SBA
U.S. Small Business Administration

Performance & Accountability Report Fiscal 2001

America's Small Business Resource

FOREWORD

THIS Fiscal Year 2001 Performance and Accountability (P&A) Report is the Small Business Administration's second such report and is authorized by the Reports Consolidation Act of 2000. The purpose of the Act is to streamline and consolidate certain statutory financial management and performance reports into a single accountability document.

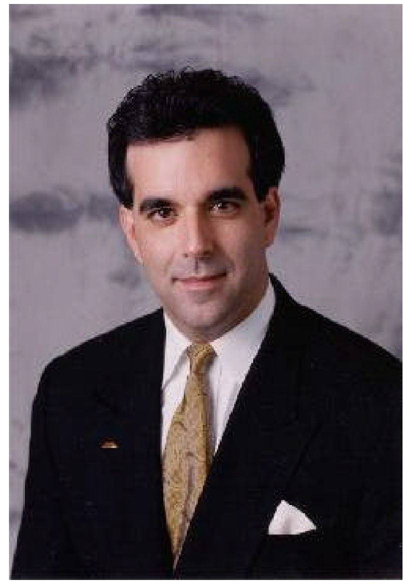
Our P&A Report includes the reporting requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, the Reports Consolidation Act of 2000, the Government Performance and Results Act of 1993, the Debt Collection Improvement Act of 1996, the Federal Managers' Financial Integrity Act of 1982 and the Management Report on Final Action on the Office of Inspector General audit recommendations. It presents the Small Business Administration's Consolidated Financial Statements and the Independent Public Accountant's Opinion on the statements, internal controls and compliance with laws and regulations.

The FY 2001 report is available at http://www.sba.gov/aboutsba/annualreport/2001.

All comments regarding the content and presentation of this report are welcome. Comments may be addressed to:

Small Business Administration
Office of the Chief Financial Officer
409 Third Street, S.W.
Suite 6000
Washington, DC 20416

MESSAGE FROM THE ADMINISTRATOR
February 27, 2002



I am pleased to present the U.S. Small Business Administration's (SBA) Performance and Accountability Report for fiscal year 2001. This report provides interested parties with a clear and accurate report of accomplishments and costs of operations.

Small businessmen and businesswomen are the principal innovators and job creators that have made this country what it is today. Small businesses keep the "American Dream" within the reach of millions of Americans. Every step of the way, the SBA is there to help.

Since its founding, the SBA has provided financial, contracting, entrepreneurial development and export assistance to millions of small businesses. The SBA is also the Federal Government's bank for assisting victims of natural disasters and tragedies, such as September 11, by providing low cost loans to help homeowners and businesses recover. Finally, the SBA is the principal advocate for small business in the Federal legislative and regulatory arenas.

During the past 48 years, the SBA has expanded its delivery of programs and services to match the changing needs of small business. The SBA had done this in large part through building relationships with private and public-sector partners. In the coming years, the SBA will continue to help small businesses succeed while administering its assistance programs to ensure we create value and provide necessary support and customer service.

It is my pleasure to serve the American public as the SBA Administrator, and I hope you find this information useful in assessing the SBA's programs and operations. I invite you to visit the SBA's Internet website (www.sba.gov) for more information about the SBA and its programs.

Sincerely,

Hector V. Barreto
Administrator

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to submit the U.S. Small Business Administration's (SBA) Performance and Accountability report for FY 2001. For the sixth straight year, SBA has received an unqualified "clean" opinion. This year, the opinion includes one material weakness on the financial statement reporting process.

The SBA completed several important financial management initiatives during FY 2001. We replaced the Agency's administrative accounting system with the Oracle Federal Financials as a first step to modernize the SBA's financial systems. We are "ahead of the curve" in the Agency's performance-based budget and financial reporting processes. We refined the SBA's Managerial Cost Model as a decision making tool. The SBA's automated financial reporting process started providing quarterly financial results in the new reporting format required in FY 2002. We continued to aggressively address audit recommendations and management challenges. We enhanced SBA's internal control program through reviews conducted at 21 field offices. We provided a computer-based training program on internal controls that has been completed by more than 70 percent of the SBA workforce.

