programs for the Agency's Small Business Lending Companies and examined all 14 SBLCs.
- Established an Office of Lender Oversight and a Risk Management Committee
- Continued to rely on the credit decisions of our lenders for about 75 percent.
- Completed our first full cycle of reviews for participants in the Agency's Preferred Lender Program (PLP) and began our second cycle.
- Implemented enhanced SBAExpress and SBA LowDoc programs to expand access to businesses needing up to \$150,000.
- Developed and implemented Community Express Pilot Loan program.
- Developed and implemented a Y2K Loan program.
- Expanded number of Microloan Intermediaries from 117 to 130.
- Initiated Rural Roundtable program to solicit and implement ideas that encourage more rural lenders to participate in SBA programs.

*Asset Sales:* Developed and implemented a highly successful first sale of 4,060 SBA loans to the private realizing \$195 million in proceeds, and returned to the US Treasury.

*SBIC:* Licensed 53 new SBICs; provided \$4.2 billion in small business financings, of which 17 percent to firms owned at least 50 percent by minorities and 6 percent owned at least 50 percent by women; maintained an examination cycle of 12.4 months for leveraged SBICs.

*Low and Moderate Income Area (LMI) Investments.:* Established a new investment category for SBICs investing in businesses located in a designated LMI Zone or with 35 percent of

<sup>5</sup> Authorized Program Level

its employees from such and created regulatory and financial incentives to encourage SBICs to make such investments.

*Surety Bonds:* Provided 9,399 bid and final bond guaranties; expanded oversight of the Surety Bond Guaranty program by completing three surety audits, one surety review, and one area office review.

*International Trade:* Provided more than 429 Export Working Capital and International Trade loans; completed development and beta testing of EXR-Online; completed three trade missions for small businesses to Ireland, Mexico, and Canada, and provided advice and assistance to representatives from countries who sought information from SBA on its programs.

### **Evaluations, Analyses and Surveys**

SBA has conducted a work flow study of the LowDoc processing centers which recommended a number of processing improvements to make the process more efficient.

In FY 2000-2001, we plan to conduct an evaluation of the outcome of the SBA Low-Doc and SBAExpress loans and the Microloan program.

### **OIG-Management Challenges**

**Management Challenge: District offices do not consistently apply guarantee purchase requirements.**

OIG recommended actions	SBA plan/Actions
1. Implement a process to (1) address the inherent conflict of interest that exists at the District Office level, (2) improve the consistency and quality of the purchase decision through staff specialization and an economy of scale, and (3) ensure that the Agency denies liability or reduces the guarantee when a lender has failed to comply with SBA requirements.	Agree. The Agency is in the process of developing procedures to improve the guarantee purchase for the Section 7(a) program. Recently, SBA management has agreed to take the following actions.  SBA will contract for an independent review of 10 percent of all loan purchase requests processed by the field offices. The review will include all loans identified by OIG as candidates for denying or reducing liability if the lender requests the guarantee to be purchased. If the review shows that the loan should not have been purchased, SBA will initiate action to deny or repair the guarantee.
2. Establish a procedure requiring District Offices to record guarantees that have been repaired and report those results to Headquarters.	Agree. SBA will track loan purchases, by field office, to identify any offices having shortcomings in processing guarantee purchase requests and initiate action, such as training, to correct the situation.

**Management Challenge: SBA needs to improve loan monitoring.**

OIG recommended actions	SBA plan/Actions
1. Establish organizational responsibilities for lender reviews to ensure that all lenders are reviewed periodically, the results are documented, and recommendations are made to correct any problems found.	Agree. SBA initiated a new Quality Service Review (QSR) of all District Office functions in FY 1999. The review is designed to ensure that critical program risk areas are reviewed and to inform management of any problems or issues. Another goal of the QSR is to identify “best practices” of the District being reviewed and share the practice(s) with other District Offices. Ten reviews are scheduled each year. In FY 1999, SBA completed 10 reviews.
2. Establish a schedule of lender reviews and adhere to the schedule	Agree. SBA has completed the initial on-site reviews of Preferred Lender Program Lenders. OIG will evaluate the reviews as part of an audit of lender oversight scheduled to begin in FY 2000. SBA will establish baseline loan processing error rates. During subsequent 3-year periods lenders will be reviewed and evaluated against the established baseline. Only lenders with minimal SBA loan portfolios will be excluded from this procedure.
3. Develop and implement a loan monitoring system that will enable SBA to evaluate the quality of a lender’s SBA portfolio. Factors to be considered should include loan volume, loan origination, loan seasoning, and delinquency and default rates.	Agree. SBA is taking steps to establish an oversight office that will be responsible for the oversight function of all lenders and the organizations responsible for conducting reviews, such as the Preferred Lender Review Branch.
4. Establish baseline goals and measures for lender processing errors and periodically compare performance to goals.	Agree. SBA has initiated steps to develop and implement a loan monitoring and oversight system to evaluate lender performance. The system will collect such data on lenders as delinquency default rates, liquidations, loan payments, and loan origination.

**Management Challenge: SBA needs an effective oversight process for SBLCs..**

OIG recommended actions	SBA plan/Actions
1. Require each SBLC to establish an effective risk management system that will identify potential problems in a timely and accurate manner.	Agree. In those instances where the examinations confirmed weaknesses in organizations that posed undue credit risk to the Agency and the program. SBA initiated corrective actions, including written correspondence and face-to-face meetings with these groups to work out constructive courses of actions. SBA referred loan file deficiencies of substantial magnitude to the OIG for review.
2. Ensure that SBA’s oversight process gives full consideration to the findings of the annual SBLC examinations and tracks the implementation of their recommendations.	Agree. SBA tracked systemic deficiencies that require regulatory or procedural modification. These modifications are being incorporated into the Office of Lender Oversight Strategic Plan for implementation in FY 2000.

	For SBLCs visited to date in the second year, examiners noted that steps were being taken in response to the first year recommendations, including lender proceeds improvements, software applications development, and revisions to internal procedures.
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**Management Challenge: Preventing loan agent fraud requires greater emphasis.**

OIG recommended actions	SBA plan/actions
1. Submit a legislative proposal requiring that (1) all loan agents provide SBA with the information necessary to conduct a criminal background check, including a social security number, and (2) SBA conduct criminal background checks on all loan agents.	Agree. Legislation will be proposed.
2. Identify loan agents and track their association with individual loans.	Agree. The establishment of loan agent registration and monitoring systems is tied to the development of a Partner Information Management System (PIMS), a joint effort of the OCIO and OFA. SBA Form 159, which contains information on loan agents, has been modified to capture registration data and will be sent to OMB for approval by 1/3/00. The first phase of the PIMS system is expected to be operational by mid-February 2000, with the loan agent system up and running by October 1, 2000 (subject to passage of proposed legislation that may effect system implementation).

**Management Challenge: Borrowers in SBA’s business loan program need to have criminal history background checks.**

OIG recommended actions	SBA plan/actions
1. Legislation requiring that (1) all business loan applicants provide SBA with the information necessary to conduct a criminal background check, including a social security number, and (2) SBA conduct criminal background checks on all business loan applicants.	Agree. The OIG has drafted language for a legislative change to require background checks for all loan applicants and loan agents.
2. Sufficient funding to permit OIG to perform background checks on all business loan applicants.	Agree. If approved, an estimated \$1.0 million will be required to operate the system.

**Cross-Cutting Issues**

Key to SBA’s success in providing access to capital and credit is a cooperative working relationship with the various stakeholders, most notably the National Associa-

tion of Government Guaranteed Lenders (NAGGL), the National Association of Development Companies (NADCO), and the National Association of Small Business Investment Companies (NASBIC). SBA has executed agreements with both NADCO and NAGGL to support the Agency's initiatives. With the Community Development Financial Institutions Fund (CDFI), SBA has co-chaired the Interagency Work Group on Microenterprise Development. In the international marketplace, there are 19 agencies under the tutelage of the Commerce-directed Trade Policy Coordinating Committee that offer both financial and business development assistance to small exporters. SBA meets regularly with these groups to discuss challenges, propose program initiatives, work on developing new products, and avoid duplication of effort. The SBA is expanding formal relationships with a number of entities including agencies such as the USDA, organizations like the National Federation of Community Development Credit Unions, and the Association for Enterprise Opportunity and state and local development agencies generally.

The TPCC outlines several strategies for increasing the number of small firms exporting and their total volume of exports. First, we need to provide a continuum of services to small businesses, using the entire network of US Export Assistance Centers (and 81 Department of Commerce export assistance centers that form the spokes to the 19 Hubs), Trade Information Center, District Export Councils, USDA's Foreign Agriculture Service and Small Business Development Centers. Second, we need to deliver programs to the business community, working hand-in-hand with the private sector in doing trade missions, matchmakers, product literature centers, trade fairs, and agent/distributor services. Third, we need to deliver more services over the Internet. Fourth, we need to improve our trade finance supporting the growth of SBA and EXIM Bank's harmonized export working capital loan programs. The U.S. accounts for 20 percent of the world's output, but only 12 percent of the world's exports. Less than 7 percent of the 1.6 million manufacturing and intermediary firms in the U.S. are exporters. According to SBA data, small businesses with 500 employees or less account for, 51 percent of private sector output, but only about 20-30 percent of U.S. exports. The Nation's overall export performance could improve notably if more small companies participate in the export markets. To achieve its export goals, SBA is making existing programs more flexible and is developing new avenues to help small businesses export to other countries.

### **Critical External Factors**

Although the demographics, terms and conditions, and purposes of the 7(a), 504, microloan, and SBIC programs vary significantly, economic conditions strongly affect the demand of these products. If interest rates rise, a credit crunch typically occurs. Supply of resources for technical assistance and the aggressiveness of the intermediaries will determine whether we reach our microloan and New Markets Venture Capital

(NMVC) targets. We will work closely with our intermediaries to ensure a successful expansion of the program.

If the economy remains strong as predicted, surety bond guaranties will remain constant or decrease, but if the economy deteriorates, demand will increase. Congressional support of the programs, particularly those elements that require legislative changes (e.g., New Markets Venture Capital), is a critical success factor. Finally, the continuing uncertainty in overseas markets, the overall strength of our own domestic economy, lack of finance and lack of export promotion information are four impediments to small firms entering the export market. Our success in stimulating more small exporters is dependent on our ability to develop and make available the appropriate export finance and information tools that are effective in dealing with two of the key impediments to export growth.

### **Strategy 2: Improve Access to Procurement Opportunities**

SBA is responsible for promoting the use of small businesses in the nearly \$200 billion Federal procurement market. We work with Federal agencies to identify procurement opportunities, create innovative procurement strategies and programs to reach the small business community, and provide technical assistance and training so that small firms can continue to contribute to our Nation's general economic health and research and development efforts. SBA also works to educate small businesses about the constantly changing procurement environment and the need to engage in the electronic commerce marketplace.

We have five overall objectives that support our Procurement Access goal:

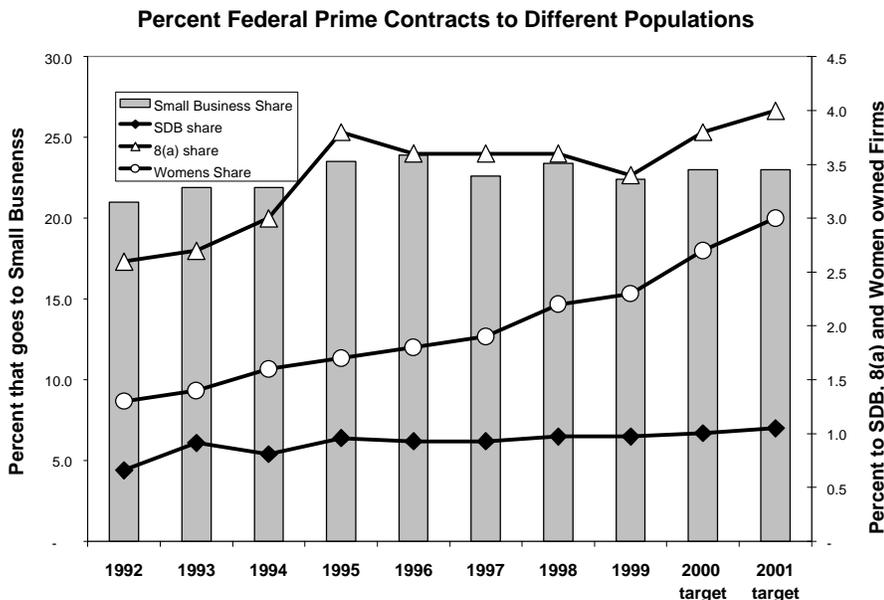
1. We intend to demonstrate successfully the capacity and cost effectiveness of small businesses to perform Federal contracts at the prime and subcontract levels.
2. We will increase the economic viability of small disadvantaged and small businesses in historically underutilized business zones (HUBZones) by providing contract opportunities and other business development assistance to those firms who qualify.
3. We plan to maximize the number and quality of opportunities for small businesses to supply the Government with goods and services.
4. We are committed to help small businesses overcome barriers to entry in Federal, state, and local government procurement markets by encouraging the use of electronic commerce applications.
5. We will facilitate the commercialization of Federal Research and projects by providing access to capital.

**Performance Goal 7: Increase the share of Federal prime contract dollars awarded to small businesses to 23 percent, small disadvantaged business (including 8(a) firms) to 7 percent, women-owned small businesses to 3 percent, HUBZone small businesses to 2 percent, and a service disabled veterans share up to 3 percent.**

**Percentage Share of Federal Contract Dollars to Small Business (by category)**

	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Actual<sup>6</sup></b>	<b>FY 2000 Target</b>	<b>FY 2001 Target</b>
to Small Businesses	22.6	23.4	22.4	23	23
to SDBs including 8(a)	6.2	6.5	6.5	6.7	7
to 8(a) firms	3.6	3.6	3.4	3.8	4
to women	1.9	2.2	2.3	2.7	3.0
to HUBZone Firms	N/A	N/A	1.0 <sup>7</sup>	1.5	2.0
Service Disabled Veterans	N/A	N/A	N/A	N/A	3.0

The chart below shows the trend in Federal procurement prime contract dollars awarded to small businesses, small and disadvantaged businesses, 8(a) firms, and women-owned small businesses. The data show that each year we achieved the Government-wide small business goal, recently increased to 23 percent by the Small Business Reauthorization Act of 1997. Except for FY 1992, we achieved the small disadvantaged business goal of 5 percent. We continue to make progress towards achieving the Government-wide, women-owned small business goal of 5 percent. The trends were developed using the baseline criteria set forth in SBA’s Annual Goaling Guidance. The data exclude prime contracts awarded and performed outside the United States, foreign military sales, and mandatory sources of supply (e.g., Federal Prison Industries, Committee for Purchases from the Blind or Severely Handicapped).



<sup>6</sup> Source Federal Procurement Data System; Preliminary FY 1999 data;

<sup>7</sup> HUBZone information for FY 99 is unavailable through the FPDS to measure agencies’ performance against 1% goal.

Source: Federal Procurement Data System.

**Performance Goal 8: Increase the ability of small and disadvantaged businesses (SDB) to successfully supply the government with goods and services by providing them increased contracts and business development assistance.**

The table below shows that SDB firms [including 8(a) firms] are receiving assistance from various SBA programs. The share of SDB firms receiving assistance is projected to increase. SBA is enhancing its 7(j) technical assistance program by merging the resources and talents of national business organizations, national business schools, and Historically Black Colleges and Universities to provide direct help to a greater number of 8(a) program participants.

**SDB firms receiving Contracts and Developmental Assistance**

<b>Percent of SDB contractors receiving</b>	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Actual</b>	<b>FY 2000 Target</b>	<b>FY 2001 Target</b>
Federal contracts	56%	54%	56%	60%	63%
Technical assistance <sup>8</sup>	--	--	--	N/A	25%
Mentoring	N/A	N/A	1.5%	3.4%	5.6%

Source: SACSMED/COR, SBA field offices, and GC/MED Internal Data

**Performance Goal 9: Increase value added of PRO-Net as an e-procurement tool**

We are taking steps to increase the volume of small business contracts from the Federal procurement market by increasing registration in PRO-Net<sup>9</sup> where procurement officers find firms that want to sell to the Government, and increase small business ability to accept the Federal Government’s credit cards. Additionally, Federal agencies are using streamlined contracting practices and consolidated requirements to procure goods and services at volume discounts. SBA understands and supports the need for the government to take advantage of these efficiencies, however, contracts are often too large for effective small business participation. We are continuing to work with other Federal agencies to encourage alternate procurement strategies that will maximize small business participation in this changing environment.

**Activities to increase small business participation in Federal Procurement**

	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Actual</b>	<b>FY 2000 Target</b>	<b>FY 2001 Target</b>
%Accepting Credit Cards	N/A	30.6	33.9	38.5	45
Firms registered in PRO-Net	N/A	177,891	183,750	200,000	210,000
percent SBA reviewed bundling	75%	80%	67%	75%	80%

<sup>8</sup> Technical assistance includes business development and financial assistance through the 7(j) program, entrepreneurial development (e.g. SBDCs, women centers), and lending.

<sup>9</sup> Procurement Marketing, Network (PRO-Net)

cases with positive outcome					
# of SDB (including 8(a) certified firms)	N/A	N/A	7,475	12,000	15,000
# of HUBZone Certified Firms	N/A	N/A	329	3,000	5,000

Source: PRO-Net) and GC Internal reporting

**Performance Goal 10: Increase the Success Rate of 8(a) Firms to 75 percent**

The goal of the 8(a) program is to help small minority owned firms become viable, successful enterprises. Success for an 8(a) firm occurs when the firm completes the nine-year program term or graduates early before the term expires and has received business development assistance. Business development assistance includes, among other things, technical, management, and Federal contract assistance. In addition, success of an 8(a) firm occurs when the firm conducts the majority of its business with the private sector and does not rely on Government contracts to be a strong financially viable firm. We define 8(a) success rate as the percentage of firms that complete the nine-year program term or graduate early and receive business development assistance.

**8(a) Program Success Rate**

	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Actual</b>	<b>FY 2000 Target</b>	<b>FY 2001 Target</b>
Percent of 8(a) firms that completed the 9-year term or graduated early and received business development assistance	41	65	68	70	75

Source: SACS/MEDCOR

**Performance Goal 11: Increase the successful participation in the SBIR program of women to 10 percent and minority businesses to 16 percent**

SBA provides policy direction and oversees the implementation of the SBIR program at ten federal agencies. The SBIR program enables small technology firms to participate fully in federal research and development (R&D) projects. The ten participating agencies issue approximately 4,800 awards each year to roughly 1,500 small technology firms for total funding of about \$1.1 billion. The life cycle of these research and development efforts range from seven to ten years which result in approximately 15,000 small firms being involved in SBIR R&D work on an ongoing basis. As part of its increased attention to New Markets, SBA will continue to increase the participation of women and minority-owned firms in the SBIR program.

<b>percent awards to --</b>	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Estimate<sup>10</sup></b>	<b>FY 2000 Target</b>	<b>FY 2001 Target</b>
Women	7	9	9	10	10

<sup>10</sup> FY 99 Actual data is unavailable

Minorities	9	15	15	16	16
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Source: Office of Technology SBIR Database (TechNet)

**Major Initiatives for FY 2001**

- Establish and track mutually-acceptable small business procurement goals with the major procuring agencies prior to the beginning of the fiscal year, and conduct mid-year assessments of agencies' accomplishments.
- Review all proposed major unrestricted procurements and bundled requirements at Procurement Center Representative (PCR) covered procuring activities and recommend acquisition strategies that will provide maximum opportunity for small businesses to participate as prime contractors, teaming partners and subcontractors.
- Increase SBA's ability to identify and gauge the business development needs of 8(a) program participants through the Business Assessment Tool (BAT).
- Develop a three-year pilot matching grant program in support of Phase III commercialization of technologies developed under SBIR grants to stimulate new job creation in small innovative companies by addressing a gap in equity financing that confronts even the highest quality SBIR projects.
- Reinvent the prime and subcontract oversight programs to mitigate the effects of contract bundling on small businesses.
- Expand the BusinessLINC initiative to increase the number of mentor-protégé relationships in low and moderate income areas including Native American communities.
- Continue to enhance the 7(j) technical assistance program by merging the resources and talents of national business organizations, national business schools and Historically Black Colleges and Universities to provide direct help to a greater number of 8(a) program participants and firms located in low and moderate income areas.
- Re-engineer PRO-Net (the Procurement Marketing and Access Network) by integrating the system with other electronic commerce applications (e.g., Electronic Posting System) to provide easier access to small business prime and subcontractors, improve data quality, provide easier update capability, and expand the system's conceptual framework.
- Continue to implement the HUBZone Empowerment Contracting Program.
- Implement the DOT/SBA reciprocity agreement to simplify and streamline the certification for 8(a) firms, small disadvantaged businesses, and disadvantaged business enterprises seeking Federal contracting opportunities.

## Human Capital and Budget Resources

SBA has approximately 273 persons assigned to Government Contracting/MED who are located in Headquarters, six area offices, three central office duty stations, and at a number of procurement centers. Functionally, the staff establish the size standards to determine eligibility for Governmental benefits (to include contract set-asides), review the eligibility and certification for both 8(a) and small disadvantaged firms, formulate policy, and participate with other Federal agencies in overseeing the HUBZone efforts. They also set policy and oversee the implementation of the Small Business Innovation and Research and STTR programs with 10 agencies. They exercise an advocacy role with the large businesses and the major Federal procuring agencies to support small business interests in contracting and subcontracting.

<b>Program levels (dollars in thousands)</b>	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Actual</b>	<b>FY 2000 Estimate</b>	<b>FY 2001 Estimate</b>
SBIR Technical Assistance	\$0	\$0	\$1,000	\$496	0
Small Disadvantaged Business	N/A	\$11,148	\$9,750	\$10,814	\$9,000
HUBZones	N/A	\$2,000	\$2,000	\$2,000	\$5,000
PRO-Net	\$364	\$251	\$363	\$496	\$750
BusinessLINC program including Native American support of \$1.25M in FY 2001	\$0	\$0	\$0	\$1,500*	\$6,600
SBIR Phase III Pilot Grant					\$15,000
7(j) technical assistance	\$2,600	\$2,600	\$3,213	\$3,600	\$5,000

- Requires authorization of NNVC program before funds can be spent.

## FY 1999 Accomplishments

### *Providing Economic Opportunities to Small Businesses*

- Launched the HUBZone Empowerment Contracting Program as part of the President's New Markets Initiatives.
- Executed Memorandum of Understandings with major agencies to streamline the 8(a) program contracting process and use innovative contracting strategies to achieve the Government-wide 5 percent goal for women-owned small businesses and small disadvantaged businesses.
- Expanded PRO-Net to incorporate an electronic posting system for major prime contractors, state and local Governments and others to advertise business opportunities for small firms.
- Completed the first year of our partnership agreement with the Big 3 automakers (General Motors, Ford and Daimler Chrysler), which resulted in purchases exceed-

ing \$7 billion from minority-owned business subcontractors at the first and second tiers. (Initiated the first year of our partnership agreement with Bell Atlantic which is projected to provide \$1.88 billion in prime and subcontracting opportunities to women-owned and small disadvantaged businesses over 2 years.

- Published a proposed rule and an interim final rule to protect small businesses from the potential adverse impact of contract bundling or consolidation of requirements.
- Provided more than \$1 billion in contracts to small firms as a result of reviewing 60 cases of contract bundling worth more than \$5 billion in procurement.

#### *Minority and Small Business Development*

- Launched a pilot program to test the business assessment tool that allows SBA district offices to evaluate the business development needs of 8(a) and SDB firms.
- Refocused the 7(j) business development assistance program to expand the level of service over and beyond the contracting and technical assistance currently being provided.
- Conducted outreach and training to more than 6,500 SDBs, prime contractors, and Federal contracting officials on the certification requirements and procurement benefits relating to the SDB program.
- Worked with the Treasury Department to launch BusinessLINC --Learning, Investment, Networking, and Collaboration – to build business relationships with small businesses, especially those located in low and moderate income areas.
- Launched the mentor-protégé program to provide assistance to eligible 8(a) program participants to enhance their capability to compete for Federal contracts.
- Increased by 34.5 percent the number of 8(a) program applications received and provided an increased level of quality control while processing applications on the average of 50 days, which is well under the mandated 90 days.

#### *Technology Transfer*

- Provided \$1 million in grants to 25 states and territories to increase the participation of small rural technology firms in the SBIR program.
- Developed *TECH-Net*, an Internet-based application, for participating federal agencies to report SBIR award information.
- Directed the National Y2K outreach program with more than 1300 events nationwide that attracted over 1.1 million small businesses.

### *Size Standards*

- Promulgated a new size standard of \$4 million for architectural, engineering, surveying and mapping services that resulted in 1460 small firms gaining eligibility.
- Developed proposed changes to size standards for construction, refuse collection, freight forwarders and customs brokers, and health services that will grant small business eligibility to over 9,900 firms.
- Approved 12 size standards requested by the Federal Communications Commission for use in establishing small business bidding credits on the auction of telecommunication frequencies.

### **Evaluations, Analyses, and Surveys**

SBA completed a study of the commercialization rate of innovations funded under the SBIR in FY 1999. SBA began several initiatives to comply with Congressional reporting requirements for the 8(a) Business Development Program (i.e., assess recently implemented program changes) and the HUBZone Contracting program, to include:

1. *Measuring the long-term Viability of 8(a) Firms.* This project will provide for a systematic approach to examine the outcomes of successful 8(a) program participants.

2. *Owner Financial Characteristics and Minority Business Performance, Employment Capacity and Sustainability.* This project will examine the association between the financial characteristics of business owners starting a business and subsequent performance in terms of employment characteristics and sustainability.

3. *Identifying Failure Propensities among Minority Owned Businesses.* This research will help support the development of a scoring mechanism for business development by firm age or business development stages.