The President's Management Agenda is a guide for the SBA's financial management initiatives to improve financial performance, integrate budget and performance management and expand electronic Government. The SBA is "one of the best" on the President's management scorecard, scoring three yellows out of five items.

As financial managers, we have the responsibility to provide timely and accurate financial information to support programmatic decision-making and to ensure taxpayer funds are used effectively and efficiently. Also, we provide a financial environment for our business partners that work with us to provide high quality programs to the public. We look forward to the challenges the future brings, including the acceleration of financial reporting in FY 2004 to provide timely management information.

Thank you for your interest in our FY 2001 Performance and Accountability Report.

Joseph P. Loddo
Chief Financial Officer

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Executive Summary

This integrated Performance and Accountability Report fulfills the annual requirements of two major statutes: the Results Act (formerly the Government Performance and Results Act) and the Consolidated Reports Act. These laws require each agency to produce an annual report of accomplishments that compares actual program results to proposed performance goals and indicators contained in its FY 2001 Annual Performance Plan, as modified by the FY 2002 Budget and Performance Plan. Moreover, each agency must include in its report the annual audited financial statements, Office of Inspector General (OIG) report, and the Federal Managers Financial Integrity Act (FMFIA) certification on internal controls. In this report, SBA has also included the status of actions taken to address key management challenges as reported by the General Accounting Office (GAO) and OIG.

Since the initial FY 2001 Annual Performance Plan in February 2000, SBA has reduced the number of output performance goals from 35 to 23 to focus on a core set of goals with greater attention to outcomes. In some cases we have reduced the performance target levels to be more consistent with reduced appropriation levels and actual performance. The FY 2002 Budget and Performance Plan submitted to Congress in April 2001, reflected these final revised performance goals and indicators for which SBA holds itself accountable.

The Past Year in Review – SBA's Results

Fiscal year 2001 was a year of transition, representing an extraordinary time of change for the SBA. During the reporting period, President George W. Bush took office, leadership in the Congress changed hands, and the state of the economy began to deteriorate. The year was also marked by an unusually long hiatus between SBA Administrators. Administrator Hector V. Barreto was sworn in barely 2 months before the close of the fiscal year.

The Agency is particularly proud of the following:

SBA backed $17.6 billion in financing to America's small businesses;
SBA helped create or retain more than 500,000 new jobs;
SBA provided more than 48,000 loans totaling more than $750 million to disaster victims for residential, personal property and business restoration;
SBA saved $4.4 billion in costs to small business by working with regulatory agencies to reduce regulatory burdens.

In FY 2001, SBA met its goal on seven of 23 performance indicators. The table below summarizes SBA's performance during the reporting year and highlights the degree to which it reached its goals. It shows that out of the 23 performance indicators, SBA reached or exceeded its goal on seven indicators, substantially achieved its goal on six indicators, fell short on seven indicators and was unable to collect reportable data on three indicators (marked NA on table).

FY 2001 SBA PERFORMANCE SCORECARD

	Cost (in millions)	FY 2000 Actual	FY 2001 Target	FY 2001 Actual	% Goal Achieved
1. Regulatory cost savings to small business	$1.1	$3.6B	N/A	$4.4B	**N/A**
2. Jobs created by the SBA clients	$122.3	564,205	542,000	516,990	**95.3**
3. Provide gap lending and investment financing	$122.3	$18.0B	$19.7B	$17.6B	**89.3**
4. Loans to 51% women-owned businesses (7(a) and 504)	$14.6	9,921	10,000	9,969	**99.6**
5. Loans to 51% minority-owned businesses (7(a) and 504)	$17.6	12,120	12,300	12,009	**97.6**
6. Loans to veteran-owned businesses (7(a) and 504	$7.5	5,215	5,300	5,099	**96.2**
7. Start-up firms financed by 7(a) and 504 loans	$20.9	16,630	16,700	14,283	**85.5**
8. Export sales assisted by SBA loans	$5.9	$675M	$537M	$608M	**113.2**
9. Federal prime contract dollars (PCDs) awarded to small businesses*	$8.0	22.3%	23.0%	22.7%	**98.6**
10. Federal PCDs awarded to small disadvantaged businesses (including 8(a) firms)*	$4.9	6.5%	5.0 %	6.8%	**136**
11. Federal PCDs awarded to women-owned small businesses*	$0.9	2.3%	5.0 %	2.5%	**50**
12. Federal PCDs awarded to service disabled veteran-owned small businesses*	$0.08	N/A	3.0%	0.24%	**8**
13. Federal PCDs awarded to HUBZone small businesses*	$0.3	0.3 %	2.0 %	0.71%	**35.0**
14. 8(a) client success rate 3 years after graduation	$28.7	65.0%	68.0%	N/A	**N/A**
15. Clients counseled and trained by Partners	$145.2	1.300M	1.275M	1.311M	**102.9**
16. Customer satisfaction rate WBC	$10.3	N/A	80.0%	75.0%	**93.7**
17. Customer satisfaction rate BIC	$11.6	93.0%	93.0%	88.0%	**94.6**
18. Customer satisfaction rate OSCS	$7.3	89.0%	80.0%	67.0%	**83.7**
19. Customer satisfaction rate SBDC	$93.2	N/A	80.0%	87.0%	**108.7**
20. Customer satisfaction rate SCORE	$8.8	N/A	80.0%	68.0%	**85.0**
21. Field presence within 3 days of a disaster declaration	$15.8	100.0%	98.0%	100.0%	**102.0**
22. Loan applications processed within 21 days	$95.9	91.0%	80.0%	94.0%	**117.5**
23. Disaster customer satisfaction rate	$111.7	81.0%	80.0%	N/A	**N/A**

*Results for these goals are not available until the second quarter of the succeeding fiscal year. This is the most recent data available.

Key: **>99%** Goal Achieved **90-99%** Goal Substantially Achieved **<90%** Goal Not Achieved

SBA Role and Strategic Goals

SBA's mission is to maintain and strengthen the Nation's economy by aiding, counseling, assisting, and protecting the interests of small business, and to help families and businesses recover from physical disasters.

SBA provides credit and capital assistance (including disaster lending), procurement and Government contracting help, and entrepreneurial development assistance. It is also a voice for small business issues such as macro-economic changes, healthcare, pensions, globalization of markets, technology, and legislative and regulatory developments.

The Agency continues to contribute to small business in the following areas:

- **Championing small business interests.** The SBA Administrator created a new strategic goal late in the fiscal year to raise the priority placed on reducing the burden of laws and regulations for all 25 million small businesses. Championing small business interests not only includes being a loud voice for small business in the executive, legislative and regulatory arenas but also includes speaking out at senior levels of Government in support of policies and programs that can strengthen the small business sector. In addition to strengthening and integrating the Office of the National Ombudsman into SBA field activities, SBA completed the development of an intergovernmental, cross-agency legal and regulatory portal called *BusinessLaw.gov* that helps business owners find, understand, and comply with laws and regulations at the Federal, state, and local levels of Government. By working with the regulatory agencies in FY 2001, SBA helped to save small businesses $4.4 billion in regulatory costs.

- **Empowering the entrepreneur.** Given the deteriorating state of the economy, SBA guaranteed slightly fewer small business guaranteed loans, but continued to provide equity capital to help emerging markets and support increases in business development clients and Federal contract recipients. During the rating period, SBA conducted a first-of-its-kind program review of the Small Business Development Center (SBDC) management and technical assistance program, identifying a number of strengths and areas for improvements.

- **Providing disaster assistance.** The terrorist attacks on the World Trade Center and the Pentagon changed the world in radical ways. SBA mobilized its resource partners and its disaster assistance apparatus to deliver significant amounts of disaster lending. During the last three weeks of the fiscal year, SBA provided 804 loans worth over $12 million. Throughout the country, SBA helps thousands of Americans recover from natural disasters each year by offering low interest, long-term disaster loans.