4. *HUBZone Benchmark Study.* This study will help SBA assess the changes in employment opportunity and investment in distressed urban and rural communities as a result of the HUBZone program.

### **OIG Management Issues**

**Management Challenge: More participating companies need to obtain contracting opportunities in the Section 8(a) program**

We agree. We have attacked these problems along four fronts: first, reducing the concentration of dollars among relatively few companies; second, increasing the number of firms that re-

ceive small contracts and purchase orders under \$100,000; third, tracking firms' financial progress as they advance through the program; and fourth, actively seeking to graduate firms once they have met their financial goals, or to have firms that no longer need the program to withdraw from the program.

First, reducing the concentration of dollars among relatively few companies:

- In accordance with 13 C.F.R. 124.519, we actively limit the dollar amount of sole source contracts that firms may receive. This requirement applies to the 1516 firms that were certified for participation in the 8(a) program after December 31, 1997. We have reviewed each of the 1516 firms and found none that would be precluded from sole source awards as a result of exceeding the dollar threshold. A Participant (other than one owned by an Indian tribe or an Alaskan Native Corporation) may not receive sole source 8(a) contract awards where it has received a combined total of competitive and sole source 8(a) contracts in excess of the dollar amount set forth in this section during its participation in the 8(a) BD program. For a firm having a revenue-based primary SIC code at time of program entry, the limit above which it can no longer receive sole source 8(a) contracts is five times the size standard corresponding to that SIC code as of the date of SBA's acceptance of the requirement for the 8(a) BD program or \$100,000,000, whichever is less. For a firm having an employee-based primary SIC code at time of program entry, the limit above which it can no longer receive sole source 8(a) contracts is \$100,000,000.
- In 1995, we eliminated the indefinite delivery/indefinite quantity contract loophole, which allowed firms to get sole source contracts that were over the competitive threshold, while allowing the procuring activities to use a government estimate that was under the competitive threshold. In 1998, in accordance with 13 C.F.R. 124.519, we changed our regulation to limit sole source contracts. Also in 1998, in accordance with 13 C.F.R. 124.509, we now have the authority to enforce business activity targets.
- Our analysis shows that there has been a significant reduction in the concentration of 8(a) dollars among the largest firms. In fiscal year 1997, the 10 largest firms had total 8(a) awards of \$505,333,140; for fiscal year 1998, the 10 largest firms had total 8(a) awards of \$305,174,855. This was a 40 percent reduction in the concentration of 8(a) awards among the top 10 firms. Additionally, in fiscal year 1997, the top 200 firms had total awards of \$4,451,489,047 and total 8(a) awards of \$1,940,270,586; 8(a) awards were 43.6 percent of total awards. In fiscal year 1998, the top 200 firms had total awards of \$5,467,043,515 and total 8(a) awards of \$2,142,262,589; 8(a) awards were 39.18 percent of total awards. This was a 4.4 percent reduction in the concentration of 8(a) awards among the top 200 firms.

**Top 10 Firms Percent Reduction in Total 8(a) Awards**  
(in millions of dollars)

	Total 8(a) Awards
1997	505
1998	305
Difference	200

Percent Reduction	39.6
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**Top 200 Firms Percent Reduction in Total 8(a) Awards to Total Awards**  
(in millions of dollars)

	Total Awards	Total 8(a) Awards	8(a) percent of total
1997	4,451	1,940	43.6
1998	5,467	2,142	39.2
Reduction			4.4

- In accordance with 13 C.F.R. 124.509, primarily during the annual review, the district offices ensure that firms meet their business activity targets. Since this is a procedure performed during the annual review, there is no reason to systematically collect data on its implementation. However, if a firm fails to comply with the regulation, they are denied additional sole source contracts. During both the developmental and transitional stages of the 8(a) BD program, a participant must make substantial and sustained efforts, including following a reasonable marketing strategy, to attain the targeted dollar levels of non-8(a) revenue established in its business plan. It must attempt to use the 8(a) BD program as a resource to strengthen the firm for economic viability when program benefits are no longer available.

Second, increasing the number of firms that receive small contracts and purchase orders under \$100,000:

- We have increased the number of waivers of the competitive threshold, which allows a greater number of procurements to be competed below the \$3,000,000 or \$5,000,000 threshold, pursuant to § 124.506(4)(c). This provision permits the Associate Administrator for the 8(a) program to authorize contract competitions for contracts whose value does not exceed the sole-source threshold of three million dollars. For fiscal year 1999, we issued about 100 waivers, and for fiscal years 1996 through 1998, we averaged 75 waivers per year. This increase in the number of waivers demonstrates our commitment to increasing opportunities for smaller procurements and smaller firms.
- We have negotiated Memoranda of Understanding with 28 Federal agencies that allow the agencies to contract directly with 8(a) firms. An additional feature of these MOU's is that they allow the agencies to issue purchase orders under \$100,000 to 8(a) firms with minimal paperwork and with minimal lead-time. The elimination of the 10 days for acceptance and the 10 days for execution of contract speeds the procurement process by 20 days. Although we have no systematic way of tracking opportunities for these very small procurements, the MOUs have opened up a completely new area of procurement that did not functionally exist. Without the MOUs, it is likely that most purchase orders would not come into the 8(a) program.

Third, tracking firms' and owners' financial progress as they advance through the program:

- In accordance with 13 C.F.R. 124.602, **firms** with revenues between \$1,000,000 and \$5,000,000 are required to submit reviewed financial statements, and firms with revenues over \$5,000,000 are required to submit audited financial statements. This allows us to have a clear picture of a larger firm's financial status. For fiscal year 1998, 585 firms were required to submit audited financial statements, and 1369 firms were required to submit reviewed financial statements. For fiscal year 1999, a total of 1954 firms were required to submit third-party-prepared financial statements. This requirement allows the 8(a) program to learn more quickly whether a firm has met its business plan goals.
- By January 31, 2000, we intend to propose a regulation that will require **owners** (those upon whom eligibility was based) to submit audited financial statements if their firms have revenues over \$5,000,000, and to submit reviewed financial statement if their firms have revenues between \$1,000,000 and \$5,000,000.
- We require 8(a) business owners to certify annually that they still meet various eligibility criteria, such as the owner's net worth.
- We are developing a feature that will be added to PRO-Net that will allow procuring agencies' contracting officials to know whether a firm is eligible to receive 8(a) contracts. We plan for this system to be in place by March 2000. The system will give contracting officials quicker information regarding participant eligibility.

Fourth, actively seeking to graduate firms once they have met their financial goals, or to have firms who no longer need the program to withdraw from the program:

- We have assigned a higher priority to processing early graduations and withdrawals from the program. This is demonstrated by the increases in the numbers of graduations and withdrawals. During the 5 years from 1989 through 1993, we had 294 withdrawals, for an average of 58.8 withdrawals (There were no graduations during this period). During the 5 years from 1994 through 1998, we had a total of 6 graduations and 455 withdrawals, for an annual average of 1.2 graduations and 91 withdrawals. The withdrawals increased by 55 percent over the previous years. This demonstrates our commitment to graduating and withdrawing firms who have met their financial goals or who no longer need our assistance. A graduation is when a firm meets the goals stated in its business plan, and a withdrawal is when the firm leaves the program voluntarily, but has not necessarily met the goals as stated in its business plan.

- We are drafting a procedural notice that will address monitoring and graduating firms that have met the goals in their business plans. We intend to have this notice in place by January 31, 2000.
- During fiscal year 1999, we performed 8 Quality Service Reviews, and during these reviews, we discovered two instances of district offices' failure to appropriately evaluate firms financial status, which allowed the firms to stay in the program. In each instance, the district office was informed that this was unacceptable and that once firms meet their business plan goals, they will be seriously considered for early graduation.

OIG recommended actions	SBA plan/ Actions
1. Determine the levels of contract support that are required to overcome economic disadvantage and graduate participants once they reach those levels.	Agree. The SBA revised its regulations at 13 C.F.R. 124.519, <i>Are there any dollar limits on the amount of 8(a) contracts that a Participant may receive?</i> This regulation limits the amount of contracts that a Participant may receive in any SIC code. The regulation states that for a firm having a revenue-based primary SIC code at time of program entry, the limit above which it can no longer receive sole source 8(a) contracts is five times the size standard corresponding to that SIC code as of the date of SBA's acceptance of the requirement for the 8(a) BD program or \$100,000,000, whichever is less. For a firm having an employee-based primary SIC code at time of program entry, the limit above which it can no longer receive sole source 8(a) contracts is \$100,000,000. The essence of the regulation and the limits placed on contract support is that once a firm has reached these amounts, the Participant is no longer considered to be economically disadvantaged in those SIC codes. The limits are applied by SIC code and have been successful at limiting contracts to economically viable Participants. Additionally, we believe that the limits have increased the number of contract opportunities available to program Participants who have received no contract support.

**Management Challenge: Participants who become wealthy are allowed to remain in the Section 8(a) program and be considered economically disadvantaged**

We agree with this challenge, in that, in the past, we had monitoring deficiencies. However, we have addressed these deficiencies by: first, increasing our emphasis on annual reviews; second, developing a scoring system for access to capital and credit; and third, defining and limiting excessive withdrawals.

First, increasing our emphasis on annual reviews:

- Three years ago, we performed annual reviews on less than 50 percent of our portfolio, and for fiscal year 1999, we performed annual reviews on nearly 100 percent of our 5,200 firms.

- During the Quality Service Reviews, we require evaluation of no less than 10 annual reviews per district office. Most of the QSRs are peer reviews; however, 2 of the 8 performed in fiscal year 1999 were both peer and Headquarters reviews. In the past three years, we have reviewed over 440 annual reviews, as part of the QSRs. Additionally, three years ago, Headquarters performed a staff review of 300 annual reviews. Reviewing these 740 annual reviews has allowed us to closely monitor the quality and accuracy of annual review process. Peer reviews are performed by field staff who are located in the field, but who are assigned to a different district office, and staff reviews are performed by Headquarters staff located in Washington DC.

Second, developing a scoring system for access to capital and credit:

- In fiscal year 2000, we anticipate having a scoring system in place that will add additional objectivity to our existing determination in the review of a firm's access to capital and credit. This system is similar to an existing system in place at SBA that is used to score loan repayability. We intend to review our options to acquire a similar system.

Third, defining and limiting excessive withdrawals:

- The regulation to correct and limit withdrawals has only been in place for 16 months, and we learn of excessive withdrawals only during the annual review. Discovering and addressing excessive withdrawals is procedural, and not something that we systematically track. The only evidence of excessive withdrawals is maintained in the business development files. While we do not have systematic evidence on the total number of violations of the excessive withdrawal regulations, we do have anecdotal evidence that it occurred three times over the last four years. With the publication of our regulation in July 1998 at 13 C.F.R. 124.112, we can now train firms on proper compensation practices.
- Withdrawals are excessive if during any fiscal year of the Participant they exceed: \$150,000 for firms with sales up to \$1,000,000; \$200,000 for firms with sales between \$1,000,000 and \$2,000,000; and \$300,000 for firms with sales over \$2,000,000. The fact that a concern's net worth has increased despite withdrawals that are deemed excessive will not preclude SBA from determining that such withdrawals were detrimental to the attainment of the concern's business objectives or to its overall business development.
- The 8(a) program's field staff now has the regulatory direction to properly enforce limits on excessive withdrawals. However, this regulation has only been in place since July 1998, and it is too early to determine any systematic effects of the regulation.

OIG recommended actions	SBA plan/ Actions
1. Redefine “economic disadvantage” using objective, quantitative criteria that effectively measure capital and credit opportunities.	Agree. The 8(a) BD program has assembled a working committee of people from the Offices of the Inspector General, 8(a) Business Development and General Counsel that will develop recommendations to define economic disadvantage. The recommendations to due to the ADA/GC/MED by June 30, 2000.
2. Based on this new definition, create an automated capital and credit-scoring model to evaluate capital and credit opportunities of applicants and participants.	Agree. We anticipate that one of the recommendations from the above-mentioned working committee will be an automated algorithm that will score access to capital and credit for initial and continuing eligibility.
3. Provide sufficient financial and analytical training to the business opportunity specialists to enable them to evaluate a company’s business profile and competitive potential.	Agree. We anticipate that one of the recommendations from the above-mentioned working committee will be a training syllabus.

**Management Challenge: SBA does not enforce its rules to limit pass-through procurement activity to non-Section 8(a) participants**

We agree with this challenge and have addressed the challenges in two areas:

First, changes to the 28 memoranda of understanding:

- By January 31, 2000, as part of the upcoming renegotiation of the 28 MOUs, we will add language that directs the procuring activities to review all 8(a) contracts for compliance with the subcontracting provisions, both at the time of contract award and annually during contract administration.

Second, changes in the procedures and Quality Service Reviews to address these issues:

- The Nonmanufacturer Rule (NMR) allows our firms to provide the product of a large business, as long as a waiver of this provision is granted. This is done on a case-by-case basis. The NMR program is managed by the SBA, and nearly 200 requests for waivers are reviewed annually. Although we completely comply with the provisions of the definition of computer manufacturer, as defined in 13 C.F.R. 121.406, we intend to issue a procedural notice by January 31, 2000, that focuses more attention on proper interpretation of this regulation.
- The criteria for evaluation of the 8(a) program at the district offices will be amended by February 28, 2000, for inclusion in the FY 2000 Quality Service Reviews. We will add evaluation criteria that will direct the evaluators to review the strict compliance with this regulation during the fiscal year 2000 Quality Service Reviews.

<b>OIG recommended actions</b>	<b>SBA Plan/Actions</b>
1. Develop a formula for calculating labor costs that can be easily understood, uniformly enforced, and withstand manipulation. The OIG has suggested that the calculation be based on a percentage of the total contract value, instead of one cost component; this method had been used in the past by the Agency.	Agree. The program office agrees that conformance to this requirement is essential. Accordingly we will amend all Memoranda of Understanding that delegate 8(a) contracting authority to require the procuring activities to ensure that this is enforced on each 8(a) contract. This will be accomplished by January 31, 2000.
2. Tighten the definition of manufacturing to preclude the practice of making only minor modifications to the products of other manufacturers.	Agree. The SBA published in Federal Register a request for public comments regarding this issue. Comments have been received, and, based on those comments, we are drafting guidance to the field that will address these concerns. The notice will be issued to the field by January 31, 2000.

### **Cross-Cutting Issues**

SBA is charged with providing business development assistance to firms owned by socially and economically disadvantaged persons through Federal contract set-aside programs and through grants, cooperative agreements with service providers for management and technical assistance. SBA accomplishes this through its own products and services as well as through partnerships with other Federal, state and local agencies and the private sector. For example, SBA is partnering with the Department of Commerce’s Minority Business Development Agency (MBDA) to offer assistance at Business Resource Centers where NationsBank provides the resource center and SBA and DOC provide the counseling and management assistance. Although SBA and DOC provide different products and services and focuses on different market segments, the two agencies must coordinate their service delivery at various physical locations to accomplish their mutually supportive goals.

### **Critical External Factors**

Acquisition reform and managing for results are key components of the Administration’s major reinvention initiatives. SBA must continue to work with Federal agencies to develop alternative procurement strategies that will maximize small business participation in this changing procurement environment, while at the same time ensuring efficient and cost effective procurement reform. It is also critical for the Agency to develop positive cooperative working relationships with the major procurement agencies in the Federal Government, particularly DOD, NASA, DOE, GSA, and Tennessee Valley Authority, the top five Federal procuring agencies. Securing the cooperation of major prime contractors is also an important critical success factor in SBA’s achievement of its overall goal.

SBA will publish final regulations in FY 2000 to implement the contract bundling

provisions set forth in the SBA Reauthorization Act of 1997. The regulations establish guidelines to assist agencies in determining whether planned acquisitions that consolidate requirements are necessary and justified. SBA will work vigorously with the Office of Federal Procurement Policy to educate the Federal acquisition workforce about the new procedures and take steps necessary to ensure that these procedures are enforced. These efforts will both further procurement reform and continue to ensure our Nation's small businesses a significant role in Federal acquisitions.

SBA is charged with implementing the new procurement small business goal of 3 percent of prime and subcontracts to service-disabled veteran owned small businesses established by the Veterans Entrepreneurship and Small Business Development Act of 1999. This requires coordination with the Federal Acquisition Regulatory Councils to ensure that coverage is set forth in the Federal Acquisition Regulation (FAR) for these firms to represent their small business status. Also, the FAR coverage must include a provision that requires prime contractors to use their best efforts to subcontract with both veterans and service-disabled veteran owned small businesses. Subsequently, SBA must change its small business goaling guidance and the Office of Federal Procurement Policy must change its Policy Letter 99-1 to incorporate this new procurement preference goal. Federal contracting officials, small business officials, and prime contractors must be educated about this new small business goal. During FY 2000, SBA plans to work closely with the FAR Councils and OFPP to implement this statutory requirement.

Electronic commerce is changing the way firms do business with the Federal Government. In 1999, the Federal Government spent \$10.2 billion in purchase card transactions. SBA will continue to work with the VISA and MasterCard Networks to increase small business acceptance of the purchase card and ascertain data to assess the impact of purchase card usage on small businesses. As the small business community increases its understanding and acceptance of the use of technology in doing business, SBA will be able to reach out to larger portions of the small business sector and market through the Internet suitable business development and contract preference programs for eligible firms. For instance, expanding the size and functionality of PRO-Net should result in larger numbers of small firms receiving contracts. This assumes, of course, continued public support for preference programs, expanded access and education on use of technology for identifying procurement opportunities, and sufficient resources available to implement an effective business development program.

### **Strategy 3: Provide Access to Business Development Assistance**

Besides inadequate access to capital and credit, perhaps the single most important impediment to small business success is the lack of business development, management and technical assistance, and access to timely and accurate information, training, counseling, and education. Therefore, SBA has identified as one of its four principal strategies "providing access to business development assistance" to help small

businesses succeed SBA provides substantial support for more than 1 million small businesses through a vast network of resource partners and electronic access points. Business development information and support is offered through partnerships with about 1,000 Small Business Development Centers, 11,300 Service Corps of Retired Executives (SCORE) volunteers, 62 Business Information Centers, 18 One Stop Capital Shops (OSCS), 19 US Export Assistance Centers, and 60 funded Women’s Business Centers including the Online Women’s Business Center. The Agency is also sponsoring the development of Internet applications that offer information and service to the small business community. In FY 1999, approximately 275,000 users took classes at SBA’s Online Classroom.

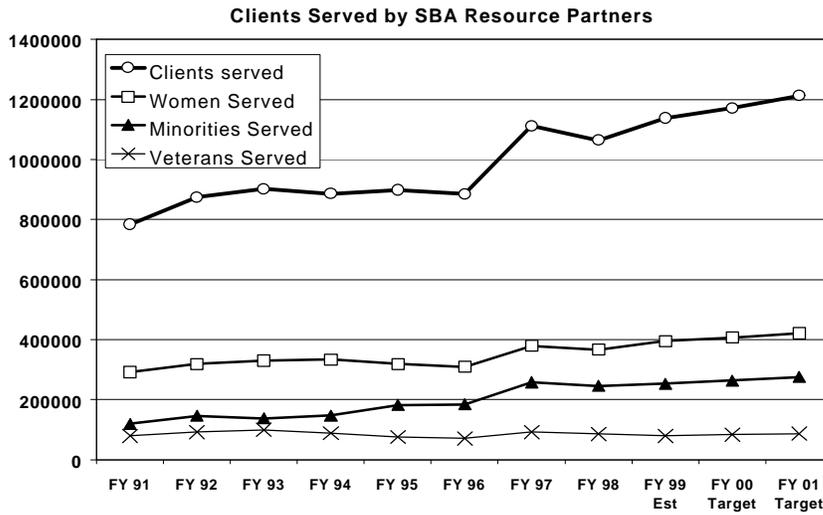
SBA has three objectives in its business development programs:

- SBA and its resource partners will provide increased economic development assistance to increased numbers of entrepreneurs and small firms, with a special focus on small firms in New Markets.
- We will expand the use of the Internet for providing information, counseling, education and training to small businesses.
- We will provide increased economic development assistance in Empowerment and HUBZones through locating more OSCS in these areas.

**Performance Goal 12: Increase the number of clients to 1.4 million including online training and counseling with breakdown by delivery system as follows:**

<b>Clients trained and/or counseled by Partners</b>	<b>FY 2000 Target</b>	<b>FY 2001 Target</b>
SCORE	394,500	406,300
Small Business Development Centers	612,960	631,349
One Stop Capital Shops	50,000	55,000
Business Information Centers	127,600	131,400
Tribal Business Information Centers	4,420	5,000
Women’s Business Centers	24,200	26,600
SCORE: Email counseling	73,800	91,900
<b>Sum</b>	<b>1,287,480</b>	<b>1,347,549</b>

Just as SBA is a gap lender for financing small businesses, SBA is providing access to business development assistance for small businesses and entrepreneurs wishing to start a new business. SBA is focused on providing assistance to clients, such as women and minorities, that may have increased need of assistance while at the same time have difficulty in getting assistance. The chart shows that SBA programs have provided increased assistance to all clients as well as women and minorities. The increase in clients served in FY 1997 is due to the start-up of OSCS and BICs.



Data Source: Quarterly statistics provided by SBDCs, SCORE, BICs, TBICs, OSCs and WBCs. Data Limitations: The statistics provided by partners have not been subjected to formal verification procedures.

Research conducted in 1999 indicates that nearly 50 percent of small businesses use the Internet, up from 22 percent in 1998. Clearly, small firms understand the importance of the electronic medium for developing and maintaining sustainable competitive advantage. Imitating the hugely successful private sector experience of companies like Dell, Cisco, and IBM offering e-mail counseling and on-line training, SBA and its resource partners are developing and implementing on-line problem solving and web-based tutorials to assist businesses solve their business problems.

**Internet Access to Counseling and Training**

	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Estimate</b>	<b>FY 2000 Target</b>	<b>FY 2001 Target</b>
SCORE: E-mail Counseling	8,734	29,966	58,800	73,800	91,900
SBA: Internet course student users	N/A	N/A	275,000	300,000	330,000

**Major Initiatives**

- *Internet “distance learning” capacity.* Expand Online Classroom and web-based tutorials to offer more training and education electronically. Encourage SBDCs, BICs, OSCs, WBCs, SCORE and other SBA resources to provide and expand service delivery over the Internet.
- *E-Commerce Technical Assistance.* E-Commerce is a “new frontier” that is redefining the marketplace, altering business strategies and allowing global competitors to spring-up overnight. A comprehensive technical assistance program is being developed to help small firms compete in the new digital economy.

- *Expand SCORE On-Line.* Expand e-mail assistance and counseling help by at least 10 percent for small firms.
- *Women's Business Centers (\$12 Million).* Open up 11 new Women's Business Centers (WBC) and 6 sustainability grants to provide much needed services and support to women entrepreneurs in the start-up, growth and expansion of businesses and continue to support network of currently funded WBCs.
- *One Stop Capital Shops (OSCS).* In FY 2001 SBA will open 17 OSCS (for a total of 39, 8 in Enterprise Communities- 31 in Empowerment Zones.) The new OSCS sites will be designed to represent a model for program delivery in the 21<sup>st</sup> Century, integrating SBA products and coordinating with SBA and local community resource partners.
- *Assistance to the Native American Communities :*  
*Tribal BICs(\$1.5Million).* Continue to support 17 Tribal Business Information Centers (TBICs). In FY 2001, SBA will continue to upgrade these sites with modern, state-of-the art computers and communications capability. SBA will ensure that facilitators provide direct technical and business development assistance to the communities, and coordinate access to all of SBA's services, programs, and resource partners through the SBDCs and SBA district offices.  
*Assistance for Native American SBDC network(\$3 million)* a reservation-based initiative to provide business development assistance, counseling, training and other services to Native Americans;  
*Native Business LINC (\$1.25 million)* Under the BusinessLINC initiative proposed under the Office of Minority Enterprise Development/Government Contracting, \$1.25 million of the \$6.6 million requested for this business mentoring program is targeted to Native Americans.
- *US Business Advisor.* As the executive sponsor for this overhauled electronic gateway (Access America for Business), SBA will continue to lead an interagency task force to improve this multi-agency, portal for business to access Government.
- *TradeNet's Export Advisor.* SBA will continue to develop the *Export Advisor*, an Internet one-stop-shop for potential and export ready firms. It will significantly expand the outreach of the 19 USEACs by using electronic media to improve export assistance service delivery for multiple Federal agencies, state and local Governments, academia, counselors and trade specialists throughout the country.
- *Service to Veterans (\$ 4 Million).* In accordance with SBA's Reauthorization Act of 1997, SBA will enter into grants and contracts to provide direct training and assistance to veterans, especially service-disabled veterans, to increase their entrepreneurship and business ownership. SBA will also establish a network of veteran business owners to provide assistance and mentoring to other veterans. SBA will continue to

coordinate with stakeholders to implement the requirements of The Veterans Entrepreneurship and Small Business Development Act of 1999.

- *Business Information Centers.* Working in concert with SBA’s district offices, SBA will expand the number of BICs and Satellite BICs.

### Human Capital and Budget Resources

SBA manages these business development efforts with approximately 100 persons in Headquarters and the 70 district offices. Each field office has business development specialists to oversee the efforts of the resource partners.

<b>Program Level (in thousands)</b>	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000 Estimate</b>	<b>FY 2001 Estimate</b>
SCORE	\$3,300	\$3,500	\$3,660	\$3,471	\$5,000
Business Information Centers	\$500	\$500	\$700	\$500	\$700
TBICs	-	-	-	0	\$1,500
Nat’l Women’s Business Council	-	\$350	\$600	\$595	\$1,000
Women Business Centers	\$4,000	\$4,000	\$8,000	\$9,000	\$12,000
SWOBE (Census Survey)	-	\$1,000	\$750	\$790	\$1,000
One Stop Capital Shops (OSCS)	\$3,100	\$3,100	\$3,100	\$3,100	\$10,000
Small Business Development Ctrs	\$73,147	\$70,070	\$89,819*	\$84,281	\$85,000
Native American SBDC					\$3,000
Veterans Outreach	0	0	\$750	\$615	\$4,000
US Export Assistance Centers	\$3,100	\$3,100	\$3,100	\$3,100	\$3,500

\* Including \$5.3 million in prior year obligations

### Major FY 1999 Accomplishments

- 1.18 million clients counseled and trained by SBA partners in FY 1999.