- **Improving internal management.** We continued to improve processes, systems, and performance in FY 2001. For the first time, the Office of Management and Budget (OMB) has given management report cards to 26 Federal agencies (i.e., red, yellow, and green), reflecting its view of agency performance on five core elements: integrating performance and budgets; managing human capital more strategically; competitively sourcing its services; improving financial management; and enhancing electronic government. A green score indicates that the Agency has met all core criteria, a yellow score indicates that that the Agency has achieved some but not all core criteria, and a red score indicates that the Agency has not met the specified criteria. Along with the Social Security Administration (SSA), SBA received the highest aggregate grade of all 26 with three "yellow" marks (i.e., making progress). SBA received yellows in financial management, E-gov, and budget/performance integration, and reds in human capital and competitive sourcing. To put this scorecard into comparative context, OMB gave out 130 marks: 1 green (to the National Science Foundation for financial management), 19 yellows, and 110 reds. Together, SBA and SSA received one third of the "making progress" grades.

SBA Resources

In FY 2001, SBA net expenditures totaled $688.9 million including program and administrative costs, such as fee income, subsidy reestimates, and effects of loan asset sales. Of this amount, $211.4 million was expended on small business assistance, $458.5 million devoted to disaster recovery and $19.0 million covered OIG activities and Congressional earmarks.

SBA maintains field offices to provide service to its clients and to manage its small business assistance programs in over 100 locations in the continental United States and U.S. territories in the Caribbean and the South Pacific. Also, the SBA began in 1999 to sell its portfolio of business and disaster loans. Through FY 2001, about $3.8 billion of SBA's $10 billion loan portfolio has been sold.

Report Structure and Summaries

In the Management's Discussion & Analysis portion of this report, SBA provides an overview of its accomplishments. The SBA has taken full advantage of the GAO report "Performance and Accountability Series, Major Management Challenges and Program Risks, Small Business Administration, GAO-01-260" to better align the budget request and financial execution with program achievements and corrective actions as identified by the OIG. This Performance and Accountability report details the SBA reports on its "Results" under the Results Act; and it relates these accomplishments to program goals, financial expenditures and assistance provided. The report discusses improvements made as a result of the GAO and the OIG reviews as well as SBA's internal initiatives for strengthening internal controls, selling its assets, improving its debt management activities, and reducing erroneous payments, all summarized below.

Asset Sales

The SBA in 1999 established the Asset Sale program to sell the "owned portfolio" of loans and other assets. In four successful asset sales between 1999 and 2001, the Agency sold to private investors over 80,000 loans with an unpaid principle of almost $3.8 billion.

Debt Management Activity

The SBA debt management program includes extensive debt servicing and modern collection practices, the Treasury Offset Program (TOP), loss reporting, and loan sales. In addition, the Agency exercises lender oversight over its partners. Risk management issues have become more critical as its business model has changed to partnering with banks, outsourcing its core processes, and selling its loans. In FY 2001, the SBA relied on the credit decisions of its lending partners to originate approximately 75 percent of all business loans. SBA currently contracts with the private sector for the servicing of 30 percent of the disaster home loans through the end of FY 2002. A key component in SBA's efforts to improve credit program management is achieved through the efforts of the Office of Lender Oversight (OLO).

Erroneous Payments

The measurement of erroneous payments for guaranteed loans rests with the guaranty purchase process because the Government makes "payments" only through this process. A 2000 OIG report estimated that out of a portfolio of $32 billion, loans valued at $405 million may have deficiencies that could result in erroneous payments. The SBA responded to the OIG's recommendations in two ways. First, loan purchasing for the 7(a) SBA Express program was centralized. Second, a central purchase review program was initiated to strengthen the Agency's quality control and oversight. The initial review findings indicated a possible error rate of 10.9 percent or $44 million. SBA will continue the review process, identifying problem areas in policy and procedures that may require clarification, revision or development of training to reduce erroneous disbursements.

The measurement of erroneous payments for the Certified Development Company (504) program is based on a review of defaults, which amounts to about $60-$70 million annually. A review process, similar to that of the 7(a) program, will be instituted to measure the amount of erroneous payments for 504 loans, subject to availability of funds.

Small Business Investment Company's (SBIC) are routinely examined. The examiners report potential improper investments. These potential violations or "findings" can serve as a proxy for potential erroneous payments and are reviewed closely. The amount of potential erroneous payments is less than $17 million for FY 2001.

Summary of GAO Reviews

The General Accounting Office initiated a review, called a Performance and Accountability Review at the request of the Senate Committee on Small Business in 1999. The results of that review opened areas for other reviews that continued into FY 2001. Currently there are 9 open reviews out of 25 initiated in FY 2001.

Summary of OIG Reviews

The OIG conducted a number of audits during FY 2001. The Agency has taken aggressive steps to improve attention to the issues raised in these audits, resulting in 117 final actions. Specifically, this report details 13 cases of disallowed or questioned costs that were raised by the OIG and reports on final actions. Also detailed is the status of 10 audit recommendations on which final action was not completed.

Summary of Audited Financial Statements

This report includes the SBA's FY 2001 financial statements and accompanying report from its Independent Public Accountant (IPA) managed by the OIG. For the FY 2001 statements, SBA began the implementation of OMB Bulletin 01-09 "Form and Content of Agency's Financial Statements" guidance. Although the guidance is not applicable until FY 2002 statements, SBA has chosen early implementation. This is intended to provide the reader with an early view of the expanded financial information that is prescribed in the bulletin and to ensure its ability to follow the new guidance.

The timely production of financial statements is a continuing struggle for the SBA. The due date for this year's statements was accelerated by 1 day from last year. Next year the financial statements will be due a month earlier than this year. The OMB has issued guidance accelerating the statements to November 15 for FY 2004 reporting. This is an additional acceleration of 104 days from this year. To meet this challenge, SBA is reviewing all aspects of the reporting process, and will begin executing dramatic changes to its current process, starting with FY 2002 reporting. This includes ensuring the production of quarterly statements, looking at alternatives to subsidy rate re-estimate calculations, and providing quarterly managerial cost information. This acceleration also has a tremendous impact on its internal control process over financial reporting.

The IPA report provided for FY 2001 shows a decline in SBA's audit status from FY 2000. Due to a number of factors, including the decision to accelerate the execution of OMB Bulletin 01-09 (Form and Content of Agency Financial Statements), the preparation of the statements and the quality control process applied to these statements suffered. As a result, while we maintained our unqualified "clean" opinion for FY 2001 (the sixth straight year), we received a material finding on our internal controls over the financial statement reporting process. In addition, the IPA found 3 non-material reportable conditions: subsidy rates, systems security and Master Reserve Fund. This internal control process over our financial statement process and the controls over our subsidy rates are receiving additional management attention during FY 2002 to resolve this finding and to mitigate any future concerns in this area.

William Allegri is a wine and art connoisseur, and had wanted to own his own wine shop for more than 25 years. At the Portland SBA Business Resource Center (BRC), William began to investigate the possibilities of establishing his own wine shop, and researched the Portland metro area to determine where to open his store. His search led him to Gresham, which lacked a wine shop. Allegri's investigative results led him to create a business plan with the help of volunteers from the SBA's Service Core of Retired Executives (SCORE). According to Allegri, "SCORE and the Business Resource Center had everything I needed to build my business plan."

Management's Discussion and Analysis

SBA's Integral Role in the Nation's Economy

Small business is the foundation of the Nation's economy. It remains the swiftest and surest way of achieving the American Dream. Small businesses serve as market laboratories for conceiving, testing, and proving new ideas, accounting for more than half of all innovation. Many of the Nation's success stories (e.g. Intel, FedEx, Ben & Jerry's) were built with SBA assistance, such as, capital access, technical assistance, procurement assistance and disaster relief. The number of small businesses has increased 49 percent since 1982, and almost a quarter of U.S. households now are starting a business, own a business, or are directly investing in someone else's business.