<b>Clients trained and/or counseled by Partners</b>	<b>FY1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Actual</b>
SCORE	357,764	354,239	383,334
SBDC	623,417	547,037	595,108
OSCS	28,000	41,699	53,374
BICs	94,000	108,918	123,500
TBICs	2,199	2,797	3,951
WBCs	8,140	9,000	22,000
<b>Sum</b>	<b>1,113,520</b>	<b>1,063,690</b>	<b>1,181,267</b>

- *Business Initiatives and SCORE*: Trained 118,710 clients and counseled 265,945 clients through SCORE; Installed 9 new BICS for a total of 62 and assisted 123,900 clients.
- *WBC*: Opened 25 new WBCs, served 22,000 clients, increased roundtable mentoring groups to 150.
- *Tribal Business Information Centers*: Served 3,951 clients, instrumental in the start up of 212 new businesses.
- *OSCS*: Opened 18 OSCS in Empowerment Zone/Enterprise Communities.

### **Evaluation, Analyses and Surveys**

The Women’s Business Centers conduct an annual client satisfaction survey. The results show that a large majority of its clients rate the service as excellent or very good.

#### **Women’s Business Center Survey Result**

<b>Rating</b>	<b>FY 1995-96</b>	<b>FY 1996-97</b>	<b>FY 1997-98</b>
Excellent	31%	33%	40%
Very Good	33%	40%	36%
Average	10%	8%	8%
Fair	7%	4%	4%
Poor	4%	3%	2%
Not Enough Information	16%	13%	11%

### **Cross cutting Programs**

SBA provides business development assistance through partnerships with other Federal, state and local agencies and the private sector. For example, SBA and Department of Commerce (DOC) provide different products and services and focus on different market segments. SBA provides counseling and technical/management assistance to help small firms write business plans, apply for loans, compete for federal contracts, and run a business. SBA focuses on long-term competency-based skills and institution building. DOC provides services to minority businesses, regardless of size, and seeks to enhance the continued development of these firms by increasing their access to resources and markets.

In the past, the Office of Veterans' Affairs partnered with Office of Small and Disadvantaged Business Concerns in the Department of Veterans Affairs, to conduct business management briefings on the resources within SBA that help small business grow and become better able to do business with the Federal Government. A new initiative is the formation of a partnership between the Small Business Administration and the De-

partment of Veterans Affairs and the Department of Labor to assist disabled veterans to become entrepreneurs by providing the necessary business development and financial assistance needed to start a small firm.

Currently, we are working with Commerce, National Institute of Science and Technology(NIST), US Department of Agriculture (USDA) and Minority Business Development Agency (MBDA) on e-commerce outreach and training. Other partnerships include:

- IRS Small Business Office in 1) making available IRS tax publications at all BICs and OSCSs; 2) a pilot wherein four BICs work out schedules with IRS staffers for regular seminars/visits to the BICs; and 3) development of a CD-- the Small Business Resource Guide. The 2000 edition will be available in late February, under present plans.
- Minority Business Development Agency at Commerce is involved in six BICs and in a small business center in Wisconsin.
- A cosponsorship, in the final development stages, with the Pension and Welfare Benefits Agency at Labor and private entities on the development of a retirement planning website for small business owners.
- SBA's Welfare to Work and Disabilities initiatives have been involved with various federal Task Forces, HHS and Justice to develop materials and seminars.
- Y2K cosponsorships were carried out between SBA, USDA, NIST, Department of the Army, U.S. Postal Service.
- Minority Enterprise Development cosponsorships have involved NASA, Department of the Army, MBDA at Commerce and Treasury.

### **Critical External Factors**

No other SBA program exemplifies the importance of "shared outcomes" more than the "access to business development assistance" programs. Without positive and cooperative partnerships with the host of business resource partners, SBA would not be able to reach more than a million small firms annually. Additionally, with a significant new emphasis on delivery of business development help via the electronic media, an obvious critical success factor is access to and training in the use of the Internet. Finally, availability of resources and stakeholder support are essential to successful implementation of this strategy.

**Strategy 4: Serve as a Voice for America's Small Business**

Since 1993, several important changes have occurred in support of small businesses. First, SBA was elevated to the rank of Cabinet level, which has given small business issues greater prominence in the policy formulation arena. Second, the SBA Administrator has been invited to sit on the National Economic Council to raise issues that affect small firms. Articulating this strategy in our annual performance plan gives prominence to the notion that SBA must function as a two-way information conduit for small businesses. We raise small business concerns to the highest level of this Government, and act as an advocate in the legislative and regulatory areas to break down barriers to success. Our Office of Advocacy has been authorized and funded to perform exactly this function. In addition, the Office of the National Ombudsman addresses specific regulatory enforcement and compliance concerns identified by small business in their interaction with an agency.

SBA has six objectives in serving as a voice for small firms:

- We will continuously up-date statistical information on the needs of America's Small Businesses and expand stakeholder reliance on new data to craft solutions.
- We will monitor agency regulatory initiatives for their impacts on small business to ensure compliance with the Regulatory Flexibility Act (RFA) and the small business Regulatory Enforcement Fairness Act (SBREFA).
- We will track emerging economic trends affecting small business and the contributions small business is making to the economy; disseminate relevant information to legislative and administrative policy makers and other stakeholders whose decisions affect and alter the marketplace for small business.
- We will analyze statistical data to identify and disseminate information on market imperfections and barriers to small business growth and development.
- We will identify and report regional and/or industry-wide Federal regulatory and enforcement and compliance problems faced by small businesses in regulatory fairness. We will initiate program enhancements that make it easier for small businesses to comment and make the review and substantiation process more meaningful to small businesses.

**Performance Goal 13: Expand research, analyses, and publication of information gleaned from the new database – business information tracking series (BITS).**

The purpose is to provide information on how businesses grow and develop into large companies; what marketplace trends influence their development over time; in which business sectors small business growth is occurring.

**Performance Goal 14: Improve federal agency small business impact analyses of regulatory alternatives.**

This is required by the Regulatory Flexibility Act (RFA) and the Small Business Regulatory Enforcement Fairness Act (SBREFA) of 1996 and will be achieved through pre-proposal consultations with regulatory agencies.

**Performance Goal 15: Increase ombudsman’s number of round table meetings with small businesses to ten.**

The purpose of these meetings is to gain local support in informing small businesses of their rights to regulatory fairness through the RegFair Program.

**Human Capital and Budget Resources**

The Office of Advocacy has 39 people in Headquarters and 10 regional advocates to fulfill its functions. Additionally, SBA supports the Office of the Ombudsman with six positions to hear, review and report the concerns on regulatory enforcement fairness issues. Through a combination of on-board staff and contract assistance, SBA has the analytical capacity to assess and measure the economic effects of regulatory, legislative, and other policy changes on small business and demonstrate material improvements for small firms from these changes, promote regulatory fairness, and speak out on small business concerns. To perform research and analytical studies, the Office of Advocacy also develops policy positions on behalf of small businesses through research contracts.

	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Actual</b>	<b>FY 2000 Estimate</b>	<b>FY 2001 Estimate</b>
<b>Office of Advocacy</b>	\$3,898	\$4,078	\$4,526	\$4,283	\$4,442
<b>Advocacy database</b>	\$654	\$780	\$800	\$1,091	\$1,500
<b>National Ombudsman</b>	\$104	\$351	\$524	\$496	\$500

**Major Initiatives**

- Initiate analyses and research that identify the needs of America’s small business.
- Provide policy makers with statistically defensible data on market imperfections.
- Ensure that regulations do not unduly burden small business by promoting expanded use by regulatory agencies of economic impact analyses of less burdensome alternatives that will accomplish their public policy mandates.
- Continually up-date information on job generation by small businesses.

- Participate in EPA's and OSHA's small business advocacy review panels, ensuring that small entities play a meaningful role in the panel process and that their input is considered by these two regulatory agencies.
- Conduct training sessions for Federal regulatory officials on their obligations under the RFA, as amended by SBREFA.
- Selectively and judiciously use *amicus curiae* authority in appeals brought by small businesses under SBREFA to establish legal precedents that stimulate even broader regulatory compliance with RFA.
- Identify, report and address small firm concerns through National Ombudsman, about regulatory enforcement and develops recommendations on improving the national enforcement climate for small businesses.
- Conduct public hearings by the National Ombudsman to increase public awareness and establish a public record, juxtaposing agencies' enforcement practices and policies alongside small business experiences in enforcement actions.
- Seek comments from small businesses, through National Ombudsman (often on a confidential basis), about enforcement issues through a variety of outreach efforts, and brings such information to the attention of enforcement officials to provide small business accountability and promotes fairness through internal agency changes that address systemic enforcement or compliance concerns.
- Advocacy will be devoting major resources to producing research reports derived from analyses of the newly developed data base Business Information Tracking Series (BITS). This activity will be augmented by information obtained in workshops of prominent economists and financial experts addressing
- Improve methods used to evaluate Federal agencies' compliance with the RFA Act as amended by SBREFA.
- National Ombudsman will increase the number of discussions with small business leaders across the country about the challenges imposed by the regulatory environment and their experiences with regulatory compliance/enforcement actions taken by federal agencies.

### **Major FY 1999 Accomplishments**

- Increased Compliance with the Regulatory Flexibility Act. Agencies adopted significant cost-saving changes to regulatory proposals that had been advocated by the Office of Advocacy. Advocacy worked closely with small entities and the Office of In-

formation and Regulatory Affairs, OMB, to craft recommendations that would reduce the burden on small business without compromising public policy objectives. These changes reduced the cost of proposals to small business in FY 1999 by \$4.24 billion (in FY 1998 the corresponding estimate was \$1.5 billion in savings).

- Business Information Tracking Series. This new database is generating irrefutable evidence of job generation by small business and tracks individual companies through different stages of development, including when they merge, when they close, when they leave the small business category and become large business, and when they create new industries.
- Completed work on two OSHA (on Health and Safety and Ergonomics) and five EPA SBREFA panels.
- Advocacy exceeded its target of generating 25 research reports in FY 1999 and produced 40 reports.
- Advocacy filed its report to Congress on agency compliance with the RFA in which is discussed the successes of the SBREFA panel process, regulatory savings to small business and court decisions on RFA issues raised in regulatory appeals.
- Advocacy expanded its banking studies series to include a report on “Farm Friendly Banks.”
- Small business patent and bankruptcy concerns highlighted by Advocacy were addressed in both patent and bankruptcy proposed reform legislation.
- Office of the National Ombudsman secured certification from thirty six agencies that they appointed RegFair compliance officials who are independent of enforcement activities. High level independent review, not only guards against retaliation, but also makes agency review meaningful and credible by providing for review by an official who was not directly involved in the enforcement or compliance activity.
- National Ombudsman convened 10 RegFair Public Hearings throughout the Nation. These serve as key components in the delivery of a Program that shows government knows how to listen and take action.
- 150 small business representatives testified at RegFair Hearings. This testimony was used in the formulation of agency ratings, task force development, and recommendations to improve the federal regulatory enforcement and compliance environment.

### **Critical External Factors**

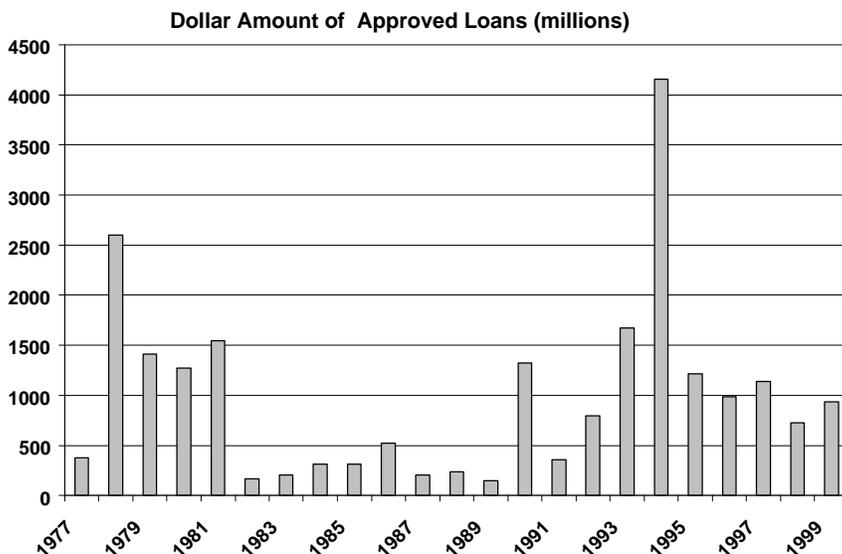
Serving as a voice for small business, reviewing agency regulatory proposals for small business impact, and serving as ombudsman for regulatory redress requires close collaboration with major Federal regulatory agencies. In all, the Office of Advocacy monitors the regulatory proposals of approximately 20 regulatory agencies, as well as Administration and Congressional initiatives. Another critical success factor is continued Congressional and stakeholder support for the Office of Advocacy and sufficient resources to carry out an appropriate research agenda; and for the Office of the National Ombudsman to insure government accountability and identify agency “best practices” that have been experienced by small business, for government-wide emulation.

## GOAL 2: HELP BUSINESSES AND FAMILIES RECOVER FROM DISASTERS

In the wake of physical disasters, SBA's disaster loans are the primary form of Federal assistance for non-farm, private sector disaster losses for individuals and businesses. For this reason, the disaster loan program is the only form of SBA assistance not limited to small businesses. SBA's disaster loans help homeowners, renters, and businesses of all sizes, and nonprofit organizations fund rebuilding.

SBA disaster assistance is a critical source of economic stimulation in disaster-ravaged communities. Eligibility is based on financial criteria and interest rates charged to borrowers fluctuate according to statutory formulas: i.e., a lower rate, not to exceed 4 percent, available to applicants without credit available elsewhere; and a higher rate, not to exceed 8 percent, for those with credit available elsewhere. SBA offers physical disaster loans to individuals, physical disaster loans to businesses of any size, and economic injury loans to small businesses without credit available elsewhere.

The figure shows that the dollar volume of approved loans varies widely from year to year, reflecting the difficulty of forward planning and forecasting of the next disaster. Because disasters cannot be predicted with any level of certainty, SBA's primary objective is to offer victims timely, easy to access, and cost-effective help to rebuild their homes and return to work. Customer satisfaction becomes a primary measure of success for this program.



Source: Loan Accounting Data Base

**Performance Goal 16: Provide Quality and Timely service.**

<b>Performance Measures and Indicators</b>	<b>FY 1997 Actual</b>	<b>FY1998 Actual</b>	<b>FY1999 Actual</b>	<b>FY2000 Target</b>	<b>FY2001 Target</b>
Field presence within 3 days of declaration	95%	100%	100%	98%	98%
Underwriting Compliance rate	N/A	97%	97%	97%	97%
Loans processed within 21 days	87%	77%	60%	70%	70%

**Business Reengineering /Reinvention**

Beginning in FY 2000, SBA will implement the office of Disaster Assistance’s Business Process Reengineering Plan to develop an Electronic Disaster Home Loan application process. SBA’s vision is to have all disaster home loan processing operate seamlessly using as little paper as possible. Application processing will not stop while outside information and verifications are performed. A loan officer will be able to initiate required background checks from the computer desktop at “the touch of a button.” Information will be returned electronically and stored for review.

Public Law 104-208 required SBA to conduct a “private sector loan servicing demonstration program” to determine the costs and benefits of having SBA’s disaster home loans serviced by a private sector firm. The Congress required that 30 percent of existing and future disaster home loans be serviced through this contract. SBA awarded a contract to handle the servicing and liquidation of 30 percent of the disaster home loan portfolio. We estimate the cost of this contract to be between \$5 and \$7 million in both FY 1999 and FY 2000 for servicing a portfolio of 65,000 loans.

**Human Capital and Budget Resources**

SBA implements its disaster assistance through a combination of permanent and temporary staff, which varies from year-to-year and month-to-month, depending on the number and magnitude of the disaster declarations. In FY 1999, the range of personnel has numbered from 800 to 1,650.

	<b>FY 1997 Actual</b>	<b>FY 1998 Actual</b>	<b>FY1999 Actual</b>	<b>FY 2000 Budget</b>	<b>FY2001 Request</b>
<b>Administrative cost<sup>11</sup></b>	\$113,266	\$104,128	\$116,734	\$115,500	\$124,000
<b>Disaster Loan Program</b>	\$1,138,596	\$728,109	\$936,643	\$1,051,000	\$871,000

<sup>11</sup> Includes compensation and benefits, overtime and awards and other costs for direct assistance.

## **Major Initiatives**

- Coordinate staffing needs with FEMA and other Federal, state and local officials to ensure that field presence is established within 3 days of a declaration.
- Cooperate with SBA's regional/district offices to meet with local bankers to emphasize bridge lending to businesses.
- Conduct standardized loan officer training.
- Conduct quality reviews in each Disaster Area Office.
- Develop electronic disaster home loan process by end of FY 2002.
- Combine the SBA and FEMA inspection of disaster damaged property.
- Continue pre-disaster Mitigation Pilot Loan Program for small businesses in FEMA-designated "disaster resistant communities." SBA will use up to \$15 million of disaster loan program authority to assist non-farm small businesses, in communities participating in FEMA's "Project Impact" program, with low interest, long term disaster loans up to \$50,000.
- Implement the Disaster Personnel Reserve Corps. The Disaster Reserve Corps would allow SBA to recruit, train, and have available personnel that could be called upon to assist the agency in responding to disaster. This in contrast to our current situation of having to recruit and train staff at the time of a disaster. In connection with the reserve corps, the Director of the Office of Personnel Management has approved an amendment in the Agency's authority to waive the salary reduction for reemployed federal civilian retirees for participants in the reserve corps.

## **Major FY 1999 Accomplishments**

- Approved 36,176 disaster loans for \$936.6 million.
- Achieved a loan underwriting compliance rate for FY 1999 of 98 percent.
- Achieved a loan documentation compliance rate for FY 1999 of 97 percent
- Completed the Business Process Reengineering Study of the Disaster Loan Process.
- Completed BPR study for developing a Paperless Electronic Home Loan Process.
- Pilot tested a Joint SBA/FEMA Inspection of Disaster Damaged Homes.
- Made 55 percent of Disaster Loan Disbursements by Electronic Funds Transfer.
- Processed 60 percent of loans within 21 days of receipt of complete application.
- Enabled firms that received disaster loans to retain 35,196 jobs.

## **Evaluation, Analyses and Surveys**

SBA will continue to conduct quality reviews of its disaster loan underwriting and documentation process. Customer surveys will be conducted to measure the effectiveness and delivery of disaster assistance.

## **Cross-Cutting Issues**

Helping businesses and families recover from disasters requires SBA to work closely with FEMA, as well as state and local agencies. The Federal Response Plan (FRP) describes the initiation, coordination, and implementation of the wide array of Federal disaster programs that provide assistance directly to individuals and families, business owners attempting to recover from the effects of a major disaster declared by the President.

Systematic coordination among agencies is necessary before and during a disaster to ensure effective, efficient delivery of the array of recovery programs that can aid disaster victims. The Stafford Act assigns FEMA a coordination role- the interactive process by which multiple Federal assistance programs are reviewed, initiated, implemented, and delivered to address the unique needs of a particular disaster area. Inter-agency coordination is critical to promote efficient, consistent Federal action. It also helps avoid *ad hoc* decision making, funding initiatives at cross purposes, replicating efforts (multiple damage assessments, inspections, environmental reviews), and duplicating benefits.

Disaster assistance programs for individuals, families, and businesses often overlap in their coverage and purpose. Section 312 of the Stafford Act requires that no person, business concern, or other entity receive Federal disaster assistance for any part of a loss that has been covered by any other program, insurance, or any other source. FEMA has established a policy and procedure, which outlines when duplication can occur, and describes procedures for preventing and rectifying duplication. This policy includes the concept of a sequence of delivery.

The delivery sequence establishes the order in which the major forms of overlapping assistance should be provided. The sequence of delivery is:

- Voluntary organizations' emergency assistance; insurance proceeds (including additional living expense benefits);
- Disaster temporary housing assistance, including rental assistance, funds for minimal repairs, and provision of housing units;
- SBA and USDA disaster loans;
- Individual and family grant awards; and
- Voluntary organizations provide additional assistance benefits.

### **Critical External Factors**

The single most important external factor is the unpredictability of disasters. Helping businesses and families recover from disasters requires SBA to work closely with the Federal Emergency Management Agency (FEMA), as well as other Federal, state and local agencies. SBA must coordinate closely with FEMA to establish disaster assistance centers when natural disasters strike, provide expedited responses, cut paperwork, combine loss verification processes, and create on-going partnerships with voluntary agencies, businesses, and industries in the disaster area.

## **Modernization: Corporate Management Strategies**

Beginning with this Administration, SBA has been reinventing itself. Since 1993, the Agency has expanded the roles of lenders and resource partners in delivering SBA products and services, centralized loan application and servicing functions, streamlined programs to eliminate unnecessary regulations and burdensome paperwork, built web-based applications to be more productive, and downsized the Agency workforce by more than 20 percent.

During the last 2 years, SBA has continued to modernize its business processes, human resource management, information systems, and use of technology. These four corporate management strategies are critical to SBA transforming itself into a leading-edge 21<sup>st</sup> Century institution and stems from the Results Act mandate to improve internal management. We will continue to redefine and reemphasize our core business activities to include relationship management, outreach, product development and marketing, program oversight, and economic development. Through sales of our assets, e-commerce education and program delivery, outsourcing, privatization, centralization, lender oversight, and better risk management, we will improve our productivity and our program effectiveness. It will, however, take several more years to complete the creation of the new SBA.

With resources requested in FY 2000 and 2001, we plan to focus on the following Strategies:

1. *Ensure a Strong Internal Control and Effective Oversight and Monitoring Environment:* We must identify, manage and control our risks better to minimize the potential for waste and mismanagement. Through modernized information systems and improved business processes, we will improve oversight of our operations and those of our resource partners.
2. *Modernize Information Systems:* We will modernize our overall computer information systems to include more effective financial controls; loan monitoring and lender oversight; core accounting and cost accounting systems; improved data quality, as well as upgrading our technology infrastructure and instituting a needs-based technology investment process.
3. *Expand Use of Electronic Commerce:* We will expand e-commerce activities to deliver services and information online to the small business community, creating e-gov and educating the small business community to the importance of the new economy and the digital media.

4. *Transition the Workforce:* Through incentives and training/retraining, we will prepare our workforce for the future. Our employees are our most important resource and we must give them the tools to do their jobs more efficiently and effectively.

The increasing reliance on partners to deliver loans and business development assistance means that SBA has to increase its *oversight* of resource partner activities and it must modernize its *information systems* to monitor partner performance better and improve program decision-making. Credit reform has also created new requirements on *financial accounting* systems--no longer can the loan accounting database serve both as a loan information system and an accounting system. Consequently, new separate accounting and information systems are needed. In the FY 1998 budget, SBA requested resources for an estimated 5-year, \$40 million systems modernization project as part of the Agency's overall modernization initiative.

Before developing new computer systems, however, SBA followed established industry practice by taking a hard look at its business processes. We refocused our functions and business processes to avoid propagating old practices in new computer codes and systems, consistent with guidance contained in the eight planning steps suggested by the Clinger-Cohen Act. Analyzing business practices has meant differentiating more clearly the functions of SBA and its resource partners, and deciding activities that can be centralized and those more aptly performed in the district offices.

These business process-reengineering efforts for Phase I began in FY 1999. The required planning steps for loan monitoring and lender oversight (Phase I) have largely been completed. Planning for Phase II, financial management systems improvements, and Disaster Paperless Office has begun. Acquisition of a COTS financial management system is planned for FY 2000. Planning for Phase III, will continue in FY 2001.

Once we complete the overall redefinition of our core functions, implement the systems to support these activities, and expand the use of technology to be more productive and accessible to small businesses, we must address the most important asset of all: our workforce. To succeed in the new Century, our staff must be retrained to use the new tools, perform the necessary functions, and be located in the most optimal places to serve small firms when and where they need our help.

Changing the way we do business. Given our greater reliance on business resource partners and our commitment to reach out in unprecedented ways to minority- and women-owned small businesses, we are redefining and reemphasizing our core functions. In FY 2000 and beyond, SBA field employees will focus on outreach to different segments of the small business community, especially those in New Markets; better marketing of products and services at the front end of the business assistance cycle; and stronger oversight, more effective risk management, measurement of progress and evaluation of outcomes on the back end. SBA's field structure needs to be closely

aligned with our existing resource partners and that our field offices are located where small business customers can gain easy access to the Agency and its services.

We can classify several new or reemphasized functions under the two categories of marketing & outreach and oversight:

- *Market SDB and HUBZone Programs.* The demand for marketing, training, and program assistance from firms interested in both of these new procurement programs will go to the district office.
- *Market 8(a) Program and review mentor-protégé.* The expedited review and acceptance of requirements, review and approval of complex joint venture arrangements, and review of mentor-protégé partnering will replace the workload eliminated by delegation of 8(a) contract authority to procuring agencies.
- *Expand business development aspects of 8(a).*
- *Coordinate Entrepreneurial Development Assistance.* SBA needs to strengthen its relationship to our small business customers from the current partner-driven mode to a more direct customer-based approach. The development of smaller, multiple-location, SBA-identified outlets coordinating the best mix of small business resources for each market is the key to that direct customer orientation. The One Stop Capital Shop provides a model to imitate.
- *Lender Monitoring and Oversight.* To effectively meet the Agency's oversight responsibility, SBA is working closely with GAO to implement the following important actions:
  - Complete the systems acquisition planning in accordance with the planning steps outlined in SBA's Reauthorization Act of FY 1997 and the Information Technology investment requirements of the Clinger-Cohen Act. These include benchmarking, identifying "best practice" organizations with similar activities and conducting business process reengineering (BPR).
  - Continue to institutionalize the Preferred Lender program (PLP) review system and Small Business Lending Company (SBLC) safety and soundness reviews, and fully establish the Office of Lender Oversight.
- *Expand Technology Service to Small Business.* Local technology efforts, directed primarily to New Markets, will be key to ensuring that the Agency's online efforts reach small businesses that need it the most.