SBA's Mission and Strategic Framework

SBA's mission emanates from the Small Business Act, which charges the Agency to:

> *"…aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts or subcontracts for property and services for the Government…be placed with small business enterprises, to insure that a fair proportion of the total sales of Government property be made to such enterprises, and to maintain and strengthen the overall economy of the Nation."*

SBA's strategic framework is grounded in its mission and in President Bush's management reform agenda, which focuses on 1) the strategic management of human capital, 2) competitive sourcing, 3) improved financial performance, 4) expanded electronic government, and 5) budget and performance integration. SBA seeks to contribute to a more vibrant small business sector through the strategic implementation of this agenda.

In pursuit of this mission, SBA had two major strategic goals for FY 2001, which continue to be the major goals for FY 2002: 1) to help small businesses succeed, and 2) to help families and businesses recover from disasters. The following three sections provide an overview of the SBA and its strategic goals. Central to this framework is the linkage between the program outputs that the Agency produces and the performance outcomes it seeks to attain. Finally, and at the heart of this report, the assessment of SBA's performance will be presented.

Strategic Goal #1: Help Small Businesses Succeed

Small business supports the Nation's productive capacity, stimulates innovation, and creates jobs. The SBA's success rests upon its ability to stimulate economic growth while breaking down the barriers to free competition. In pursuit of this goal, SBA focuses on different segments of the small business community by developing products and services that help shape the respective environments in which these businesses operate.

First, SBA supports all of the Nation's 25 million small businesses by serving as a strong advocate. Through the offices of Advocacy and the National Ombudsman, SBA helps shape the entrepreneurial environment for small firms by encouraging supportive legislation, reducing onerous legal and regulatory burdens, and investigating unfair business practices to ensure that small businesses are treated fairly in the Nation's free market economy.

Second, mainly through its vast network of resource partners, SBA influences the ability of small business to start, grow, and thrive by providing access to credit and capital markets. In this effort, SBA contributes to the Nation's economic growth by encouraging gap lending to those credit-worthy firms that have trouble gaining access to credit and capital markets.

Finally, through its resource partners and the provision of direct services, SBA provides a full range of technical and other assistance programs to small businesses. These programs are designed to open small business access to education, counseling and training programs, Government contracting, international trade, innovation and research grants, and economic development opportunities.

Strategic Goal #2: Help Families and Businesses 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 individuals and businesses. The disaster loan program is the only form of SBA assistance not limited to small businesses. SBA's disaster loans are available to help homeowners, renters, and businesses of all sizes, as well as nonprofit organizations. SBA also offers economic injury loans to small businesses.

At the close of the fiscal year, America experienced one of the most traumatic events in its history. The September 11th terrorist attacks challenged SBA more than any previous disaster. SBA was called into action not only to provide assistance within the New York City and Washington, DC areas, but also to respond to the widespread adverse economic impact to this country's small business community. SBA met this challenge by working through its resource partners (including the Small Business Development Centers, SCORE and Women's Business Centers) to provide disaster assistance, in the declared disaster areas, in less than 72 hours.