- *Outreach and Marketing to Lenders.* The need to reach lenders will be the key to the long-term stability and growth of lending, particularly to New Markets.
- *Asset Sales.* The planned asset sales allows the Agency to focus more of its efforts on making new loans rather than on portfolio management and provides an opportunity for realigning staff to where they are needed most.
- *Disaster Home Loan Servicing Outsourcing.* Public Law 104-208 required SBA to conduct a “private sector loan servicing demonstration program” on a pilot basis to determine the costs and benefits of having SBA’s disaster home loans serviced by a private sector firm. The Congress required that 30 percent of existing and future disaster home loans be serviced through this contract.

### **Strategy 1: Ensuring Strong Internal Controls and Effective Program Oversight**

The SBA is improving its systems for

1. internal control,
2. partner management and oversight,
3. financial management and
4. information system security.

#### **1. Internal Controls**

SBA is aggressively creating an internal control system that fits the COSO Integrated Framework (Committee of Sponsoring Organizations of the Treadway Commission), resulting in COSO-auditable financial statements in FY 2000 in order to eliminate material internal control weakness in its financial controls by the year 2002. The COSO framework provides common criteria against which SBA managers can evaluate their internal controls and assess the effectiveness of those controls. Use of the COSO framework by the SBA will provide reasonable assurance that the Agency will accomplish its objectives, have reliable financial reporting, operate efficiently and effectively, and comply with all applicable laws and regulations.

Internal control is a major part of managing. All SBA managers need to understand that internal control is a part of their responsibilities and is not the job of either internal or external auditors. COSO does not re-invent internal controls, but it does define them in broader terms and provides a framework for describing and evaluating the effectiveness of internal controls within a control environment. The COSO definition of internal controls has been incorporated into generally accepted auditing standards with the adoption of "Statement on Auditing Standards No. 78" by the American Institute of Certified Public Accountants (AICPA). The COSO framework has also been adopted by the financial industry in response to the Federal Deposit Insurance Improvement Act requirements for assessing internal controls. The Office of Management and Budget

(OMB) Circular A-123, "Management Accountability and Control", June 21, 1995, provides the requirements for assessing controls. OMB Circular A-123 uses the term "management control" to cover all aspects of "internal control" over an agency's operations (operations, financial, and compliance). The COSO framework is the internal central model that is recommended by the General Accounting Office (GAO).

The implementation of COSO has demonstrated SBA's continuous desire to be fully accountable for our assets, results and financial integrity. It will also put SBA out in front of the other Federal Agencies. With the implementation of COSO, SBA will take the lead in Internal Controls and this new framework will not only ensure a sound Internal Controls system, but will increase the integrity of SBA's financial reporting.

SBA's COSO program will include the following:

1. A plan of action that would identify and document:
  - objectives,
  - risks,
  - controls, and
  - actions required to strengthen a control or controls.
2. An Internal Control education and training program for employees and managers.
3. An organized method of assessing Internal Controls:
  - Checklist or
  - Management's Assessment Process (MAP)
4. A testing and evaluation methodology to ensure Internal Controls are in place and effective.
5. Managers actively monitoring their Internal Control Environment.
6. Managers' assertions to the status of their Internal Controls.

SBA is using two methods to assess its internal controls. The first method is a series of Internal Control Checklists beginning with one covering general management techniques. The second method is the use of a more detailed and comprehensive process called the Management Assessment Process (MAP).

During FY 2000 and FY 2001, SBA will:

- Develop and implement annual refresher training in internal controls for all managers.
- Develop information on internal controls that will be available via its public web site.
- Evaluate and assess reporting on internal control status through self-assessment workshops, internal control checklists, management analysis and work assessments.

By the year 2002, SBA will have an Internal Control framework that is COSO compliant and that will eliminate internal control weaknesses in its Agency's financial statement audit.

**Performance Goal 17: Yearly management training on internal controls and evaluate and assess all existing and new initiatives.**

**2. Partner Management and Oversight.**

During the last several years, SBA has shifted from reviewing each guaranteed loan to "privatizing" the majority of its credit decisions. Almost 75 percent of loans guaranteed have limited credit review by SBA. Yet, SBA's information systems have not made the transformation to support the new way of doing business. This represents an increased risk because SBA has doubled its loan volume to 50,000 loans totaling \$11 billion annually and decreased its staff by nearly 1,000 during the last 5 years. This, of course, is a major reason for our continued planning and implementation of the systems modernization activities.

In addition, SBA's lending partners, on whom the Agency is now much more dependent, have seen the structure of their industry change as a result of both concentration of ownership and increased reliance on technology in their own operations. Therefore, SBA must change its systems to ensure that *quality* debt financing will continue to be available to America's small businesses.

SBA remains concerned over ensuring the continued viability of its loan programs by conducting assessments of, and managing the risk associated with, the delegation of credit decisions to organizations whose ultimate goal is not identical to that of SBA. Lenders are primarily profit maximizers, whereas SBA strives for quality lending that also achieves a social policy of helping small firms in the face of market imperfections. We need to continue to work with our partners in a manner that makes it easy for the lender to communicate requests for guarantees. Since the industry is becoming much more technology driven, it is essential that SBA stay compatible.

As resources become available from efficiencies generated by the first phase of modernization, they are being used to address its consequences. Some of the steps implemented or underway include:

- Centralizing preferred lender reviews in the PLP Review Center in Kansas City.
- Partnering with the Farm Housing Administration to audit the Small Business Lending Partners, which are non-bank institutions that provide SBA business loans.
- Implementing bank safety and soundness reviews using teams from PLP Review Center in Kansas City and district office personnel.

- Improving the loan compliance auditing provided by district office personnel through more resources, training and Standard Operating Procedures.
- Implement lender monitoring and oversight in headquarters and took first steps in establishing an Office of Lender Oversight, which provides a system of Early Warning indicators and remedies for SBA lenders.
- Operating a Risk Management Committee.

**Performance Goal 18: Implement a program evaluation and performance monitoring schedule for SBA business resource partners and publish the results in the annual performance report.**

SBA has successfully worked for years with partners to deliver goods and services. However, we need to work more closely with our partners to understand our mission and goals and provide better guidance and oversight of products and services delivered by our resource partners.

SBA's major management strategies to exercise better oversight include:

1. *Full service concept.* SBA expects to complement its current partner-driven mode with a more "full service" customer-based approach. Creating smaller, multiple-location, SBA-identified outlets, which offer the best mix of small business resources for each market, is the key to that direct customer orientation. The One Stop Capital Shop provides a model for offering a broad range of assistance, e.g., access to capital and credit, developmental training, and procurement assistance.
2. *Integration of service delivery systems.* As SBA's programs have multiplied, there is a need to ensure that the different service delivery systems complement each other and work together. Good examples are Women's Business Centers using SCORE resources for counseling, where SCORE in turn directs clients to SBDCs for more in depth counseling and training.
3. *Relationship Management.* SBA is improving the lender partner dialogue with SBA and its field offices, as well as providing training and product information. SBA's partners need to understand and contribute to SBA's mission and goals and improve feedback on how relationships can be improved.
4. *Improved oversight of partners.* SBA needs to improve loan monitoring (through improved information systems, analysis, and assessment of borrower and lender risk), lender oversight (through a Preferred Lender Program (PLP) review system, safety and soundness reviews, and Office of Lender Oversight activities to manage portfolio risk), and graduated remedial actions based on a series of early warning indicators. With regard to non-financial assistance resource partners, SBA must review performance consistently to ensure cost effective delivery of service.

5. *Risk Management.* We understand that we need to improve our ability to assess and manage the risk associated with the delegation of credit decisions to organizations whose ultimate goal is not identical to ours. The newly created Risk Management Committee identifies key data for assessing risks in the Agency's loan portfolio; determining what risk levels should be in different product lines, borrower and lender categories; and how to manage these risks.
6. *Privatization and outsourcing.* Asset sales allow us to privatize a major portion of the loan portfolio, permitting increased focus on making new loans, loan monitoring and lender oversight rather than on portfolio management. SBA has also outsourced a major part of developing and maintaining its information systems and a third of the Disaster Assistance home loans, reducing the demand for staff to carry out this function.
7. *Increasing marketing and outreach to new markets.* As privatization, outsourcing and partnerships free up resources, we can devote more attention to reaching out to small firms in HUBZones, Low and Moderate Income Areas, as well as other "new markets" clients, e.g., women, minorities, Native Americans, and veteran clients. We are partnering with many different minority enterprise associations to improve our outreach.
8. *Client information.* SBA needs to develop the means to have better information about who the agency has counseled, trained, served or provided access to capital.

### **3. Improving Financial Management Systems.**

Phase II of the Systems Modernization effort is important to the Agency as it will replace the Agency's legacy accounting systems with a JFMIP compliant COTS package that will provide improved data needed for our financial statements and for decision-making. Current plans are to begin the acquisition of a COTS package in year 2000.

SBA is improving its financial statements. With the result of the Fiscal Year 1998 audits, SBA is the only major credit Agency to receive three unqualified opinions in a row. Our efforts to improve our financial management are working. We have made substantial progress to address the three weaknesses identified in our FY 1998 Financial Statement Audit. Weaknesses cited were:

Financial reporting process. SBA faced a difficult challenge with new reporting requirements under the full implementation of OMB Bulletin 97-01. Specifically, the bulletin required preparation of two statements that SBA and other Federal agencies had not previously prepared. Despite its efforts, SBA was not adequately prepared for these

reporting changes and the financial reporting was not on time. The auditors recommended that SBA develop a detailed comprehensive plan for financial reporting. The FY 1999 financial statements will be completed on time.

Disaster subsidy rate reestimate process. The auditors found that SBA's disaster models did not produce a reliable re-estimate. They recommended that SBA's internal control functions governing credit reform subsidy modeling and re-estimating processes be improved. Improvements to subsidy modeling quality assurance will be included for FY 1999 reestimates using peer and outside expert reviews. OMB and auditors approved in FY 1999 a new, more sophisticated disaster subsidy estimate model.

Information system security weaknesses. SBA has aggressively pursued ways to improve its information technology security. New staff has been hired, and contractor support has been obtained to address the immediate concerns of the OIG and GAO about certification and accreditation reviews of our automated systems. Draft security certification reviews have been completed for two of the four systems identified in the OIG report and have been initiated for the remaining two systems. In addition an Information Security Committee comprised of OCIO, DA, and OCFO has been established to address all information system security issues.

**Management Challenge: SBA needs to develop and implement a program-based cost accounting system.**

As early as 1997, SBA recognized the need for cost accounting. SBA contacted several CFO agencies and asked its accounting contractor to provide feedback on what other agencies were doing in this area. The response received was that very little was being done. Agencies typically would use some limited survey instrument to allocate costs. Therefore, in following this practice, the SBA's Office of the Chief Financial Officer (OCFO) hired a contractor to conduct a cost allocation study for 1997. This study was completed in mid-FY 1998. The study was again updated for 1998 costs, and completed in early FY 1999. These studies relied upon a survey of program and financial managers across the SBA to determine approximate usage of time that was then allocated against annual administrative costs to obtain the approximate cost of various SBA programs and activities. Cost surveys have become a preferred methodology for activity based cost accounting because they are efficient and far less costly than detailed payroll reporting of program cost data.

- In Fiscal Year 1999, after performing a requirements analysis and a COSTS assessment, SBA purchased the OROS Activity Based Costing (ABC) System to maintain cost data for the Agency. For FY 98 and FY 99 cost data, SBA developed an interface process to download cost data from the core administrative accounting system. The SBA also improved its survey method for FY 1999 reporting to include additional program activities and to survey all agency field and central offices on their program

costs. In addition, the cost data download was modified to include more detailed information for analysis. . (See Appendix IV for Cost Allocation Data)

The OROS Activity Based Costing (ABC) system will be used again in FY 2000 and the Agency will continue to perfect its ABC methodology to improve the accuracy of program cost information using our existing accounting system data. We believe that this study methodology, just completed for FY 1999, is the most efficient method of meeting this need, and provides a reasonable estimation of program costs on an annual basis. Therefore, we plan to continue with this methodology into the future. Again, we understand from our contractor that we are doing as much, or more, than other agencies in this area.

- The Agency’s Systems Modernization Initiative (SMI) will implement an integrated financial management and accounting system (IFMAS) within the SBA in FY 2002. The IFMAS will provide a more seamless interface with OROS for cost accounting data in the future. Also, SBA’s SMI will improve the program data available for use with OROS cost data to develop unit costs for the Agency’s programs that are required under the FASAB cost accounting guidance and for GPRA results reports

Milestones are:

- Produce FY 2000 cost reports having enhanced GPRA data using the OROS ABC System by 12/31/00.
- Core Accounting System implemented by 10/1/01.
- Cost Accounting System expanded and refined along with implementation of new program systems by 10/1/02 to 10/1/04.

**OIG Management Challenge**

**Management Challenge: SBA needs to develop and implement a program-based cost accounting system**

OIG recommended actions	SBA Plan/Actions
1. Determine how a program-based, cost accounting system will be structured and used within SBA.	Agree. This will be done using the OROS ABC software on FY 1999 data with ABC enhancements for FY 2000. SBA has earlier applied cost allocation to data for FY 1997 and FY 1998.
2. Identify and schedule the development and implementation of cost accounting as a major priority for the Agency.	Agree. The capture of cost data has been a priority since FY 1997, and continues as such with the annual conduct of a cost allocation study. Additionally, the implementation of an integrated financial management system, including a refined cost accounting system, is part of SBA’s Systems Modernization Initiative Phase II. The Cost Accounting system will continue to be refined with the implementation of new systems through the period 10/01/2002- 10/01/2004.
3. Assign needed resources to develop and implement a program-based, cost accounting system in a timely manner.	Agree. Resources have been identified for this initiative for the past three fiscal years, and have been identified as part of the cost of the Systems Modernization Initiative Phase II.

## **Strategy 2: Modernizing Information Systems**

The goal of systems modernization is to ensure the reasonable accuracy of data, the collection and dissemination of accurate and timely program information to improve decision-making, and increases in productivity and cost-effective delivery of service to more customers. Effective systems modernization requires replacing old and outdated legacy systems and installing a new technology infrastructure. It also requires rethinking how SBA delivers services and products. The Internet and other current technologies can enable access to SBA from any location with access to the Internet.

SBA is modernizing its information systems in three principal ways:

1. Improving its management of information;
2. Upgrading its telecommunication and computing infrastructure; and
3. Instituting a value-based technology investment decision-making process.

### **1. Management Improvement of Information Systems**

To improve internal management, a major goal of the Results Act, SBA must have accurate and complete data to improve program decision-making and increase productivity and cost-effective delivery service to larger numbers of small business customers. Effective systems modernization requires new business processes and a new technology infrastructure to replace old and outdated “legacy systems.” This initiative has three major phases: loan monitoring and lender oversight ; financial management and paperless home disaster lending; and government contracting and business development.

SBA needs new systems to support new and evolving business functions and processes. We are changing what we do and how we do it. Between 1992 and 2000, SBA more than doubled the number of guaranteed loans, decreased its staff by more than 20 percent, and outsourced about 75 percent of its loan approvals, underwriting, servicing and liquidation to private lenders – with little or no credit review by its staff. As the lending industry continues to consolidate smaller lenders and grow increasingly into interstate institutions, we need to do more lender oversight and risk management. Yet, SBA's current procedures and computer systems do not offer the flexibility and the performance-measurement data needed to implement fully developed lender/loan program monitoring.

Phase I of Systems Modernization focuses on SBA's capital access and credit programs (the so called Loan Monitoring and Oversight System). Phase II includes integrated financial management systems (i.e., accounting, human resources, and procurement) and disaster assistance. In Phase III, SBA will focus on Government contracting and entrepreneurial development programs and complete efforts to provide all of SBA's programs with a client database.

*Phase I - Loan Monitoring and Oversight System (LMS)*

With the new loan monitoring and oversight system (LMS), SBA can better manage the credit risk, the lender risk, and the cost of the 7(a), 504, and microloan programs. We will be able to collect information electronically from loan applications, approvals, modifications, payments, payoffs, liquidations, and routine lender status reports. A sophisticated, technology-based infrastructure will support streamlined business processes that keep pace with lenders, who provide credit to small businesses.

*Business Process Reengineering (BPR).* Guided by the Clinger-Cohen Act, we conducted an intensive BPR as a basis for Phase I of Systems Modernization. During the second quarter of FY 1999, 40 headquarters and field employees representing all agency programs reviewed the current business processes and developed new processes and a set of recommendations to modernize our financial assistance programs and processes, incorporating technology advances that were not even available 5 years ago. SBA also conducted three off-site work sessions, visited several field offices, and consulted with lenders to develop improvement opportunities and to gauge initial reactions to the modernization efforts. Throughout this process, the Government Accounting Office (GAO) has been closely monitoring our effort.

The BPR recommendations for the LMS include:

- Becoming electronic with our lenders;
- Having lenders do more, with better and more timely data;
- Having greater oversight of lenders;
- Performing proactive risk management;
- Continuing with asset sales; and
- Strengthening our ability to do subsidy rate calculations through quality, timely data.

*Identifying Best Practices.* Prior to the BPR, SBA's contractor conducted a best practice benchmark study. During the benchmark, best practice lenders were interviewed who do work similar to SBA. The benchmark team developed a gap analysis that compared existing SBA programs and processes to the best practices of the other organizations. The benchmark team identified improvements to put SBA in the best-lender class, focusing on five functional areas: (1) guaranty procedures, which include processing, servicing, and liquidation; (2) lender oversight; (3) risk management; (4) asset sales; and (5) subsidy rate calculations. Best practices from our benchmark study include:

- Centralized lender oversight group,
- Consistent capture of loan origination data,
- Seamless and consistent use of information,

- Lender reviews using "synthetic peers,"
- Automated underwriting, and
- Electronic lending.

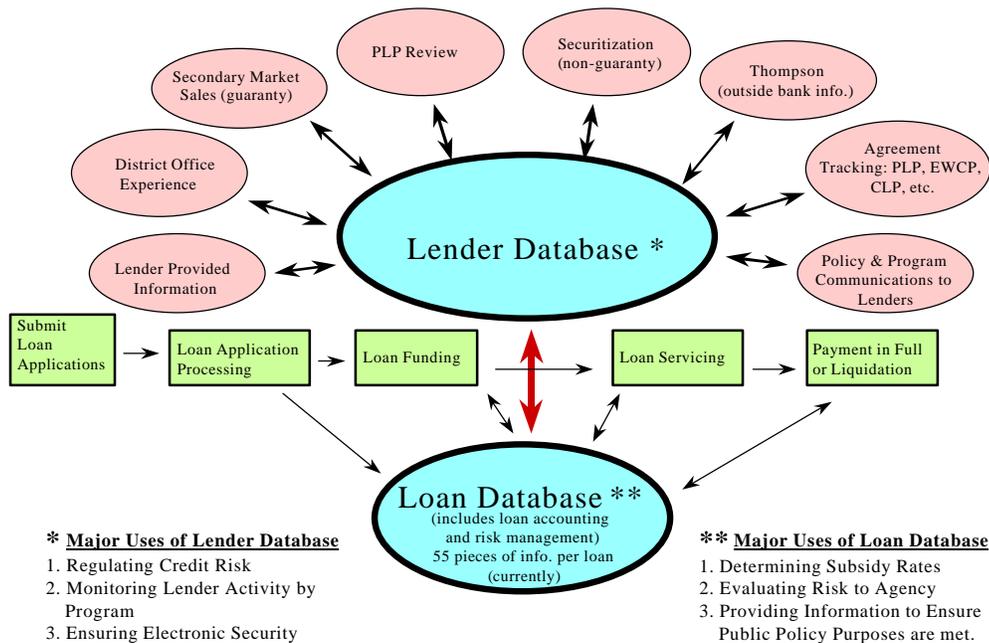
**Feasibility Analysis.** Following GAO's *Business Process Reengineering Guide*, SBA reviewed the BPR recommendations in light of budget, management, and political barriers and risks. Senior managers and field representatives then reviewed and prioritized the recommendations, adjusting them for risk and feasibility, particularly ensuring that the new system, which mirrors more closely commercial lending, did not have a negative impact on potential borrowers (and lenders) most in need of SBA assistance. Major concerns included:

- Increased centralization must be counterbalanced with stronger lender oversight to minimize the likelihood of imprudent lending and financial risk.
- Efficiency from automation must be balanced against the continuing need to accommodate hands-on ("face-to-face") provision of services.
- Centralized loan processing could decrease our presence and lender relationships, making marketing and technical assistance more difficult.

**A New System and a New Way of Doing Business.** In modernizing existing processes and developing a number of new ones, the BPR team created a blueprint for coordinated and completely new loan monitoring and lender oversight functions that enables us to be better at communication, monitoring, and enforcement. The LMS will result in higher quality service to our small business borrower. In achieving higher performance, we can also better assess and manage the risks associated with this type of lending. The LMS will also result in:

- Electronic Submissions: We will become electronic with our lenders, pushing a lot less paper and leveraging the Internet and PCs to permit lenders to electronically submit applications, report on the status of loans in their portfolios, pay fees, and submit requests for SBA to honor a guaranty.
- Quality Lender Data: Real-time, consistent, and quality lender and loan data is a critical component of the system modernization effort that will allow us to do lender oversight and risk management (see Figure 2, "Major Components of SBA's Lender Oversight System"). Through the LMS, we can capture information on loan volume, loan origination quality, portfolio quality over time, delinquency and default rates, securitization performance, and lender performance.

**Figure 2. Major Components of SBA’s Lender Oversight System**



- **Lender Oversight:** The LMS will permit us to ensure that credit remains available to small businesses in need, exercise appropriate oversight of lenders to ensure strict adherence to standards and data quality, and achieve public policy goals and taxpayers’ interests.
- **Regulatory Compliance:** The LMS will help us communicate our policies and procedures, as well as updates, and enforce our financial, program, and performance requirements, as well as government wide statutory and regulatory requirements.
- **Risk Management:** The LMS use of a comprehensive centralized data warehouse of loan, lender, borrower, and economic data will help us better measure, monitor, and mitigate risk within our guaranteed loan portfolio.
- **Asset sales and Subsidy Rate Calculation:** LMOS features include:
  - \* the selection of assets using well-defined, clear criteria;
  - \* an electronic marketplace for conducting asset sales during typical peak investment periods and easy transfer of asset files;
  - \* cleaner subsidy rate data for all functional areas, as well as the ability to capture borrower characteristic data electronically, test and analyze economic data and borrower cash flow, and produce a variance analysis.

*System Implementation.* Through a combination of training, technology, lender outreach and technical assistance, we will prepare and support our employees and customers as they adapt to the new ways of doing business. We will use an iterative ap-

proach to implement process and system changes incrementally and phase in changes that make sense to SBA and its lenders, giving people in our districts and regions every opportunity to stay where they are physically. Our approach encompasses the design feature of “code a little, test a little.” We will develop something while planning, piloting, and evaluating another iteration and begin coding with results of the pilot test to design the next iteration. The final release will reflect complete unit requirements and a final design with acceptance tests on every aspect.

The first iteration of the new LMS initially will have the greatest impact on the PLP and LowDoc Centers. As we implement the BPR recommendations for the first iteration, phasing in changes, we will train field personnel. Everything will not change overnight. Certain district office staff may continue in their present roles, while others begin performing new functions.

Phase I current and future milestones include:

- In FY 1999, we completed a best practices benchmarking on guaranty procedures, lender oversight, risk management, asset sales, and subsidy rate calculations;
- In FY 1999, we completed a Business Process Reengineering study to identify streamlined processes for each of five functional areas and a set of overall recommendations for improvement;
- In FY 1999, we documented system requirements, data input requirements and a logical data model, reporting requirements and plans to ensure data quality and consistency with our architecture;
- In FY 2000, we will begin to acquire the loan monitoring and oversight system;
- In FY 2000, we will update the systems modernization master plan to encompass acquisition plans for Phase I, detailed planning for Phase II, and a conceptual plan and schedule for Phase III.

Phase II milestones include:

- In FY 1999, we completed a Business Process Reengineering Study to reengineer the disaster home loan making process.
- In FY 1999, we also developed a Concept of Operations (CONOPS) and implementation plan for reengineering a paperless home loan application and approval system.
- In FY 2000, the financial management project will complete the requirements analysis, benchmarking and best practices as well as the evaluation of COTS packages. Acquisition is planned to begin in the year 2000.

Phase III: In FY 2001 we will begin to re-engineer legacy systems in the Office of Government Contracting and Minority Enterprise Development. These systems include the servicing and contract system/Minority Enterprise Development, central office repository, 8(a) certification tracking system, and SDB tracking system. Phase III also includes planning activities for ED information systems.

## **2. Technology Infrastructure Upgrade**

This effort encompasses significant upgrades to the SBA telecommunications network to support broadband Internet access, eventual video conferencing, access to electronic documents, higher speed local networks, and upgraded workplaces to provide better service to customers, better communications with partners and improved internal communication, sharing of information, and training. We must upgrade our network to support the demands of the broad range of data interchange and communication with SBA's resource partner network. This new infrastructure will also support improved program management, product and service evaluation, and e-commerce services for the small business community.