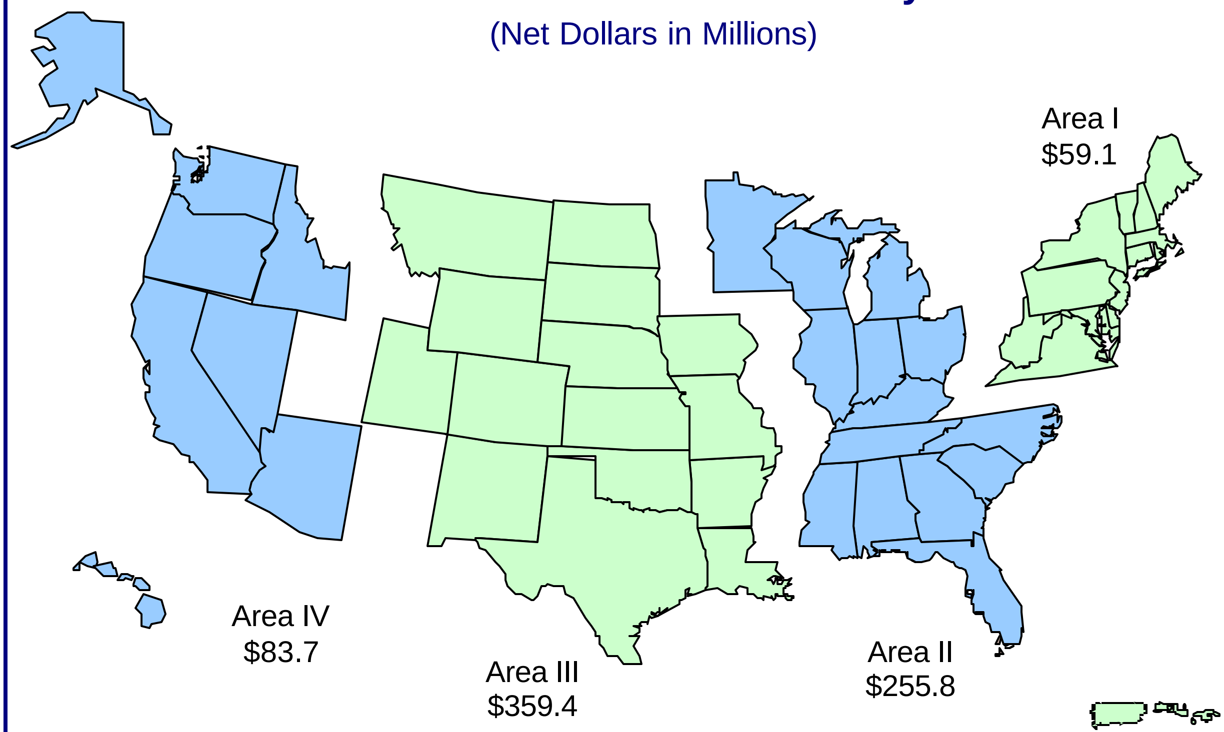
Salvatore Iacona, known as "Sal the Sole Man," has owned Continental Shoe Repair since 1977. The business is located adjacent to Ground Zero and was used as a temporary command post for both the New York Police Department and the Fire Department of New York immediately after the explosions of September 11, 2001. The explosions caused damage to the property and equipment. Before the attacks, many of Salvatore's customers would come in on their way to work. As a result of the attacks and the resultant loss of trade, the business suffered economic injury. SBA approved an Economic Injury Disaster Loan for $29,500 to assist with repairs and to provide needed working capital.

The Organization of SBA

SBA is an organization that has a nationwide purview. While its Headquarters is based in the Nation's capitol city, its business products and services are delivered with the help of 10 regional offices, 70 district offices, and a vast network of resource partners. The delivery of disaster assistance is more centralized than that of SBA's other programmatic functions. Disaster programs are delivered out of 4 regional area offices and use temporary staff hired on location to respond to emergencies. The area offices report to and receive guidance from Headquarters.