Wide Area Network (WAN) Broadband Upgrades for SBA Field Offices: About 60 percent of SBA's offices now connect to our network and to the Internet through low speed 56Kb lines, the same type of Internet connections used by most consumers in their homes. These connections provide less than 1/10 of the bandwidth that SBA HQ and the other 35 percent of SBA offices enjoy on the T-1, or broadband, sections of the WAN. Broadband capability is essential to working quickly and effectively on the Internet and for all types of electronic communication and information dissemination. One of the most effective infrastructure upgrades SBA could make in FY 2000, this action will have the broadest positive impact on Agency staff and is expected to cost progressively less in out-years because of the declining telecommunications costs featured in the Federal-wide FTS 2001 contract. SBA will begin implementing Agency-wide broadband in FY 2000 in conjunction with scheduled office relocations and the implementation of FTS 2001 services.

SEAT Management: We plan to fund a "seat management" contract, or similar suitable alternative, as the Agency-wide means to install, maintain and periodically refresh our rapidly depreciating inventory of office computing assets, including associated enterprise-wide software licenses. SBA has approximately 6000 devices supporting IT requirements at over 100 physical locations with 135 local area networks (LANs). Under "seat management," a contractor is responsible for replacing computing equipment, standard software, basic technical support, and possibly overall network management. Typically the equipment is installed on an agreed schedule which "refreshes" the entire inventory about once every 3 years.

SBA's network operating system (NOS): The NOS is the business infrastructure software that links the computers in an office into a LAN and then connects them to file servers, printers and other IT devices. The NOS also provides the network connectivity that enables the LAN to operate as a collection of devices, and that link these LANs to each other through a wide area network (WAN). SBA's NOS is now two full product generations behind the current standard for corporate computing and does not offer the service, security, diagnostic and asset management features of contemporary systems.

Migration to a current NOS will enable SBA's network to operate faster, consume less bandwidth, provide better security and virus protection, and allow us to improve reliability and become operational on a NOS that is more widely used and supported among Federal agencies.

Need to replace PC's: SBA's IT inventory has not been funded at a level needed to support 33 percent annual replacements for the last two years (FY 98 and 99). Approximately 2300 of 3500 total inventory are PCs at the lower end of the performance scale (Pentium 100 and 133 class) that do not offer the performance, storage, memory or image processing capabilities required by the Agency's current and proposed missions. Replacement will become very urgent by FY 2001, for at least for 60-75 percent of our computers and LAN servers.

Possible upgrade to desktop operating system: By late FY 2000, SBA will determine whether it needs to upgrade its computer desktop operating system to something beyond Windows 95. To transition to a new OS and possible to a new office applications suite in FY 2001, the budget for office computing will require an increase of approximately \$1.0 million for renewed enterprise-class licenses and training and technical support. Our seat management proposal will include these license costs as an optional element of the total cost package.

### **3. Creation of Value-based Technology Investment Process**

SBA's IT capital planning and investment process is governed by the Business Technology Investment Council (BTIC), SBA's IT Capital Planning Executive Review Board. Selection, acquisition, control and evaluation of Information Technology is decided based on the Agency's mission and business needs, its Information Technology Architecture (ITA) "to be" model, and assessments of the cost, risk, benefit and performance of IT investment initiatives.

By focusing on business and performance planning within the structured framework of the ITA and the investment process, we are assured that good decisions will be made based on valid data and estimates of the best value for SBA and its customers.

Building upon the work done in FY 1999, including several BTIC meetings, additional steps in the evolving IT Capital Planning and Investment process include:

- Institutionalize the Information Technology (IT) capital planning process in FY 2000;
- Link BTIC annual calendar to Budget Planning cycle, which should be complete and accepted by the BTIC at its next meeting in late February;
- Develop internal IT Capital Planning procedures for use in SBA (similar to those in large agencies, e.g., GSA, Labor).

- Ensure that the BTIC reviews and ranks all major IT project proposals prior to final budget development; and
- Secure funding to purchase or renew full licensing for the Information Technology Investment Portfolio System (ITIPS), the *de facto* standard for federal IT capital planning software.

Resources	FY 2000	FY 2001
<b>Systems Modernization</b>	<b>\$8 million</b>	<b>\$13 million</b>
Information Technology Infrastructure		
<ul style="list-style-type: none"> <li>• Replace and maintain agency computer Equipment using SEAT management</li> <li>• Upgrade SBA’s network operating system</li> </ul>		<p>\$5.7 million</p> <p>\$1.3 million</p>

**OIG Management Issues**

**Management Challenge: Information system controls need improvement**

SBA agrees that information systems controls need improvement. Improving the management oversight and control of the computer security program is a key initiative in the Agency. We have established an Information Systems Control Committee (ISCC) to address the issue of information system security. The committee includes the Chief Information Officer, the Chief Financial Officer, and the Associate Administrator for Disaster Assistance. The committee will address the information system controls issues and develop solutions to the audit issues. The ISCC will prioritize the workload to maximize the effectiveness of the resources assigned to the various tasks. SBA has a multi-year plan that identifies the resources needed and the steps to be taken to implement a comprehensive agency-wide computer security program. The plan directly addresses the IG identified issues, and defines activities to be performed and milestones.

OIG recommended actions	SBA Plan/Actions
1. Entity wide security. SBA needs to implement a comprehensive entity-wide security program for its key information systems.	Agree: The following Activities have been completed: Funded program to hire 8 government staff and hired security consultant to complete and enhance IT security program infrastructure and to perform certification and accreditation reviews. OCIO is currently interviewing candidates for government positions. SBA's Certification and Accreditation Program Policy has been drafted that establishes the agency-wide security program, the certification and accreditation review and approval process, and establishes baseline security requirements. Draft security certification reviews of two systems of the four systems identified in the FISCAM report have been completed. Certification reviews have been initiated for the remaining two systems. We have drafted a security workload assessment which prioritizes SBA's systems and which will provide a schedule for future certification reviews.

	<u>Completion Date</u> - 50% complete Sept 30, FY 2001; Completed September 30, 2003 for all programs.
2. Access Controls.	Agree. Certification reviews will identify weaknesses in access controls. Where weaknesses exist the CIO staff will work with program offices to develop compensating controls or procedures to mitigate the vulnerabilities. <u>Completion Date</u> – September 30, 2002 for all programs.
3. Application Development and Change Control.	Agree. All current application systems will be reviewed and certified. Future application systems will be reviewed and certified <u>before</u> implementation to insure that they meet appropriate Agency standards. <u>Completion Date</u> – September 30, 2002 for all systems.
4. Service Continuity.	Agree. As a result of the requirements set forth in Presidential Decision Directives (PDDs) 63 and 67, SBA is developing a comprehensive Business Continuity of Operations Plan (COOP) to be completed by June 2000.  Began business resumption plans for representative disaster office, financial office, and district office. Templates are currently under draft for other offices to complete.  <u>Completion Date</u> . September 2002 for all systems.
5. Data Authorization, Completeness and Accuracy.	Agree. This issue is discussed under the Cost Accounting management challenge.
6. Segregation of Duties.	Agree. Certification reviews will identify segregation of duties issues. The additional staff will work with the program offices to develop procedures to eliminate, or mitigate, the identified issues. <u>Completion Date</u> – September 30, 2002 for all systems.

### **Strategy 3: Expanding Use of Electronic Commerce**

More than 200 years ago, the Industrial Revolution had a profound impact on the global economy. Today's Internet Revolution will have a worldwide impact of even greater magnitude and will alter the fortunes of companies, countries, and people. The Internet is changing the way we work, live, play, and learn in ways we are just beginning to explore. These changes are creating an Internet Economy where technology connects everyone to everything and where open communications, open standards, and open markets prevail. Government, like industry, must adopt as a core business process the use of technology—particularly electronic commerce—to deliver information and services faster, cheaper, and to wider groups of constituents. Organizations not using electronic commerce will not remain competitive and will not succeed.

Electronic Commerce (EC), loosely defined, is using computers, telecommunications and all available electronic aids to conduct business. Electronic Commerce has

come to mean doing business on the Internet, whether marketing and selling a product to a customer over the Internet, doing business with another business (e.g., supplier, logistics, banker, freight forwarder), or offering government information and service online. For SBA, an EC strategic plan has an internal and an external dimension and will enable us to do: (1) business electronically (creating an e-SBA, electronic government); and (2) outreach and educate small firms on how to conduct business electronically.

Creating electronic Government makes it easier for the small entrepreneur to find and access what he/she needs in order to succeed. The goal is to help citizens, when they need it, where they need it. For small businesses, electronic access to Government enables them to manage time more effectively—which in turn helps them be more productive, expand marketing and outreach, and become more competitive.

As part of our coordinating role, we must use new technology to deliver information and services and coordinate the efforts of federal, state, and local agencies. To coordinate the wide array of financial and business development assistance, to include state and local resources, the new SBA must rationalize its presence and those of its resource partners to match the businesses of the new millennium.

Today, most believe that the Internet is the hottest marketing channel, advertising medium, research tool, and mechanism for quick transactions. SBA must change its service delivery, customer service approach, and culture to be successful in this new Internet-based, information model.

**e-SBA.** At the core of our EC strategy is a concerted effort to create a horizontally integrated suite of products and services that can be provided to small firms when they need it, where they are (from their desktop), and in a format that is user-friendly, comprehensive, and cost effective. We will use information technology and communications to implement electronic business transactions that will replace the current paper intensive processes.

Use of the Internet by SBA and its customers will enable us to be more efficient and informed so that our face to face client relationships can be more productive. No entity, private or public, in the new century can succeed without an explicit commitment to make electronic commerce a core business process. This is particularly true for SBA and its small business customers.

An increasing amount of SBA business is now conducted on the Internet, from elementary business guidance for prospective business owners to online counseling and education, to brokering networks of “buyers and suppliers” of trade leads, innovation and research grants, equity capital, and contract opportunities. Computerized application review systems will speed the process of evaluating a borrower's creditworthiness, verifying a firm's eligibility for the 8(a) or Small and Disadvantaged Business program,

and matching small businesses with procurement opportunities, to name a few of our core functions. Our lending partners will provide timely loan performance data on-line to us. Electronic commerce and transactions will provide instantaneous responses to all stakeholders - SBA staff, resource partners, and small businesses.

Elements of this strategy will involve the following functions:

- Electronic lending: Offering lenders and borrowers online processing and approval of prequalification forms, front end credit risk tools, paperless disaster home loan processing, online export credit risk analysis, equity lending matchmaking, help support tools for small lenders, and an electronic application process for SBA loan guaranties;
- Electronic Procurement: Offering small firms a virtual marketplace to find solicitations, reply to bids, get contracts, and track invoices, to include expert tools on how to sell to government, partnering with state procurement agencies, and creation of a “bulletin board” like E-Bay to support small firm bundling and links to mentoring services;
- 8(a) and SDB Eligibility: Implementing an Internet-based 8(a) and Small and Disadvantaged Business (SDB) eligibility and certification process for contract preferences, expansion of HUBZone and New Market outreach services and creating a virtual One Stop Capital Shop;
- Distance Learning and Training: Creating online classrooms, e-mail counseling, and web-based tutorials to an estimated 330,000 clients, focusing on linking the best of the Small Business Development Center network in creating electronic journals, quality reviews of new web sites, and e-mail problem solving;
- Expert tools: Establishing an electronic answer desk, E-Ombudsman, Customer Complaint Center, and decision-tree based analytic tools to help a business find a law, interpret a regulation, get a contract, develop a business plan, start a business, or do a trade deal, to name a few;
- Gateways and Networks: Implementing the *Access America for Business* vision through developing, maintaining, and improving a variety of gateways and electronic networks that offer both federal and state and local assistance for small firms, such as the US Business Advisor and TradeNet.

**e-Small Business.** We will continue to conduct outreach to small businesses to educate and train small businesses in the use of electronic commerce and to accept the use of Government credit cards in the procurement process. In addition to framing a vision that acknowledges the importance of e-commerce to help small firms bridge the “digital divide” and succeed, we will communicate to our employees, stakeholders, and resource partners the critical importance of becoming more electronically-enabled. We will implement a number of strategies to help small firms become more electronic, to include:

- Outreach to small firms: Conduct National e-commerce summits, create a Public Broadcasting Service show, develop standardized curricula in partnership with the private sector to reach out to small firms;
- Educate and train: Identify suitable partners to offer technical assistance on how to use the Internet to conduct business, whether it is creating a “.com” company or helping a firm interact with other businesses electronically;
- Online tutorials: Develop Internet-based applications (e.g., distance learning, online classroom, expert tools) that help a firm become an e-business.

**Performance Goal 19: Provide federal leadership in electronic commerce (EC) initiatives for small businesses, by creating an internet-based gateway to serve small entrepreneurs, when and where they need it.** Applications include:

- Electronic lending: Offering lenders and borrowers online processing and approval of SBA guaranteed loans;
- 8(a) and SDB Eligibility: Implementing an Internet-based 8(a) and Small and Disadvantaged Business (SDB) eligibility and certification process for contract preferences;
- Distance Learning: Creating online classrooms, e-mail counseling, and web-based tutorials to an estimated 330,000 clients;
- Gateways and Networks: Implementing the *Access America for Business* vision through developing, maintaining, and improving a variety of gateways and electronic networks.

#### **Strategy 4: Transitioning the Workforce**

To prepare the Agency to meet the needs of small businesses in the 21<sup>st</sup> century, SBA must recruit and maintain an adequate, diverse, capable, and motivated staff that is well-trained in the principal functions of the Agency, well-positioned to deliver exceptional customer service, and well-equipped to take advantage of technological advances and improve their productivity.

**Performance Goal 19: Hire, Train and/or Retrain Over 1200 Employees, and Redeploy Staff, As Needed, to Perform Agency Functions.**

#### **Major FY 2000 and FY 2001 Initiatives**

In 1992, SBA had a workforce of 3,874 (excluding Disaster program) and processed 26,381 loans using a paperwork intensive procedure. Today, we have a workforce of 3,050 (excluding disaster program) and use our lending partners more extensively to provide access to capital and credit to small businesses. Our systems today are much less paperwork intensive and we have almost doubled our loans between 1992 and 1998. We have done more with less.

As small businesses have advanced over the past decade, so must SBA change the way it operates. We are moving toward a more technologically driven operation focused on providing business development assistance, oversight and building partnerships to better help us serve the needs of small businesses. Our workforce recognizes that we are phasing out old functions and emphasizing new ones. SBA staff will be required to perform the following major functions in FY 2001:

- Business development assistance for small and disadvantaged, HUBZone, and women-owned businesses;
- Direct oversight of lenders and business resource partners;
- Management of Asset Sales;
- Marketing and Outreach to small business segments and our resource partners;
- Management to support SBA's modernization efforts;
- Management of information technology (Security, Internet, Data and Systems Administration, Quality Assurance, Configuration Management).

The Agency's transition has created situations where we must retain and/or relocate staff as their roles change. To remedy this situation, working with our union partners, SBA is implementing a major workforce transition process focusing on use of skills-based recruitment, succession planning, leadership development, technology, transition training, and redeployment. The Agency's transition has also created the need to ensure that there is a healthy, inclusive work environment for all of SBA's employees. SBA will continue to provide all employees with opportunities to attain their highest potential, while recognizing and appreciating all employees' perspectives and talents.

- **Competency Modeling** — Continued systematic development of job competencies by identifying the knowledge, skills and abilities necessary for successful job performance.
- **Succession Planning** — Continue our District Director Candidates Development Program and our Senior Executive Candidate Development Program to provide an internal source of well-qualified candidates for future manager and executive vacancies.
- **Leadership Development** — We've implemented a two-prong effort:
  - (1) Provide leadership training for our District Directors and career Senior Executives to assist them in their role as change agents. We are utilizing the services of the Center for Creative Leadership to deliver this program.
  - (2) Provide leadership training for our mid-level managers and supervisors, *Leading SBA Through Transition*.

- **Technology** — Increase use of distance learning and computer-based training.
- **Alternative Dispute Resolution** – Parties involved are provided an opportunity to forge their own solutions to workplace conflicts with the procedural assistance of a neutral party
- **Diversity Planning**- Training and education to encourage the use of staff diversity as a positive force for innovation and change, enhancing employee productivity, and enabling SBA to better capitalize on business opportunities.
- **Transition Training** — We plan to offer 1250-1300 individuals training/retraining in the “new” transition skills with a breakdown as follows:

<b>Transition Skills Training Budget Request</b>	<b>FY 2000</b>	<b>FY 2001</b>
Job Competency modeling Business Development Specialist, Oversight Specialist and Procurement Specialist (cost of \$100,000 each)		\$ 300,000
Succession Planning/ Leadership Development	\$ 550,000	\$ 500,000
Technology Enhancement		\$ 500,000
Training of up to 640 staff each year on business development, oversight, marketing and outreach	\$ 550,000	\$1,200,000
<b>Sum</b>	<b>\$1,100,000</b>	<b>\$2,500,000</b>

- **Redeployment** - We are offering eligible employees early-out retirements in FY 2000, as we did in FY 1999, to allow any retirement eligible employee who does not want to transition to the 21<sup>st</sup> century SBA the option of taking a reduced annuity and retiring early. Forty-one employees took advantage of early-out retirement in FY 1999.
- **Relocation** - we are requesting \$1.5 million to fund relocation of approximately 30 SBA employees at an average cost of \$50,000 per move, to relocate employees to offices where SBA needs additional staff with their skills.

**Resources**

<b>Item</b>	<b>FY 2001 Request</b>
Workforce Transition	\$2.5 million
Relocation costs	\$1.5 million

## Appendix I: Data Validation and Verification

Managing for results and producing an annual performance plan and performance report requires valid, reliable and high quality performance measures and data. GAO discusses a number of strategies for verification and validation in its report “Performance Plans -- Selected Approaches for Verification and Validation of Agency Performance Information” (July 1999).

*GAO Definition:*

Validation is the assessment of whether data are appropriate for the performance measure.

Verification is the assessment of data completeness, accuracy, consistency, timeliness, and related quality control practices (i.e. does the data accurately measure the goal).

GAO offers the following strategies for data verification and validation:

1. Fostering organizational commitment and capacity for data quality;
2. Assessing the quality of existing data;
3. Responding to data limitations; and
4. Building quality into the development of performance data.

SBA is pursuing all four strategies:

1. Fostering organizational commitment and capacity for data quality. We will achieve data quality through a number of different processes. First, as part of the COSO process, managers will *attest* to the quality of their information. Second, we are training managers to make sure they understand the need for quality data. Third, we are managing for results, which requires us to develop better information systems for decision-making. Fourth, we are using performance information to evaluate our senior managers
2. Assessing the quality of existing data. Other than for financial accounting and compliance auditing of loan eligibility, we cannot at this time ensure the data quality for programs carried out by our resource partners. The workforce transition plan includes resources for training to improve the oversight of our partners. We plan to review the data validation and verification of all of our performance indicators.
3. Responding to data limitations. SBA often uses data from sources other than SBA databases, e.g., the Bureau of the Census, Bureau of Labor Statistics (BLS) and other resource partners (especially SBDCs, SCORE, WBCs). While SBA has to “trust” explicitly the data provided by Census and BLS, we need to verify and have our resource partners certify that their data (such as information on clients served) are valid and reliable. For example, an OIG report documented that SBDC centers do not

always use the same definitions for clients served, making it more difficult to get a valid picture of what has been done. We plan to include data verification in our lender and resource partner oversight. We also will determine and discuss limitations of the data in accurately measuring performance. Managers are asked to document how they intend to reduce these limitations.

4. Building quality into the development of performance data. The design process for building new IT systems includes building in and maintaining quality at all stages of data handling -- input, storage, and use. The new systems and the changes made to existing systems will make sure that only correct data are entered into the systems and that these data are stored in one data base with stringent verification and change rules.

### **SBA's Data Validation and Verification Project**

During fiscal year 1999, we tracked our performance goals monthly and verified the accuracy of the data on an ad hoc basis. As part of this internal performance monitoring, we tested the relevancy of the indicators and identified problems of data completeness, timeliness, and accuracy.

In FY 2000, we are implementing a more formal data validation and verification process to assess quality of data supporting our performance goals. For each indicator, the responsible program manager is being asked to:

1. Define the measure;
2. Identify the data source;
3. Discuss the validity of the measure, i.e., is the performance indicator relevant, complete, and objective;
4. List data limitations, particularly of resource partners, to include reporting cycles, incomplete source of data, double-counting, erroneous data, inconsistency in standards and definition of data, data that cannot be collected (due to privacy or policy), and system capacity.
5. Document steps being taken to improve data collection, verification and reporting, and to reduce data limitations

In addition, we are asking program managers certify by affirming or denying the following statements:

- The indicator is a valid measure for the goal and objective.
- The source of data is complete and accurate.
- There are data verification procedures in place to ensure that the data are accurate.
- Users of indicators are made aware of data limitations.

- Data are provided in a timely manner for budget process/external reporting/internal tracking.
- There is a current data improvement plan to remedy deficiencies in validity, accuracy, completeness, and timeliness.

**GOAL 1. HELP SMALL BUSINESS SUCCEED**

<b>Measure</b>	<b>Number of Small Businesses</b>
Definition	Number of small businesses filing tax returns with the Internal Revenue Service (IRS). This number includes all firms with employees, without employees and where the owner is working part-time.
Source	Department of Treasury, IRS, <u>Statistics of Income Bulletin</u>
Validation	The indicator is a valid measure for growth of small businesses
Limitations	Unknown
Remedies for Limitations	
Verification	

<b>Measure</b>	<b>Number of Small Businesses With Employees</b>
Definition	Firms filing form 941 with IRS.
Source	SBA, Office of Advocacy, from data provided by the U.S. Department of Labor, Employment and Training Administration
Validation	Unknown
Limitations	
Remedies for Limitations	
Verification	

<b>Measure</b>	<b>Number of Jobs in Small Businesses</b>
Definition	Firms with a positive payroll reporting on form 941 to IRS.
Source	SBA, Office of Advocacy, from data provided by Census
Validation	Unknown
Limitations	
Remedies for Limitations	
Verification	

<b>Measure</b>	<b>Number of Small Businesses Owned by Women and Minorities</b>
Definition	Small firms that are self-certified as 50 percent woman- or minority-owned.
Source	SBA, Office of Advocacy, “Women in Business”, and “Minorities in Business”

	based on Census of Women-Owned Business, IRS data on sole proprietorships, Bureau of Labor Statistics data on self-employed women.
Validation	
Limitations	Census does survey every 5 years and uses 50% as criterion of ownership.
Remedies for Limitations	
Verification	

<b>Measure</b>	<b>Number of New Businesses</b>
Definition	New Employer Identification Numbers (EIN) reported to IRS.
Source	SBA, Office of Advocacy, based upon U.S. Department of Labor
Validation	States do some validation.
Limitations	Overestimates new firms to the extent that they have multi-state locations.
Remedies for Limitations	
Verification	

<b>Measure</b>	<b>Dollar Volumes of Export Sales by SBA Clients</b>
Definition	Estimate of export sales by clients who receive SBA-guaranteed credit (export working capital or revolving line of credit), using a one-for-one ratio of loan to estimated export dollar volume, i.e., deriving an estimate from the percentage of loan guaranteed amount.
Source	SBA loan approval database (TTS001).
Validation	This is an estimate and a derivative statistic.
Limitations	An estimate that needs to be verified through survey of recipients.
Remedies for Limitations	
Verification	

<b>Measure</b>	<b>Number of 7(a) Loans to Small Businesses</b>
Definition	Number of original 7(a) loan approvals
Source	SBA Loan Approval Database (TTS001)
Validation	This indicator is a valid measure for the goal and objective.
Limitations	No
Verification	The source of data is complete and accurate. There are data verification procedures in place to ensure that the data are accurate. Data are provided in a timely manner for budget process/external reporting/internal tracking,

<b>Measure</b>	<b>Number of 504 Loans to Small Businesses</b>
Definition	Number of 504 original loan approvals.

Source	The SBA field office or Premier Certified Loan Program (PCLP)
Validation	The indicator is a valid measure for the goal and objective.
Limitations	None
Verification	The source is complete and accurate. There are data verification procedures in place to ensure that the data are accurate. Data are provided in a timely manner for budget process/external reporting/internal tracking.

<b>Measure</b>	<b>Number of Export Loans to Small Businesses</b>
Definition	7(a) Export Working Capital Loans (code 1013) and International Trade Loans (code 1018).
Source	SBA Loan Approval Database (TTS001).
Validation	The indicator is a valid measure of the goal and objective.
Limitations	None
Verification	The source is complete and accurate. There are data verification procedures in place to ensure that the data are accurate. Data are provided in a timely manner for budget process/external reporting/internal tracking.

<b>Measure</b>	<b>Number of Loans to Women, Minorities, and Veterans</b>
Definition	Loans made to small businesses owned at least 51% by Women, Minorities, or Veterans.
Source	SBA Loan Approval Database (TTS001).
Validation	The indicator is a valid measure of the goal and objective.
Limitation	None
Verification	The source of data is complete and accurate. There are data verification procedures in place to ensure that the data is accurate. . Data are provided in a timely manner for budget process/external reporting/internal tracking.

<b>Measure</b>	<b>Net Cash Collections</b>
Definition	Cumulative Cash Collection as a percentage of monthly 7(a) guaranteed loan portfolio purchased by SBA.
Source	SBA Field Offices via the mainframe database and the Office of Chief Financial Officer data.
Validation	The indicator is a valid measure for the goal and objective.
Limitations	The timing of reporting the data by the various SBA Field Offices and the timing of the availability of such data via the mainframe database and the Office of Chief Financial Officer data.
Remedies for Limitations	Efforts are being made to improve the method of transmitting reports by the various SBA field offices and the method by which the data are made available via the mainframe database and the Office of Chief Financial Officer data.
Verification	The source of data is complete and accurate. There are data verification procedures in place to ensure that the data are accurate. There is a current data improvement plan to remedy deficiencies in timeliness of data.

<b>Measure</b>	<b>Disaster Home Loan Currency Rate</b>
Definition	A measure of Disaster Home Loan Currency rate of all such loans at the Agency's four Disaster Home Loan Servicing Centers. Loans are considered in current status if regular payments are received within 30 days of the scheduled payment date.
Source	MARS 392-A Standard Agency Report.
Validation	The indicator is valid only internally to the SBA loan servicing centers and HQ/financial assistance managers. It does not include the Congressionally mandated outsourcing of servicing (with 1/3 of the Disaster home loan portfolio), nor does it reflect loans returned to districts for liquidation/charge-off, or the effects of asset sales on that portfolio as the Agency moves forward with that program.
Limitation	None as to the SBA serviced loans. SBA is not yet able to vouch that the data provided by the contractor is consistent with SBA standards or definitions.
Remedies for Limitations	There is not a current data improvement plan to remedy deficiencies in validity, accuracy, completeness and timeliness.
Verification	The source of data is complete and accurate. There are data verification procedures in place to ensure that the data are accurate. Users of indicators are made aware of data limitations. Data are provided in a timely manner for budget process/external reporting/internal tracking.

<b>Measure</b>	<b>Dollars Licensed in Private Capital</b>
Definition	The indicator measures the amount of initial private capital of the licensee when the license is actually issued. Licensee may raise additional private capital after issuance of license but that amount would not be included in the figure.
Source	SBA's Investment Division Licensing Unit based upon capital certificate submitted by licensee.
Validation	The indicator is a valid measure for the goal and objective. In addition to being available for investment, once funded the amount of private capital forms the basis for leverage extended to the licensee. Both private capital and leverage are invested in small business.
Limitations	The measure does not include subsequent additional private capital raised after licensing. However, those amounts are subsequently gathered and included in the overall totals of the program.
Remedies for Limitations	To ensure accuracy, the capital certificate of the SBIC when licensed must be attached and the number approved by the Director, Office of SBIC Operations prior to inputting into the database.
Verification	The source of data is complete and accurate. There are data verification procedures in place to ensure that the data are accurate. Users of indicators are made aware of data limitations. Data are provided in a timely manner for budget process/external reporting/internal tracking.

<b>Measure</b>	<b>Number and Dollars of investments in small businesses; percentage invested in companies that are 50% owned by women, and percentage invested in</b>
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	<b>companies that are 50% owned by minority.</b>
Definition	Indicators measure the number of investments and the dollar amount of these investments; how the investments are distributed among certain categories.
Source	The data are compiled by the Office of the Chief Administrative Officer based upon submission from the SBICs. Data are verified through the Investment Division control of funding requests, examinations performed by Investment Division personnel and annual audits performed by independent CPAs.
Validation	The number and dollars of investments in small businesses are valid measures for the goal and objective. The appropriate percentages for investments in 50 percent minority-owned and 50 percent women-owned are subject for discussion.
Limitations	Based upon the overall amount of data submitted by SBICs and verification procedures in place, Investment Division believes the data are accurate.
Verification	Although data are believed to be complete and accurate, an increased emphasis is being placed on the collection of all data. In the course of exams, examiners checked for completeness. Investment Division constantly works with outside counsel and with prospective management teams to emphasize the need for data. Investment Division also works with the trade association to communicate the necessity for compiling the data. Users of indicators are made aware of data limitations. Data are provided in a timely manner for budget process/external reporting/internal tracking

<b>Measure</b>	<b>Number of Surety Bonds issued to Contractors</b>
Definition	Number of bid and final bonds approved.
Source	Management Information Summary (MIS) report.
Validation	The indicator is a valid measure for the goal and objective.
Limitations	None.
Verification	The source of data is complete and accurate. There are data verification procedures in place to ensure that the data are accurate. Data are provided in a timely manner for budget process/external reporting/internal tracking

<b>Measure</b>	<b>Percentage of Share of Federal Procurement awarded to Small Firms in HUBZones</b>
Definition	This indicator establishes (consistent with the HUBZone Act of 1997) that 1 percent of the total value of federal prime contracts be awarded to HUBZone firms.
Source	The Federal Procurement Data System (FPDS).
Validation	The indicator is a valid measure for procurement goal and objective.
Limitations	The FPDS was not programmed to identify HUBZone awards during FY 1999.
Remedies to Limitations	The FPDS has been modified to collect HUBZone contract award data for FY 2000. The revised system will provide consistent, valid information relative to goal achievement.
Verification	Data have not yet been received and therefore have not been critically evaluated in terms of timeliness, accuracy, validity, and completeness. The General Services Administration is responsible for the accuracy of the FPDS database. SBA does not have access or resources to review or evaluate this data.

<b>Measure</b>	<b>Percentage of Small Business Innovation Research (SBIR) Dollar Awards to Women-owned and Minority-owned Firms</b>
Definition	SBIR dollar awards refer to the amount of funding that Federal agencies (Defense, NASA, DOE, NIH, NSF, Commerce, Agriculture, EPA, Education and Transportation) issue to small technology firms annually. These awards, or contracts, are issued to small firms to undertake specific research and development work for the Federal government. Annually, the total amount for all agencies is approximately \$1.1 billion.
Source	The data sources that are used to evaluate the program performance based upon the established indicators are the 10 agencies SBIR annual reports. The annual reports provide an array of information on each agency's annual SBIR award performance. The reports enable the SBA to effectively measure the performance of each agency.
Validation	The indicators are valid for the goal and objectives of the SBIR and Small Business Technology Transfer (SBTR) programs. Annually, the SBA and the participating agencies review the indicators to measure improvement or shortfalls in various marketing, outreach and participation areas for the programs.
Limitations	The data are received from the participating agencies 6 months after the close of the previous fiscal year. Because of this data collection cycle, there is a reporting lag time of the SBIR/SBTR information to the Congress, and the posting of the information on the SBA's web site and bulletin boards.
Remedies for Limitations	The Office of Technology (OT) has initiated a major step to improve the data collection of the SBIR/SBTR awards. OT and the Office of Chief Information Officer have begun to implement an Internet based database of the SBIR/SBTR awards data. This effort will allow the participating agencies to transmit their annual report data directly to SBA, or to upload their annual report data into the SBIR/SBTR database. This will eliminate the 6-month data collection lag time that currently exists.
Verification	There are data verification procedures in place to ensure that data are accurate.

<b>Measure</b>	<b>Percentage of Federal Procurement Prime Contract and Subcontract awarded to Small Firms, to Women-owned Firms, and to Small Disadvantaged Firms</b>
Definition	This indicator measures the extent to which small, small disadvantaged and women-owned small businesses participate as Federal prime contractors. This indicator also measures the use of small businesses as subcontractors.
Source	The Federal Procurement Data System (FPDS).
Validation	The Office of Federal Procurement Policy (OFPP) in its policy letter 99-1 supports SBA's use of FPDS data to measure accomplishments rather than requiring agencies to provide this information on separate reports.
Limitations	The reporting cycles for prime and subcontractors are different. Prime data are reported to the FPDS on a quarterly basis, and subcontract data are reported annually. This causes a delay in generating data to measure accomplishments and develop reports. FPDS has been determined to be the most accurate and verifiable reporting system of contract awards under the procurement preference goal pro-

	gram; however, there are some minor problems with data that are entered incorrectly into FPDS through the SF-279 and SF-281.
Remedies for Limitations	SBA is working with agencies to ensure accuracy of the data placed into FPDS. SBA is a member of the PEC-Social Economic Work Group that is reviewing methods to improve the accuracy of the FPDS data. This is an on-going effort.
Verification	There are data verification procedures in place to ensure that the data are accurate. The agencies validate the data prior to SBA using the information to measure goal accomplishments.

<b>Measure</b>	<b>Number of Small Disadvantaged Businesses (SDBs) Certified as Eligible</b>
Definition	The number of small disadvantaged businesses certified by SBA as eligible to receive procurement benefits under the SBB program.
Source	Procurement Marketing Network (PRONet) and internal reporting mechanisms.
Validation	While the number of certified firms is the most essential program performance indicator, there are three other program elements (i.e., number of firms denied, number of applications returned, and number of applications withdrawn) that also serve to measure program performance.
Limitation	No data limitation
Verification	There are data verification procedures in place to ensure that data are accurate.

<b>Measure</b>	<b>Success Rate of 8(a) Program</b>
Definition	The percentage of firms that complete the nine-year program term or graduate before the term expires and receive business development assistance.
Source	SACS/MEDCOR, post program reports.
Validation	The indicator is a valid measure for the goal and objective.
Limitation	None.
Verification	The source of data is complete and accurate. Data are provided in a timely manner for budget process/external reporting/internal tracking. There are data verification procedures in place to ensure that the data are accurate.

<b>Measure</b>	<b>Number and Dollar Value of Federal Contracts through 8(a) Program</b>
Definition	The number of prime contracts awarded to minority firms under the 8(a) program.
Source	Contracting activities provide award data to the individual Minority Enterprise Development (MED) servicing offices.
Validation	The indicator is valid and relevant.
Limitation	There are limitations on the completeness of data. Under the current system, less than 100 percent of data is received from the contracting activities. Data received from the contracting activities may not be completely entered into the tracking system on a timely basis.
Remedies for Limitations	SBA is in the process of migrating from the current data collection system to using the Federal Procurement Data System (FPDS) contract data. The use of FPDS data will ensure reporting accuracy and consistency.
Verification	There are verification procedures in place to ensure that the data are accurate.

<b>Measure</b>	<b>Number of Clients Counseled/trained by Small Business Development Centers</b>
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<b>(SBDCs)</b>	
Definition	Clients Counseled: one hour of face-to-face counseling. Clients Trained: attended a minimum of one two-hour training session.
Source	Reports provided by individual SBDC.
Validation	Indicators are valid measures of the goal and objective.
Limitations	No major limitations. Data would be more useful if it were available monthly rather than quarterly.
Remedies for Limitations	The Office of SBDCs is working with the Association of SBDCs to identify methods to generate monthly reports.
Verification	The source of data is complete and accurate. There are data verification procedures in place to ensure that the data are accurate.

<b>Measure</b>	<b>Number of Clients Counseled/trained by SCORE</b>
Definition	Clients are persons who register as a client at a SCORE site using a SBA Form 641 or who register as clients on the Internet at the SCORE email counseling site.
Source	The SBA Form 641, or Internet Registration screen.
Validation	The indicators are valid measures for the goal and objective.
Limitations	Some clients may not complete all fields in the registration form. Training forms are aggregated data completed by the trainer.
Remedies for Limitations	SCORE counselors are reminded and encouraged to verify the completeness of client registration forms.
Verification	There are no verification procedures in place to ensure that the data are accurate. Users of indicators are made aware of data limitations. Data are provided in a timely manner for budget process/external reporting/internal tracking. There is a current data improvement plan to remedy deficiencies in validity, accuracy, completeness and timeliness.

<b>Measure</b>	<b>Number of Clients Served by One Stop Capital Shops (OSCSs)</b>
Definition	Number of small businesses and individuals who received business development and financial assistance through the OSCSs.
Source	Data for each client are compiled from a SBA Counseling Form and transposed to a monthly activity report.
Validation	The indicator is a valid measure for the goal and objective.
Limitations	The source of data is not complete and accurate. Data are currently collected manually which impact accuracy and is time consuming.
Remedies for Limitations	A new automated data collection system is being developed and is approximately 80 percent completed. Each OSCS will have the system by the end of FY 2000.
Verification	There are no data verification procedures in place to ensure that the data are accurate. Users of indicators are made aware of data limitations. Data are provided in a timely manner for budget process/external reporting/internal tracking.

<b>Measure</b>	<b>Number of Clients Served by Women Business Centers (WBCs)</b>
Definition	Clients served are those persons trained or counseled by a WBC.
Source	The WBCs report quarterly to the Office of Women Business Ownership (OWBO) via e-mail, which are then tallied by OWBO's staff.
Validation	The indicator is valid measures for the goal and objective.
Limitations	There may be some confusion about definitions among grantees.
Remedies for Limitations	OWBO is making an effort to communicate definitions to all grantees. A new reporting system is being developed which will provide this information directly to OWBO. Grantees will not be required to submit reports via e-mail.
Verification	The source of data is complete and accurate. There are data verification procedures in place to ensure that the data are accurate. Users of indicators are made aware of data limitations. Data are provided in a timely manner for budget process/external reporting/internal tracking.

<b>Measure</b>	<b>Number of Clients Served by Business Information Centers (BICs)</b>
Definition	Clients are persons who visit a BIC, register as a client using a SBA Form 641, and receive services from the BIC.
Source	The SBA Form 641, or local facsimile.
Validation	The indicator is a valid measure for the goal and objective.
Limitations	Some clients may not complete all fields in the registration form.
Remedies for Limitations	BIC managers are encouraged to verify the completeness of client registration form.
Verification	No verification procedures exist to ensure that the data are accurate. Data are provided in a timely manner.

<b>Measure</b>	<b>Number of Clients Served by Tribal Business Information Centers (TBICs)</b>
Definition	TBICs offer community access to business development resources, computer software, and culturally tailored counseling, training, and technical assistance in all aspects of business development and management to reservation and non-reservation based entrepreneurs.
Source	Each TBIC tracks the usage of its resources either electronically or manually.
Validation	The indicator is a valid measure for the goal and objective.
Limitations	Currently, TBICs are required to provide quarterly reports only.
Remedies for Limitations	The Office of Entrepreneurial Development is currently in the process of establishing an Entrepreneurial Development Management Information System that will allow TBIC directors to input data and will allow the program to generate reports on an as needed basis.
Verification	There are no data verification procedures in place to ensure that the data are accurate.

**GOAL 2: HELP BUSINESS AND FAMILIES RECOVER FROM DISASTER**

<b>Measure</b>	<b>Percentage of Disasters where Effective Field Presence within three days of declaration is provided</b>
Definition	Within three days of a physical disaster declaration, SBA disaster office personnel are on site to coordinate the provision of disaster assistance with appropriate federal, state and local officials.
Source	Closeout reports prepared by the disaster area office after each disaster.
Validation	The indicator is valid measure for the goal/objective.
Limitation	Currently, this information is not received for approximately six months after a disaster is declared and there is inconsistency in what is meant by “effective field presence” among the area offices.
Remedies for Limitation	SBA will consider options for obtaining this information much sooner after the disaster has been declared, including, but not limited to, making a revision to the automated loan control system so that this information can be inputted as soon as it is accomplished. SBA will also provide further guidance to the area offices to define “effective field presence” and its scope.
Verification	There are no data verification procedures in place to ensure that the data are accurate.

<b>Measure</b>	<b>Percentage of Disaster Loans processed within 21 days after receipt of a Complete Application</b>
Definition	Within 21 days of receiving a complete disaster loan application, the disaster office will provide applicants with a decision.
Source	Disaster automated loan control system.
Validation	The indicator is a valid measure for the goal/objective.
Limitation	None.
Verification	No verification procedures exist to ensure that the data are accurate.

<b>Measure</b>	<b>Underwriting Compliance Rate</b>
Definition	The credit underwriting compliance rate reflects the degree to which the Office of Disaster Assistance complies with the disaster loan making policies and procedures in making credit determinations.
Source	Random review of 100 loan files in each area office by a review team led by the senior loan officer in the Office of Disaster Assistance.
Validation	The indicator is a valid measure of the goal/objective.
Limitation	None.
Verification	No verification procedures exist to ensure that the data are accurate.

## Appendix II: Program Evaluation Plan

Analysis and evaluation are critical aspects of SBA’s corporate management strategies to modernize the Agency. Given shrinking resources and the low level of citizen confidence in the Government’s ability to perform today, the Results Act challenges policymakers, Congressional decision-makers, and program administrators to improve program performance, analyze the results of their decisions, and communicate value-added to the public. This is our goal in implementing the GPRA.

For FY 1999-2000, SBA will use both internal and external evaluations to measure performance, hold managers accountable, and report on results. Evaluation here is used in the broadest sense and encompasses internal performance monitoring, auditing, customer and client survey methodology, electronic solicitation of customer information, GAO and OIG audits and inspections, and classical program evaluation. SBA’s Office of Advocacy also publishes a number of reports on small businesses, including small business ownership, small business growth and dissolution, access to credit and the Federal Procurement market.

Evaluations often rely on surveys and other means of obtaining data that can be a time consuming and costly process. Often one or more of these factors may be missing, making it difficult or impossible to carry out an evaluation study. SBA will be carrying out a number of studies to first *describe* program outputs, impacts, outcomes, and cost effectiveness to assess if an applicable evaluation methodology can be developed and data can be obtained. These reviews are called evaluation assessability studies.

The following evaluation studies will be carried out in FY 2000 and FY 2001:

Year	Short Project Description	Access to Capital	Procurement Opportunities	Business Assistance	Disaster
FY 2000	Develop General Methodology for evaluating SBA program outcomes. It is not easy to measure outcomes and impacts, especially in an environment where many external factors influence observed impacts. This situation makes it important to develop a robust methodology for estimating effects and handling external factors which otherwise might make the analysis invalid. Of special concern are problems of data availability, population controls and estimating the real “stimulus” of the SBA program inputs.	X	X	X	
FY 2000	Conduct evaluation assessability studies of: OSCS, BICS, WBC, SBDC and Microloan program. Many years ago, the Urban Institute demonstrated the value of conducting a pilot evaluation -- so called evaluation assessability -- to determine if the program had goals, if these goals were measurable, if the program outputs could be shown to be relevant and prevalent enough to allow expectations of effects and	X		X	

*SBA Performance Plan FY 2001 – Congressional Submission*

	lastly if a methodology could be developed which would capture the effects.				
FY 2000	Develop Balanced Scorecard for SBA's programs, to include customer and employee satisfaction, financial results, and mission achievement.	X	X	X	X
FY 2000	Do an evaluation assessability study of job creation for 7(a) and 504 programs, using the Census/ Office of Advocacy BITS file containing longitudinal data on small businesses for the years 1989 through 1996.	X			
FY 2000	Evaluate cost effectiveness of Disaster home loan servicing outsourcing pilot for cost effectiveness and efficiency.				X
FY 2000	Measure the Long-term viability of 8(a) firms by systematically examining the outcomes of successful 8(a) program participants.		X		
FY 2000	Evaluate 8(a) Owner Financial Characteristics and Minority Business Performance, Employment Capacity and Sustainability, by examining the association between the financial characteristics of business owners starting a business and subsequent performance in terms of employment characteristics and sustainability.		X		
FY 2000	Identify Failure Propensities among Minority Owned Businesses, through the development of a scoring mechanism for business development by firm age or business development stages.		X		
FY 2000	Conduct HUBZone Benchmark Study to assess the changes in employment and investment in distressed urban and rural communities.		X		
FY 2000	Evaluate the LowDoc and SBAExpress lending programs for cost effectiveness and job creation .	X			

<b>Year</b>	<b>Short Project Description</b>	<b>Access to Capital</b>	<b>Procurement Opportunities</b>	<b>Business Assistance</b>	<b>Disaster</b>
FY 2001	Evaluate 8(a) program outcomes, such as survivability, business mix and growth, using a time series methodology to analyze changes over time for different types of 8(a) clients, e.g., those receiving developmental assistance, those receiving few/many contacts.		X		
FY 2001	Analyze the costs and benefits of the Asset Sales program to SBA and its small business customers.	X			
FY 2001	Analyze SBIC venture capital financing success, describing customers, products and services, growth rate of firms receiving capital, and importance of combining technical assistance with capital.	X			
FY 2001	Evaluate Microloan program for cost effectiveness.	X			

### **Appendix III: Credit Program Performance**

SBA's credit programs are designed to provide small firms with the long- and short-term financing needed to start, maintain, or expand a business. The largest credit program is the 7(a) General Business Loan guaranty program. It provides loans to small businesses unable to secure financing on reasonable terms through normal lending channels. The program operates through private-sector lenders that provide loans guaranteed by the SBA.

The Certified Development Program (504) loan program provides long-term, fixed-rate financing through certified development companies (CDCs) to permit businesses to acquire physical assets to expand or modernize. The Small Business Investment Company (SBIC) program licenses private venture-capital firms to offer debt and equity financing. The Export Working Capital Program (EWCP) and International Trade loans provide capital for small businesses involved in single or multiple export sales. The Microloan program provides through a network of microloan intermediaries, loans up to \$25,000 coupled with technical assistance to the small business borrower.

#### *SBA Credit Program Objectives.*

- Providing capital to small businesses when it is not otherwise available on reasonable terms.
- Focusing capital access on (1) New Markets of the small business community, (2) New Businesses (3) High Growth/High Tech businesses, and (4) export firms.
- Providing improved access for small firms with very small capital needs (up to \$25,000 through microloans), small capital needs of up to \$150,000 (e.g., SBA Low-Doc and SBAExpress), or with larger needs, with guaranties of up to \$750,000 (i.e. 7(a)and 504 loans).
- Increasing credit program efficiency, by reducing administrative costs, improve loan servicing, outsourcing, and relying more on partners.
- Increasing credit program effectiveness (outcomes and public policy goals), i.e., increasing number capital formation, jobs, and sales revenue of SBA clients and improving survivability of small firms.

*SBA's Share of Small Business Financing.* SBA's credit programs represent a relatively small percentage of the outstanding dollar volume of loans by banks and financial institutions to small businesses as is appropriate. Based on data from SBA's Office of Advocacy, the total dollar volume of loans back by SBA guarantees represents approximately 10 percent of total outstanding loans to small businesses.

**SBA share of total outstanding small business loans (in billions of dollars)**

<b>Lender</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Commercial and industrial loans to small firms	\$98	\$105	\$112	\$117
Commercial mortgages to small business	\$66	\$67	\$67	\$71
Finance company loans to small business (est)	\$82	\$75	\$78	\$84
<b>Sum: Outstanding credit</b>	<b>\$246</b>	<b>\$247</b>	<b>\$257</b>	<b>\$272</b>
SBA outstanding guaranteed loans <sup>12</sup>	\$24	\$26	\$29	\$30
SBA guaranties as percent of outstanding credit <sup>13</sup>	9.8 %	10.5%	11.3%	11.0%

Source “A Directory of Small Business Lending in the US Reported by Commercial Banks,” June 1995, June 1996, June 1997, and June 1998. Editions published by the SBA Office of Advocacy.

As the nation’s pre-eminent “gap lender” for entrepreneurs, the SBA’s job is to identify and then fill the credit gap that conventional lenders do not fill. The loans that the SBA guarantees represent the next higher level of credit risk beyond what the banks are willing to take on an unassisted basis.

SBA plays a large and important role in the venture capital market with an estimated 53 percent share of the *number* of the institutional venture capital market financings to small businesses in 1999. The corresponding share for the *dollar* volume of venture capital financings was about 24 percent. SBA fills a small business need for venture capital in the range of \$300,000 to \$5 million.

**SBIC’s Share of the Venture Capital Market**

<b>Performance Measures and Indicators</b>	<b>FY1997/ CY1996</b>	<b>FY1998/ CY1997</b>	<b>FY1999/ CY1998</b>
# Venture Capital Financings by SBICs	1,351	1,566	2,035
# Venture Capital Financings by Non-SBICs	2,136	1,821	1,824
<b>Total Number of Financings</b>	<b>3,487</b>	<b>3,418</b>	<b>3,859</b>
<i>SBIC percent of total number of financings</i>	39%	46%	53%
\$ of Venture Capital Financings by SBICs	\$2.1B	\$2.9B	\$3.9B
\$ Venture Capital Financings by Non-SBICs	\$10.1B	\$11.2B	\$12.5B
<b>Total Dollar Amount of Financings</b>	<b>\$12.2B</b>	<b>\$14.1B</b>	<b>\$16.4B</b>
<i>SBIC percent of total of dollar amount of financings</i>	17%	21%	24%

Source: For non-SBICs, the calendar year 1997 and 1998 data come from a survey by Venture One of San Francisco. For non-SBICs, the calendar year 1996 data come from a study by Coopers & Lybrand, which may include some larger SBICs.

<sup>12</sup> Includes guaranteed 7(a) loans, *LowDoc*, and 501-504 loans. Includes loans of up to \$1 million.

<sup>13</sup> The estimate is an overestimate as credit provided by non-bank lenders is underestimated partly because of the rapid growth rate of credit card usage during the last couple of years and the securitized pool of loans in the private sector is not included.

**(1) Loan and Investment Volume**

The primary output of the SBA programs consist of transactional volumes. Examples are: the number and dollar value of guaranteed loans, disaster loans and export loans; loans to specific borrower groups, customer satisfaction (i.e., the share of lenders satisfied with SBA products and services and the share of borrowers satisfied with their SBA guaranteed loan, its terms and the services of the lender providing the loan).

The table below shows that the number of loans and investments and dollar volumes have increased for SBIC's, 7(a) and CDC/504 loans.

**Number of Approved Loans and Gross Dollar Loan Approvals by Loan Program**

Year	7(a)		Export Loans		SBIC*		CDC 504		Microloans	
	#	\$	#	\$	#	\$	#	\$	#	\$
1999	43,639	10.2B	429	159,846	3,096	4.2B	5,280	2.0B	1,434	16.7M
1998	42,265	9.0B	431	169,209	3,456	3.2B	4,930	1.8B	1,195	12.4M
1997	45,288	9.5B	447	158,267	2,731	2.4B	4,131	1.4B	1,115	11.1M
1996	45,845	7.7B	344	116,380	2,107	1.6B	6,884	2.5B	1,308	12.6M
1995	55,597	8.3B	338	123,964	2,221	1.2B	4,509	1.6B	1,543	14.7M
1994	36,480	8.2B	150	72,242	2,348	1.0B	3,873	1.4B	1,578	N/A

\* For SBICs these are financings, i.e., equity and debt securities in addition to loans. Financings are made by the SBICs to the small business concerns.

*Disaster Loans.* The next table shows the number of loans and dollar volume for disaster loans to homeowners and businesses. The number of home and business loans have decreased compared with the 1995-1997 period.

**Number of Approved Loans and Dollar Loan Approvals for Disaster Loans**

Year	Home loans		Business loans		Disaster total loans	
	#	\$	#	\$	#	\$
1999	28,811	534M	7,365	402M	36,176	936M
1998	24,374	432M	5,780	360M	30,154	728M
1997	38,027	627M	11,488	511M	49,515	1,138M
1996	27,542	475M	10,280	512M	37,822	988M
1995	34,190	674M	10,851	543M	45,041	1,217M
1994	99,181	2,466M	26,680	1,692M	125,861	4,159M
1993	42,597	862M	16,047	811M	58,644	1,673M
1992	15,263	351M	8,143	443M	23,417	795M

The next four tables provide descriptive measures by loan recipient groups (minorities, women, veterans, etc) for the four major credit programs. The measures for the 7(a) program in the next table document minor changes in the proportion of loans to minorities, women, veterans, start-ups, and firms with less than five employees. .

**Descriptive measures for 7(a) Guaranteed Loan Program**

Year	% loans to minorities	% loans to women	% loans to veterans	% loans less than \$100 000	% loans to high tech <sup>14</sup> firms	% loans to start-up firms*	% loans to firms with <4 employees
1999	28	24	13	47	N/A	32	
1998	24	24	13	53	2.0	36	41
1997	22	22	14	54	2.1	34	41
1996	20	23	15	62	1.9	33	40
1995	19	24	15	65	1.9	32	40
1994	19	20	16	37	2.1	24	33
1993	16	14	15	30	2.2	21	30
1992	15	14	15	31	2.2	21	N/A

Source: SBA loan data \*) The definition of start-up is firms less than or equal to 6 months old before 1997 and firms less than or equal to 24 months old since 1997

The 504 loan program (i.e. long-term, fixed-rate financing for major fixed assets), does not exhibit any great changes or trends regarding share of loans under \$100,000 and loans going to minorities, women, veterans, start-ups, and firms with fewer than five employees.

**Descriptive Measures for the 504 Loan Program**

Year	% loans to minorities	% loans to women	% loans to veterans	% loans less than \$100 00	% loans to high tech firms <sup>15</sup>	% loans to start-up firms*	% loans to firms with <4 employees
1999	17	15	9	7	N/A	18	
1998	15	17	9	8	2.1	21	11
1997	17	17	8	9	2.4	21	11
1996	15	14	7	8	2.3	20	9
1995	15	14	7	9	2.6	19	9
1994	12	12	7	10	2.4	16	8
1993	10	10	5	11	3.6	16	7
1992	9	10	6	11	3.3	17	N/A

Source: SBA loan data

\*) The definition of start-up is firms less than or equal to 6 months old before 1997 and firms less than or equal to 24 months old for 1997

The measures for the SBIC program document a strong increasing trend in dollars invested and net private capital invested.

**Descriptive Measures for SBIC Program**

<sup>14</sup>Definition based on work done for the Office of Technology Assessment and National Science Foundation (NSF). Defines high-technology industries as industries with the highest direct R&D expenditures per dollar sales. See Bruce Phillips, "The Increasing Role of Small Firms in High-Technology Sector: Evidence from the 1980's," Business Economics, Jan. 1991.

<sup>15</sup> Op cit.

Year	New SBICs licensed	New Private capital licensed	Number of Active SBICs	Dollars Invested	Total number of financings	% Initial financings in startups (<24 month old) of total financings	% Investments in 50% women-owned firms of total financings	% Investments in 50% minority-owned firms of total financings
1999	53	\$747M	353	\$4.2B	3,096	51	6	17
1998	31	\$578M	318	\$3.2B	3,456	55	6	26
1997	33	\$449M	300	\$2.4B	2,731	26	8	26
1996	22	\$161M	282	\$1.6B	2,107	37	N/A	N/A
1995	20	\$307M	277	\$1.2B	2,221	39	N/A	N/A
1994	35	\$520M	280	\$1.0B	2,348	40	N/A	N/A
1993	4	\$10M*	280	\$0.8B	1,992	37	N/A	N/A

Source: Division data processing report

\*) Year before participating securities implemented.

The next table documents an increase in the proportion of Microloans to women- and minority owned firms and a great increase in the total number of loans as well as loans to start-ups.

### Descriptive measures for Microloan program

Year	New Intermediaries	Active Intermediaries	Technical Assistance Dollars to Intermediaries*	Number of Microloans made by Intermediaries	Dollar amount of Microloans made by Intermediaries	Number of Loans to start-ups	% Loans to 50% women-owned firms	% Loans to 50% minority-owned firms
1999	N/A	130	\$19.0M	1,434	16.7M	543	49	47
1998	13	117	16.4M	1,092	12.4M	35	45	41
1997	3	106	10.9M	1,115	11.1M	N/A	51	39
1996	5	103	11.9M	1,308	12.6M	39	46	42
1995	0	103	13.4M	1,543	14.7M	34	42	43
1994	10	93	8.6M	1,578	17.2M	41	43	37
1993	59	N/A	23.2M	663	6.9M	40	44	33

### (2) Outcome Measures.

Federal Government credit programs have an economic as well as a social purpose.

For SBA, it is important to be able to document whether SBA's credit programs are achieving their intended purpose, i.e. contributing to the creation, survival, and growth of small business, which contributes to the growth of the economy. Many needs must be met to achieve success in small business, including capital, trained personnel, products, and market access. SBA serves several of these needs through providing credit, entrepreneurial assistance, and improved access to information and technical assistance. These are traditionally described as outputs, i.e., goods and services delivered.

While it is difficult to measure the impact of SBA guaranteed loans and assistance on the performance of borrower firms in terms of net new jobs, sales and taxes, the following outcome measures are relevant to credit programs:

- Increased capital formation in the form of new entrepreneurs, new owners, new companies or enterprises.
- Increased percentage of borrowers still in business five years after receiving credit,
- Increased number of jobs, sales revenue and taxes paid by SBA’s credit clients,
- Increased export sales as a consequence of export loans.

SBA’s Disaster Program also has a strong social purpose. It is the Federal Government’s disaster bank. The program helps homeowners, businesses to recover from disasters. It provides a critical source of economic stimulation in disaster-ravaged communities, helping to spur employment and stabilize tax bases. SBA has not yet developed specific outcome measures for this program.

CDC/504 Job Creation. The estimate of jobs created/retained every year is based on the dollar amount of debentures sold. There is a time lag between approvals and closings because most of these projects include construction for which the debenture is the take-out financing. Firms are required to provide the CDCs with annual reports that include job data. Based on this information, a ratio of one job per \$12,855 in debentures has been estimated.

SBIC Job Creation. The National Association of Small Business Investment Companies and the Investment Advisory Council have each conducted a study which developed the number of jobs created through Venture Capital investment.. Taking an historical average of the results of these two surveys, SBA estimates that \$33,317 invested results in one new job.

Microloan Job Creation. SBA maintains a database on jobs created/ maintained after an individual or firm has received a microloan. Program performance since October 1993 indicates that 1.6 jobs are created or retained per loan with an average loan size of \$10,013.

Estimates of annual job creation by the SBIC, 504, Microloan, export loans and Disaster business assistance loans are shown in the table below .

	<b>FY1997</b>	<b>FY1998</b>	<b>FY1999</b>	<b>FY2000</b>	<b>FY 2001</b>
Job creation: SBIC	74,000	89,000	117,000	126,000	135,000
Job creation:/retention: 504	127,587	113,966	113,966	156,519	197,115
Job creation:/retention: Micro-loan	1,784	1,745	1,800	3,300	3,900
Jobs created by Export loans	5,000	5,340	5,040	6,940	12,640
Jobs maintained: Disaster Bus Loan	N/A	N/A	55,610	TBD	TBD

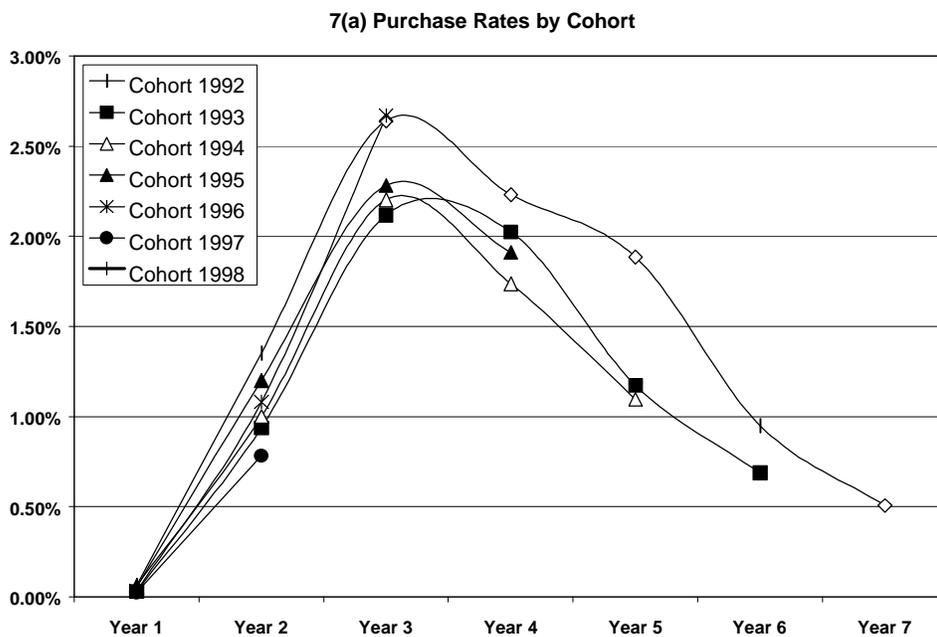
**(3) Financial Measures.**

This section uses three different types of measures: (1) loan default (purchase) and recovery curves, (2) portfolio measures, and (3) cohort measures. These measures seek to implement recommendations by the Federal Credit Policy Working Group of how to measure credit program performance.

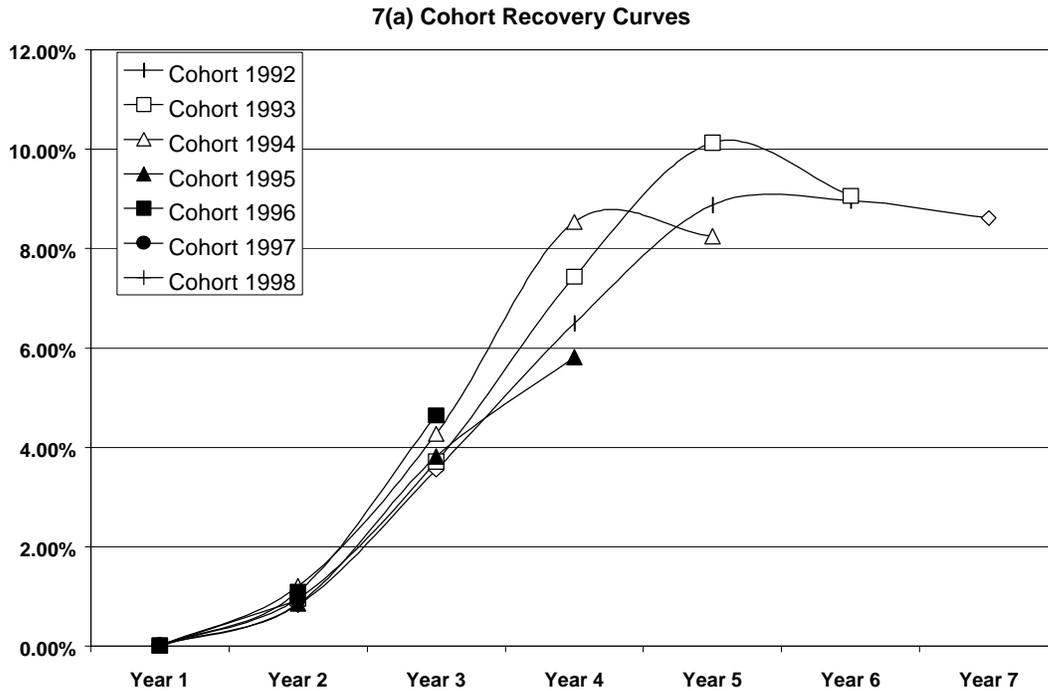
The first type of measure is reflected in the actual default and net recovery (funds recovered net of costs) curves. These measures are important as they are major components of subsidy rates and represent factors the agency can affect to some extent.

Portfolio measures, provide an overview of the status of the portfolio at the end of the fiscal year and can easily be analyzed for overall performance trends. Cohort measures, provide data for analysis of the performance of the individual cohorts up through FY1998.

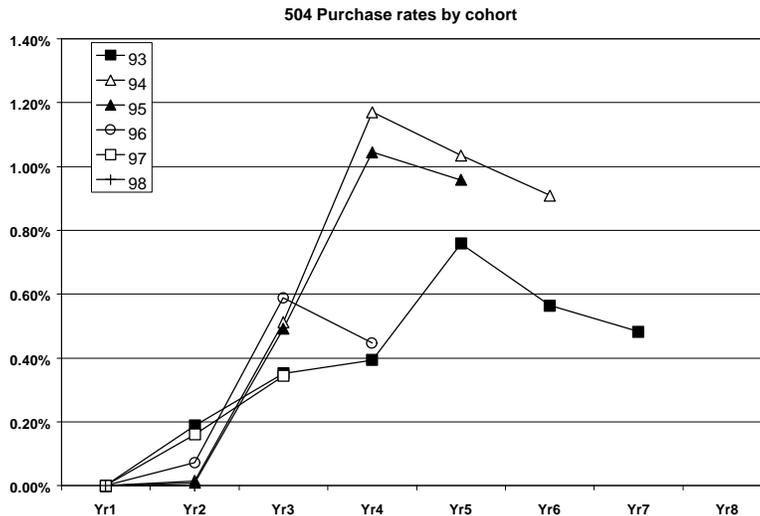
The next chart shows the purchase curve by cohort for the 7(a) program. The annual purchase rate is the annual defaulted guaranteed loans in a cohort purchased from the lender compared to the total cohort dollar volume. Purchase curves have improved substantially between 1992 and 1993, after which performance has been stable.



The next graph shows the cohort recovery curves for the 7(a) program. The recovery rate for guaranteed loans is the amount of annual recoveries (monies recovered due to loans sold or re-scheduled) in a cohort expressed as a percentage of total cohort purchases. The graph indicates similar performance for all cohorts .

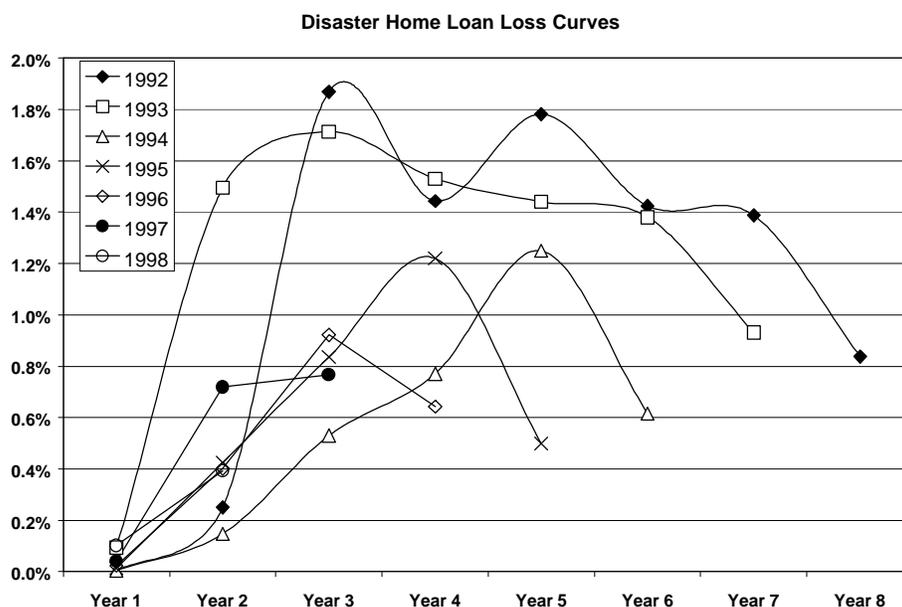


The cohort purchase curves for the CDC/504 program. are shown in the next graph. The graph indicates continuous improvement since 1995.



The Disaster loan program is a direct loan program. Instead of purchase or recovery rates, loss rates are used. These are defined as the charge-offs in a given year divided by the disbursed loan amount for the cohort. Disaster loan cohort loss curves are shown in the next

two graphs.. Performance has improved markedly for home loans beginning with the 1994 cohort.



The disaster business loans loss curves differ markedly from those for disaster home loans. Performance has been stable since FY 1994.

The following table reflects portfolio status at the end of each fiscal year for SBA’s loan programs including disaster loans. The table shows that 7(a) health is relatively stable. The currency rates for FY 1997 are not representative, as there were problems with the monthly reporting system. The currency rate for 504 loans is improving. Microloans exhibit healthy portfolio rates and disaster rates are relatively stable.

Loan type	Fiscal Year	Loans out-standing	Current (30 days)		Outstanding Deferred		Past Due and Default (>30 days)		In liquidation	
			\$B	%	\$M	%	\$M	%	\$M	%
7(a)	1999	22.7	20.4	90%	50.0	0.2	1075	3.7	1196	5.3
	1998	22.8	20.3	89.0	90.0	0.4	1255	1.8	1168	5.1
	1997	22.6	17.2	76.0	84.7	0.4	4205	18.6	1106	4.9
	1996	21.1	19.1	90.4	60.5	0.3	794	3.8	1165	5.5
	1995	20.5	18.5	90.0	58.7	0.3	712	3.5	1188	5.8
	1994	17.6	15.8	89.5	60.9	0.4	535	3.0	1181	6.7
504	1999	8.4	8.3	98.4	2.0	0.0	15	0.2	152	1.8
	1998	7.6	7.5	97.9	3.0	0.0	15	0.2	145	1.9
	1997	6.7	6.5	97.4	6.0	0.1	28	0.4	147	2.2
	1996	5.4	5.3	96.8	5.3	0.1	12	0.2	155	2.9

*SBA Performance Plan FY 2001 – Congressional Submission*

	1995	4.3	4.1	95.5	3.3	0.1	8	0.2	86	2.0
	1994	3.6	3.4	94.8	2.1	0.1	9	0.3	92	2.6
		\$M	\$M	%	\$M	%	\$M	%	\$M	%
Micro	1999	51.0	50.0	98.0	0	0	2.0	3.9	0	0
loans	1998	44.5	42.0	94.4	0	0	2.0	4.3	0	0
	1997	43.2	41.5	96.0	0	0	0.9	2.0	0	0
	1996	40.9	39.1	95.6	0.4	1.1	1.3	3.2	0	0
	1995	34.6	34.0	99.3	0	0	0.3	0.7	0	0
	1994	27.5	27.5	100	0	0	0	0	0	0
		\$B	\$B	%	\$M	%	\$M	%	\$M	%
Disaster	1999	6.8	5.9	87.5	82	1.2	294	4.3	468	6.9
	1998	6.9	6.0	86.5	97	1.4	310	4.5	529	7.7
	1997	7.2	6.1	84.9	136	1.9	441	6.2	505	7.1
	1996	7.0	6.0	85.7	152	2.2	439	6.3	405	5.8
	1995	6.7	6.0	88.3	116	1.7	377	5.6	293	4.4
	1994	5.4	4.8	88.7	117	2.1	229	4.2	269	4.9

Source: SBA Mars 391A reports: SBA share , Dollar volume

\*) Preliminary data

**Subsidy Rates.** The actual subsidy rates for each cohort is shown in the table below. Most of the rates have been reduced due to reductions in purchase rates, improvements in recovery rates, and increases in fees charged.

Program	FY1993	FY1994	FY1995	FY1996	FY1997	FY1998	FY1999	FY2000	FY2001
7(a)	5.21	2.15	2.74	1.06	1.93	2.14	1.39	1.16	1.24
504	0.54	0.51	0.57	0.00	0.00	0.00	0.00	0.00	0.00
SBIC Debenture	15.40	16.25	14.65	15.46	3.19	1.94	1.38	0.00	0.78
SBIC Part Sec	N/A	9.00	8.90	9.00	3.29	2.20	2.19	1.80	1.31
New Market Venture Cap							N/A	15.0	14.44
7(a) Delta	N/A	N/A	4.85	3.15	4.57	3.36	2.08	1.83	1.83
504 Delta	N/A	N/A	1.20	0.57	1.01	0.72	1.29	1.13	0.89
Microloan Dir	15.95	10.15	19.61	15.69	8.86	10.31	9.54	8.54	8.95
Microloan Gty	N/A	N/A	11.77	11.95	8,21	8.15	7.97	8.32	8.37
Disaster	20.58	22.99	31.54	28.08	20.02	23.46	22.36	22.20	17.46

Source: CFO as of Feb.2000

## **Appendix IV: Cost Allocation**

To manage for results, SBA recognizes the need for good cost accounting. Based on discussions with other CFO agencies, we have learned that very little is being done. Agencies typically use limited survey instruments to allocate costs. Therefore, in following this practice, SBA's Office of the Chief Financial Officer (OCFO) hired a contractor to conduct a cost allocation study for 1997 programs and activities. This study was completed in mid-FY 1998 and again updated for 1998 costs in early FY 1999. These studies surveyed program and financial managers across SBA to determine approximate usage of time allocated against annual administrative costs to obtain the approximate cost of various SBA programs and activities. Cost surveys have become a preferred methodology for activity based cost accounting because they are efficient and far less costly than detailed payroll reporting of program cost data.

In Fiscal Year 1999, SBA purchased the OROS Activity Based Costing (ABC) System to maintain cost data for the Agency. For FY 1998 and FY 1999 cost data, we developed an interface process to download cost data from the core administrative accounting system. We also improved our survey methodology for FY 1999 to include additional program activities and to survey all agency field and central offices on their program costs. In addition, the cost data download was modified to include more detailed information for analysis. The OROS Activity Based Costing (ABC) system will be used again in FY 2000 and we will continue to perfect the ABC methodology to improve the accuracy of program cost information. We believe that this study methodology, just completed for FY 1999, is the most efficient method of meeting this need, and provides a reasonable estimation of program costs on an annual basis. Therefore, we plan to continue with this methodology into the future. Finally, SBA has produced new financial statements related to cost accounting (e.g., Statements of Net Costs, Budget and Financing).

The Agency's Systems Modernization Initiative will implement an integrated financial management and accounting system (IFMAS) within SBA in FY 2002. The IFMAS will provide a more seamless interface with OROS for cost accounting data in the future. Also, SBA's systems modernization will improve the program data available for use with OROS cost data to develop unit costs for the Agency's programs that are required under the FASAB cost accounting guidance and for GPRA results reports.

Milestones are:

- Produce FY 2000 cost reports having enhanced GPRA data using the OROS ABC System by 12/31/00.
- Core Accounting System implemented by 10/1/01.
- Cost Accounting System expanded and refined along with implementation of new program systems by 10/1/02 to 10/1/04.

## **Appendix V: OIG FY 2001 Performance Plan**

### **VISION**

Our vision is to improve SBA's programs by identifying key issues facing the Agency, ensuring that corrective actions are taken, and promoting a high level of integrity. We will focus on serving the needs of our customers and stakeholders and on safeguarding SBA resources from waste, fraud, and abuse. We will also provide a work environment in the OIG that is conducive to excellent performance by our employees.

To accomplish this vision, we will –

- Focus on significant, systemic issues drawn from the cumulative results of our reviews and cases.
- Enhance our expertise in SBA's major programs to help us identify priority issues and plan our reviews and casework.
- Become more proficient in the use of information technology, research methods, data analysis, and investigative techniques.
- Encourage creative thinking within our office and the development of synergistic teams that combine various disciplines.
- Achieve superior results by emphasizing corrective actions that will improve SBA operations, combat fraud, and eliminate program vulnerabilities.

### **OIG MISSION**

Under the authority and in fulfillment of the Inspector General Act of 1978, as amended (IG Act), the Inspector General is committed to supporting the Small Business Administration (SBA) in its statutory mission to maintain and strengthen the Nation's economy by aiding, counseling, assisting, and protecting the interests of small businesses and by helping families and businesses recover from disasters.

### **Annual Plan Alignment**

With the Inspector General Act. The Office of Inspector General (OIG) is an independent and objective oversight office created within the SBA by the IG Act of 1978. Inspectors General (IG) are principally charged with detecting fraud, waste, and mismanagement in agencies' programs and operations; conducting audits and investigations; and recommending policies to promote economy efficiency and effectiveness. OIGs also re-

view existing and proposed legislation and regulations and make appropriate recommendations, and keep the Agency head and Congress informed.

The goals and objectives of the Strategic and Annual Plans reflect the IG's statutory mission. OIG implementation of the Government Performance and Results Act (Results Act) extends our commitment to a results-oriented Government. For many years, OIG has provided regular and frequent updates to customers and stakeholders on the monetary and non-monetary results of OIG reviews and investigations. OIG Annual Plans and Performance Reports will strengthen our commitment to performance-based management.

With SBA's Program Initiatives, and the OIG Strategic Plan. In 1953, the Congress created SBA to aid, counsel, assist, and protect the interests of small businesses. The OIG's Strategic and Annual Plans reflect the OIG commitment to supporting SBA's purpose.

The FY 2001 Annual Performance Plan builds on the three strategic goals and related supporting objectives found in the OIG FY 2001-2006 Strategic Plan. The focus of the Strategic Plan is to increasingly direct our efforts to

- financial management systems
- information systems and computer security
- lender oversight
- other selected high risk issues
- new Agency initiatives

OIG also places a high priority on responding to requests from SBA management and congressional committees and providing consultative assistance where appropriate.

In FY 2001, OIG will assist SBA in identifying and mitigating emerging vulnerabilities as SBA modernizes and changes its business practices, work systems, and procedures.

### **Performance Measurement Limitations**

OIG has developed a mix of output, intermediate outcome, and outcome measures to assess the effectiveness, quality, relevance, and timeliness of our work. Nevertheless, the OIG measures are subject to a number of external factors. Some are predictable, such as mandatory statutory requirements. Others are unpredictable, such as the budget, or the discovery of individual cases of fraud with a potential to yield such substantial awards or settlements in a single year that they cannot be easily compared to other work. Moreover, it often takes several years after the completion of work on a given audit, inspection, or investigation for its outcome to be final and its results known.

In addition, the ultimate authority in implementing OIG recommendations and improvements rests with the Agency. OIG also cannot control the results of judicial or administrative proceedings. To mitigate these factors, OIG will expand on-going efforts with SBA's policy and program officials to underline the importance of OIG findings and encourage the implementation of OIG recommendations. Likewise we will work closely with judicial and administrative officials to ensure that criminal and administrative cases are appropriately handled. Within these parameters, OIG strives to improve the performance of SBA programs and operations and deter fraud and other forms of misconduct.

### **Data Collection and Validation**

As indicated in the FY 2001-2006 Strategic Plan, in FY 1998 OIG began enhancing Management Information System (MIS) by integrating it with other types of software, establishing an Executive Query System that will link all OIG division databases, and making the system secure.

As appropriate, quantitative data will be collected and stored in the MIS. Much of the quantitative data proposed has been collected for several years. For some of the measures, baselines will need to be established in FY 2000. Monetary results will be reported at the time of management decision in accordance with OIG legislative requirements. SBA's Office of the Chief Financial Officer tracks actual collections. The management of each OIG division will be responsible for collecting, verifying, and validating of all data in the Annual Performance Report. All qualitative data will be thoroughly documented by the appropriate divisions. The data will be reviewed quarterly and consolidated by the Management and Policy Division. OIG believes that the data is reasonably accurate.

## **FY 2001 ANNUAL PERFORMANCE PLAN GOALS, OBJECTIVES, PERFORMANCE GOALS, AND RESOURCES**

### **Goal 1 Improve the economy, efficiency, and effectiveness of SBA programs and operations.**

*FY 2001: Using the Government Performance and Results Act, the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal management control process, and other evaluation methods as a framework, FY 2001 OIG audits, inspections, and investigations will target financial management, information systems and computer security, lender oversight, other selected high risk issues, and new Agency initiatives.*

A major focus of OIG efforts in FY 2001 will be the challenges of SBA modernization efforts and SBA's increasing reliance on banks and other lenders to perform loan management functions previously reserved to the Government. OIG must be prepared to identify and react to potential problems before they become large-scale and the resulting publicity erodes public confidence in SBA operations.

OIG will provide oversight to SBA's key non-financial programs. For example, OIG will continue its work to help ensure that the 8(a) program achieves its goals and meets program participant needs. New agency initiatives such as Historically Underutilized Business Zones (HUBZones), asset sales, implementation of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) system of internal controls, and targeting of "new" markets will require OIG oversight.

SBA is implementing a major modernization effort in information systems development. OIG will selectively assess whether there are adequate controls to ensure the reliability of the Agency's computer-processed data and the security of its information systems.

OIG will also review proposed legislation, regulations, standard operating procedures, and other issuances for vulnerabilities and risks and will fulfill its other legislatively mandated responsibilities including providing an opinion on SBA's financial statements, and compliance with laws and regulations.

Although the majority of staff and other resources used to accomplish Goal 1 will come from the Auditing and Inspection and Evaluation Divisions, the Investigations, Management and Policy, and Counsel Divisions will contribute also. Approximately 43.7 percent of total OIG FY 2001 resources will be dedicated to Goal 1.

<b>Objective 1.1 Conduct reviews of major program activities, with emphasis on high risk and high priority areas, and assess whether SBA can be reasonably assured that its programs are meeting their goals in an economical, efficient, and effective manner.</b>			
	<b>FY 1999 Actual</b>	<b>FY 2000 Estimate</b>	<b>FY 2001 Estimate</b>
<b>Output Performance Goals</b>			
Percentage of all recommendations on major program activities accepted by management or otherwise resolved within 6 months of report issuance	86%	86%	86%
Narrative assessment of OIG contribution to Agency task forces			
<b>Intermediate Outcome</b>			
Percentage of recommendations from reviews of major program activities implemented or corrective actions taken by management within the timeframe agreed by OIG and management	N/A*	N/A*	N/A*
*The procedures for capturing this intermediate outcome are still being developed.			

<b>Outcome</b>
Identification and implementation of corrective actions by the Agency of the major management and operating problems in SBA

<b>Objective 1.2      Audit contracts, grants, surety claims, and defaulted loans to determine whether the costs claimed are allowable.</b>			
	<b>FY 1999 Actual</b>	<b>FY 2000 Estimate</b>	<b>FY 2001 Estimate</b>
<b>Output Performance Goals</b>			
Percentage of all recommendations in audits of contracts, grants, surety claims, and defaulted loans accepted by management or otherwise resolved within 6 months of report issuance	95%	95%	95%
Percentage of dollars in questioned costs, funds to be put to better use, settlement recoveries, and cost corrective measures in audits of contracts, grants, surety claims, and defaulted loans accepted by management or otherwise resolved within 6 months of report issuance	97%	97%	97%
<b>Intermediate Outcome</b>			
Percentage of all recommendations in audits of contracts, grants, surety claims, and defaulted loans implemented by management within the timeframe agreed by OIG and management	N/A*	N/A*	N/A*
* The procedures for capturing this intermediate outcome are still being developed.			

**Goal 2 Prevent and detect fraud and abuse, and foster integrity in SBA programs and operations.**

FY 2001: Among the OIG's mission responsibilities, a high priority is placed on combating and preventing both criminal and civil wrongdoing in SBA programs and operations. A high level of integrity in SBA's applicants, lenders, and employees is a critical factor in the proper administration of its programs. While the Investigations Division has the primary responsibility for OIG efforts to prevent fraud and abuse, in fact, all OIG divisions directly contribute to fostering integrity in SBA programs and operations. For example, many audits originate with referrals from Investigations on fraud/abuse/integrity cases that do not warrant prosecution. Much of the OIG effort in the area of fraud and abuse is reactive. It is anticipated that the Agency's new initiatives will begin to surface additional allegations of fraud by FY 2001.

OIG also will seek to be more proactive through such activities as participating in the development of information systems. Traditionally the Investigations Division has relied on SBA's personnel to refer allegations concerning fraud, abuse, and mismanagement in SBA programs. As the roles of SBA's employees change in a modernized SBA, however, a steady but diminished stream of allegations is anticipated because employee access to information used to determine program eligibility will be reduced. OIG Integrity and fraud awareness programs will be restructured to equip SBA employees to perform their new or expanded lender oversight role. OIG will develop new educational programs to educate the lending community concerning their responsibilities to report allegations of wrongdoing and heighten their awareness of the role of the OIG. Outreach will include attending and/or participating in lender related conferences and other activities and educating non-SBA employees of the more than 8000 participating, certified, and preferred SBA lending partners. In addition, OIG will continue to conduct a comprehensive employee integrity assurance program.

In addition, as resources are available, OIG will conduct studies of the underlying opportunities or conditions that foster fraud and abuse, and recommend ways that programs and operations can be enhanced to detect vulnerabilities early and to prevent fraud and abuse.

The Investigations Division will provide the majority of the staff and other resources necessary to accomplish Goal 2. In addition, goal achievement will depend on the contributions of the Auditing, Inspection and Evaluation, Management and Policy, and Counsel Divisions. Approximately 42.9 percent of OIG FY 2001 resources will be dedicated to Goal 2.

<b>Output Performance Goals</b>			
Percentage of criminal cases referred that are accepted by the U.S. Attorneys	N/A**	50%	50%
Percentage of Affirmative Civil Enforcement (ACE) cases referred that are accepted by U.S. attorneys	N/A**	35%	35%
<b>Intermediate Outcomes</b>			
Percentage of monetary recoveries to actual losses	20%	20%	20%
Percentage of closed cases resulting in criminal, civil, or administrative actions	32%	33%	35%

\*\* Investigations' current management information system does not record when a referral, either criminal or ACE, is "accepted" by a Federal prosecutor. The new MIS should provide that capacity in FY 2000.

<b>Objective 2.2 Prevent and deter fraud and abuse, and other misconduct through studies and programs for employees and participants.</b>			
	<b>FY 1999 Actual</b>	<b>FY 2000 Estimate</b>	<b>FY 2001 Estimate</b>
<b>Output Performance Goals</b>			
Number of SBA employees attending integrity briefings	499	300	400
Number of private sector partners attending integrity briefings	150	250	250
<b>Outcome</b>			
Percentage of target population reached by integrity briefings	8%	7%	8%

<b>Objective 2.3 Preclude persons not of good character from participating in SBA programs and employment.</b>			
	<b>FY 1999 Actual</b>	<b>FY 2000 Estimate</b>	<b>FY 2001 Estimate</b>
<b>Output Performance Goal</b>			
Narrative assessment of the work of the Office of Security Operations in conducting criminal background checks of SBA program partners and participants, and administering SBA applicant/employee/contractor background investigations			
<p><b>Outcome/Impact for Goal 2:</b> SBA internal policies, procedures, and controls are strengthened and provide a deterrence for future wrongdoing. OIG activities lead to changes in SBA practices that effectively reduce fraud and abuse, and promote the integrity of SBA programs and operations.</p> <p><b>Methodology for Measuring Outcome:</b> OIG will assess the practicality and feasibility of developing evaluations of major investigative cases and related audits and inspections to estimate the impact on the prevention and deterrence of fraud, and abuse. In addition, as SBA develops and verifies the accuracy of its performance measurement system, it may be possible to use some of the information to indicate OIG effectiveness.</p> <p><b>Limitations:</b> Evaluation efforts will be constrained by a lack of information on the extent of actual fraud and other misconduct in SBA's programs and operations.</p>			

**Goal 3      Ensure the economical, efficient, and effective operation of OIG.**

FY 2001: Over the past few years, SBA has transformed its operations from a hands-on delivery system to one in which SBA places greater reliance on the experience and expertise of its lending partners to perform day-to-day tasks related to loan underwriting, disbursement, servicing, and liquidation. This outsourcing, as well as modernization efforts and new initiatives, have placed increasing demands on OIG to work more efficiently. To enhance the production of timely, quality work products, OIG will review staff development, and work processes and procedures to make the best use of staff time and resources. Emphasis will be placed on providing staff with the necessary tools, services, and communications channels and on refining programs for recognizing, rewarding, and retaining highly productive staff.

In developing our annual operating plans, OIG will closely cooperate with SBA management to identify areas for in-depth review. OIG will seek to be more proactive in evaluating SBA's programs, management structure, and administrative systems, and develop work products that provide input or feedback to SBA management on an expedited basis. Maintaining ongoing liaison with Agency officials (both headquarters and field), key congressional committees, the Office of Management and Budget, the President's Council on Integrity and Efficiency, and others as appropriate is key to effectively accomplishing the OIG mission. We will continue to identify and share the knowledge/experience of individual staff members across OIG organizations.

OIG will complete an annual plan--based on current information from strategic plans, budget, legislative and program development, previous reports, external sources, and in consultation and coordination with customers and stakeholders--that identifies high-priority issues for OIG review. As a part of the planning process, OIG will develop a matrix of programs/functions and COSO components and objectives (e.g., reliable financial statements, compliance, and efficient and effective operations), and assign a rating to each unit indicating whether there is reasonable assurance, partial assurance, or little assurance that SBA programs are meeting their goals in an efficient and effective manner.

As with the other two OIG goals, although the staff and other resources necessary to accomplish Goal 3 will come primarily from one division—Management and Policy--the Auditing, Inspection and Evaluation, Investigations, and Counsel Divisions are also key to accomplishing the objectives of this internal operating goal. Approximately 13.4 percent of OIG FY 2001 resources will be dedicated to Goal 3.

<b>Objective 3.1 Provide the tools, services, and supportive work environment necessary to improve employee productivity.</b>			
	<b>FY 1999 Actual</b>	<b>FY 2000 Estimate</b>	<b>FY 2001 Estimate</b>
<b>Output Performance Goals</b>			
Percentage of staff that received the training established by OIG for their career needs	N/A*	N/A*	N/A*
Percentage of employees provided the IT products necessary to do their jobs, as established by the OIG	N/A**	N/A**	N/A* *
*Training requirements and standards for measuring this goal will be developed in FY 2000 **IT requirements and standards for measuring this goal will be developed in FY 2000			
<b>Intermediate Outcomes</b>			
Percentage of employees satisfied or very satisfied in annual employee surveys	N/A*	N/A*	N/A*
Achievement of unqualified opinions on audit's quality controls by external peer reviews	N/A**	N/A**	N/A* *
*Standards for measuring this goal and the survey instrument is to be developed in FY 2000 **Peer reviews are conducted every three years. The last one was conducted in 1997 and the next one is in 2000.			
<b>Objective 3.2 Communicate and foster cooperation with all stakeholders, customers, and interested parties.</b>			
<b>Output Performance Goal/Intermediate Outcome</b>			
Narrative assessment that may include anecdotal results of ongoing contacts with customers and stakeholders, OIG work on PCIE and interagency projects, and/or customer satisfaction surveys			
<b>Objective 3.3 Develop and maintain a planning process that will provide for effective monitoring of operations and identify opportunities for improvement.</b>			
<b>Output Performance Goal/ Intermediate Outcome</b>			
Narrative assessment of the results of the OIG planning process			

**Outcome/Impact for Goal 3:** An OIG staff that is fully supported with the tools, services and direction necessary to be economical, efficient and effective, and works cooperatively and in a timely manner with customers and stakeholders.

**Methodology**

An analysis of the performance goal results in each Annual Performance Report (beginning with the FY 2001 Report) should indicate if OIG is operating economically, efficiently, and effectively.

**FY 1999**

**Office-Wide Dollar Accomplishments**

Potential Investigative Recoveries and Fines	\$10,419,182.00
Management Avoidances As a Result of Investigations and Name Checks	\$28,382,286.00
Disallowed Cost Agreed to by Management	\$2,322,780.00
Recommendations That Funds Be Put to Better Use Agreed to by Management	\$8,929,983.00

**Auditing Division Products**

Reports Issued	\$26.00
Number of Recommendations Made	\$103.00
Disallowed Cost Agreed to by Management	\$2,317,780.00
Recommendations That Funds Be Put to Better Use Agreed to by Management	2929983

**Inspection & Evaluation Division Products**

Reports Issued	2
Number of Recommendations Made	23

**Investigations Division Products**

Cases Closed	138
Indictments	44
Convictions	53
Potential Investigative Recoveries and Fines	\$10,419,102.00
Management Avoidances:	\$28,382,286.00
Investigation Cases	0
Name Check Program	\$28,382,286.00
Number of Integrity Briefings	12

**Legal Counsel Division Products**

Number of Reviews of Proposed Legislation, Regulations, Standard Operating Procedures, and Other SBA Issuances	241
Number of FOIA Responses and Other Disclosures	26
Number of Subpoenas Issued	86

**Management and Policy Division**

Number of External Reports Issued	19
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\* Product outputs are subject to such sharp fluctuations each year, meaningful performance targets cannot be established

## Appendix VI: Summary of Performance Measures

<b>Mission</b>	
Maintain and strengthen the Nation’s economy by aiding, counseling, assisting, and protecting the interests of small businesses and by helping families and businesses recover from natural disasters	
<b>GOAL I: HELP SMALL BUSINESSES SUCCEED</b>	
<b>STRATEGIES</b>	<b>PERFORMANCE GOALS AND INDICATORS</b>
<b>1. IMPROVE ACCESS TO CAPITAL AND CREDIT</b>	<ol style="list-style-type: none"> <li>1. Provide gap lending and investments of approximately \$18.3 Billion, including 7(a),, 504, export loans, microloans, SBIC and New Market Venture Capital investments.</li> <li>2. Increase number of loans to 18,439 for Women-owned firms, to 13,384 for Minority-owned firms, and to 8,020 for Veterans owned firms.</li> <li>3. Improve loan portfolio management: increase currency rate of 7(a) to 91.0 percent, 504 to 99.0 percent, Disaster to 88.5 percent, and increase recovery rate of 7(a) to 23.5 percent.</li> <li>4. Increase export sales by SBA clients to \$537 M.</li> <li>5. Provide \$4.5 Billion in equity capital for 3,500 financings, with 17 percent invested in 50 percent minority-owned firms, and 6 percent invested in 50 percent women-owned firms.</li> <li>6. Issue 10,000 surety bonds to contractors.</li> </ol>
<b>2. IMPROVE ACCESS TO PROCUREMENT OPPORTUNITIES</b>	<ol style="list-style-type: none"> <li>7. Increase the share of Federal prime contract dollars awarded to small businesses to 23 percent,, to small disadvantaged business (including 8(a) firms) to 7 percent, to women-owned small businesses to 3 percent, and to HUBZone small business to 2 percent, and to service disabled veterans to 3 percent..</li> <li>8. Increase the ability of SDBs to successfully supply the Government with goods and services by providing them increased Federal contracts to 63 percent, business development assistance to 25 percent in technical assistance and to 5.6 percent in mentoring.</li> <li>9. Reduce barriers to small firm participation in Federal procurement: 45 percent accepting credit cards; 210,000 firms registered in PRO-Net; 80 percent of bundling cases resulting in positive outcome for small business; 15,000 firms [including 8 (a)] certified as SBD eligible; 5,000 firms certified in HUBZone.</li> <li>10. Increase the success rate of 8(a) firms to 75 percent..</li> <li>11. Increase the successful participation in the SBIR program of women to 10 percent and minority businesses to 16 percent..</li> </ol>
<b>3. PROVIDE ACCESS TO BUSINESS DEVELOPMENT ASSISTANCE</b>	<ol style="list-style-type: none"> <li>12. Increase number of clients to approximately 1.4 million including on-line counseling: 406,300 by SCORE, 631,349 by Small Business Development Centers, 55,000 by One Stop Capital Shops, 131,400 by Business Information Centers, 5,000 by Tribal Business Information Centers, 26,600 by Women Business Centers, 91,900 counseling via Internet by SCORE.</li> </ol>
<b>4. SERVE AS A VOICE</b>	<ol style="list-style-type: none"> <li>13. Expand research, analysis, and publication of information gleaned</li> </ol>

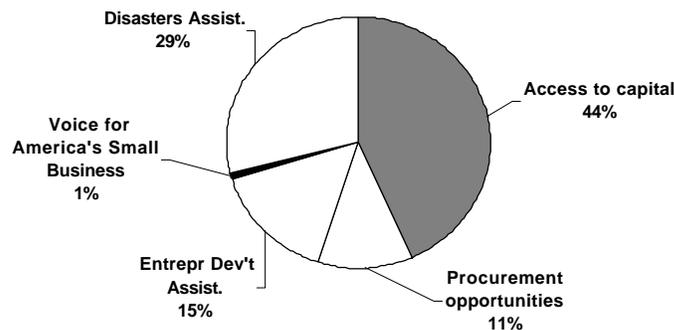
<p><b>FOR AMERICA'S SMALL BUSINESSES</b></p>	<p>from the new database – Business Information Tracking Series (BITS)</p> <p>14. Improve Federal Agency small business impact analyses of regulatory alternatives.</p> <p>15. Increase to 10 number of National Ombudsman roundtable meetings with small businesses.</p>
<p><b>GOAL II: HELP FAMILIES AND BUSINESSES RECOVER FROM DISASTERS</b></p>	
<p><b>STRATEGIES</b></p>	<p><b>PERFORMANCE GOALS AND INDICATORS</b></p>
<p><b>1. PROVIDE AN EXPEDITED RESPONSE TO DISASTERS TO HELP FAMILIES AND BUSINESSES RECOVER</b></p>	<p>16. Provide quality and timely service</p>
<p><b>MODERNIZATION: CORPORATE MANAGEMENT STRATEGIES</b></p>	
<p><b>STRATEGIES</b></p>	<p><b>PERFORMANCE GOALS AND INDICATORS</b></p>
<p><b>1. ENSURING STRONG INTERNAL CONTROLS AND EFFECTIVE PROGRAM OVERSIGHT</b></p>	<p>17. Yearly management training on internal controls and improved evaluation of existing and new initiatives.</p> <p>18. Implement a program evaluation and performance monitoring schedule for SBA business resource partners and publish the results in the annual performance report..</p>
<p><b>2. MODERNIZING INFORMATION SYSTEMS</b></p>	<p>19. Ensure quality of data collection, including reasonable accuracy and timely dissemination of data and program information to improve decision making process and productivity to provide cost-effective services to customers.</p>
<p><b>3. EXPANDING USE OF ELECTRONIC COMMERCE</b></p>	<p>20. Provide Federal Leadership in Electronic Commerce (EC) initiatives for small businesses by creating internet-based gateways to serve small entrepreneurs when and where they need it. and educate small firms on how to use electronic commerce more effectively.</p>
<p><b>4. TRANSITIONING THE WORKFORCE</b></p>	<p>21. Hire, train and/or retrain over 1,200 employees, and redeploy staff, as needed, to perform Agency functions.</p>

## Appendix VII: Budget Crosswalk

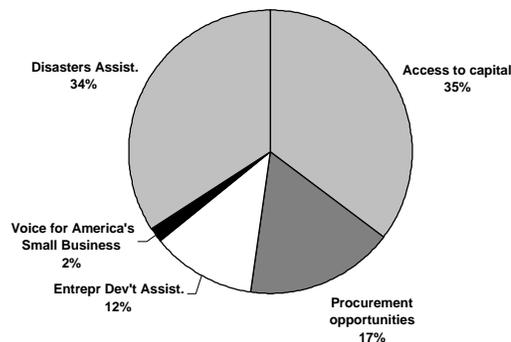
The crosswalk shows how SBA requested resources for FY 2001 are allocated to different goals/strategies. The starting point is SBA's program and financing schedule including special initiatives and grants for FY 2001. The costs for SBA Executive Direction, Management and Administration (including agency wide costs such as rent, workforce transition and IT investments in Seat Management and Operations) were allocated to SBA's other administrative programs and initiatives. In all \$113.8 million of agency wide costs was allocated out of a total budget of \$1.08 billion.

These costs were then allocated to the different goals/strategies. The pie graphs show the share of administrative costs as well as total resources (including loan accounts and grants) allocated to the different goals/strategies. For example Access to Capital has 44% of SBA's total resources and 35% of administrative costs.

FY 2001 SBA total resources by goal/strategy



FY 2001 Administrative Costs by goal/strategy



SBA Performance Plan FY 2001 – Congressional Submission

Crosswalk for FY 2001

	Programs/Office	FY 2001 request	Request incl Agency-wide costs	Access to capital	Procurement opportunities	Entrepr Dev't Assist.	Voice for America's Small Business	Disasters Assist.	
Business Initiatives	<b>Advocacy</b>	4693	6109				6109		
	<b>Capital Access</b>								
	CA Immediate Office	920	1198	1198					
	Financial Assistance	3797	4943	4943					
	Investment Division	9795	12751	12751					
	Surety Guarantees	1218	1586	1586					
	International Trade	879	1144	1144					
	Sacramento PLP	1029	1340	1340					
	Little Rock and Fresno	3060	3983	3983					
	Processing Centers	2565	3339	3339					
	Review Center-Kansas City	892	1161	1161					
	<b>Entrepreneurial Development</b>								
	ED Immediate Office	832	1083			1083			
	Welfare to Work	552	719			719			
	Business Initiatives	1217	1584			1584			
	Veteran's Affairs	492	640			640			
	Women's Business Ownership	978	1273			1273			
	Small Business Dev't Centers	1381	1798			1798			
	Native American Affairs	343	447			447			
	<b>Government Contracting/MED</b>								
	GC/MED Immediate Office	305	397		397				
	Government Contracting	13307	17323		17323				
	Minority Enterprise Dev't	4765	6203		3101	3101			
	Technology	497	647		647				
	Size Standards	1045	1360		1360				
	<b>Field Offices</b>								
	Field Ops HQs	1213	1579	1011	379	189			
	Field offices	142323	185270	118573	44465	22232			
	<b>Disaster</b>								
	Loan Making and Servicing	124000	161418					161418	
Special Initiatives	Advocacy Database	1500	1953				1953		
	Nat'l Ombudsman	500	651				651		
	Pro-Net SB Proc Database	750	976		976				
	Electronic Commerce Initiative	5000	6509		6509				
	HUBZones Program	5000	6509		6509				
	Bus Information Center	700	911			911			
	Commerce Reimb SWOBE	1000	1302			1302			
	OSCS Program	10000	13018	3254	1953	7811			
	Tribal Bus Info Centers	1500	1953			1953			
	Veterans Outreach	4000	5207			5207			
	University Partnerships	5000	6509			6509			
	USEAC Program	3500	4566	3827		729			
Adm Support Initiatives	Systems Modernization	13000	16923	10577					6346
	Workforce transition		0						
	IT Investm Seat Mgt & Op System		0						
	New Mkt Venture Cap.admin	2000	2604	2604					
	Asset Sales Financial Advisor	1525	1985	1985					
Loan Acc'ts	Business Loan account	200638		200638					
	Disaster Loan Account	142100							142100
Grants	SCORE Program	5000				5000			
	SBDC grants	85000				85000			
	SBDC Native Americans	3000				3000			
	SBIR Phase III grants	15000			15000				
	7(j) TA Program	5000			5000				
	Women's Bus. Centers Grants	12000				12000			
	Women's Council Program	1000				1000			
	BusinessLINC	6600			6600				
	Microloan TA	45000		45000					
	PRIME TA	15000		15000					
	SDB	12000			12000				
	New Mkt Venture Cap. TA	30000		30000					
Sums				463913	122219	163488	8713	309864	1,068,196
	Share of total resources by goal/ objective			43.4%	11.4%	15.3%	0.8%	29.0%	
							Inspector General		14,315
							<b>TOTAL</b>		<b>1,082,511</b>