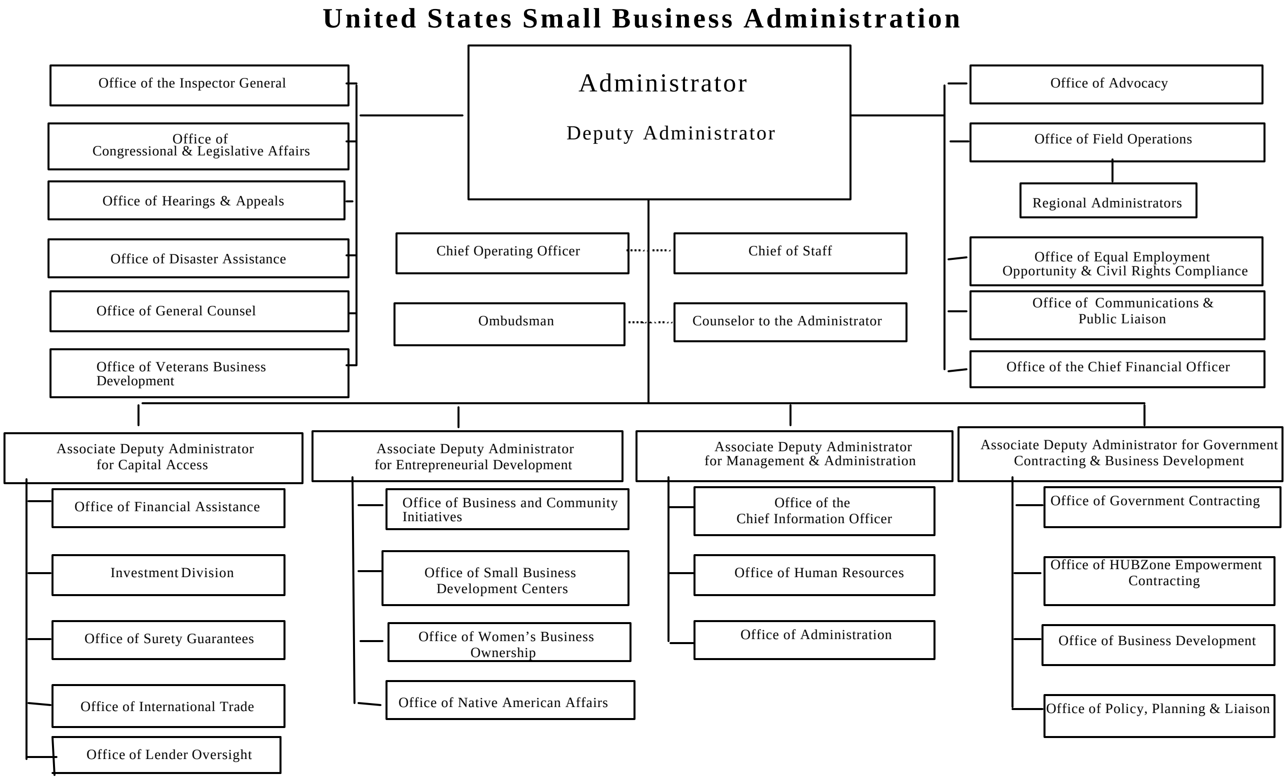
FY 2001 SBA Disaster Assistance by Area

(Net Dollars in Millions)



SBA Headquarters is divided into functional areas. The Office of Capital Access is responsible for small business loans, lender oversight, the investment company program, surety bonds and international trade. The Office of Government Contracting and Business Development (GC/BD) is responsible for assistance to small business in obtaining Federal procurement, including the 8(a) minority business program, Historically Underutilized Business Zone (HUBZone) and Small Disadvantaged Business (SDB) certification and eligibility. GC/BD also administers the small business innovation and research program and sets size standards for small businesses. The Office of Entrepreneurial Development (ED) provides management and business development assistance through a network of over 1,500 resource partner locations. The Management and Administration program office serves primarily in support of the previous three program offices and the other statutory offices located within the Office of the Administrator by directing human resources, information technology, contracting and purchases, grants management, and Agency administration. The Office of Field Operations administers SBA's 10 regional and 70 district and branch offices. In the field, SBA personnel interact and serve customers, provide partner and lender oversight, and conduct outreach to local small businesses and aspiring entrepreneurs.

Also housed in SBA is the Office of Advocacy, an independent voice for small business in the formulation of public policy across the entire Federal Government. The Office of Advocacy focuses on research on small business trends, characteristics, and contributions to the economy



and monitors compliance with the Regulatory Flexibility Act. SBA’s Office of the National Ombudsman addresses specific regulatory enforcement and compliance concerns identified by small businesses in their interactions with Federal agencies, with the goal of ensuring equity and fairness.

SBA products and services in the form of loans and loan guarantees, SBIC financing, procurement contracts, and counseling and training are provided to citizens in every state in the Nation, the District of Columbia, Puerto Rico, and the Virgin Islands. The following chart illustrates a sample of SBA activities by state.

SBA Activity by Program Type

State	Approved 7(a) and 504 loans (millions of dollars)	SBIC financings (millions of dollars)	FY 2000 Federal Procurement contracts (millions of dollars)	Clients counseled/trained in SBDC, SCORE, WBC, OSCS, BIC
Alabama	$109	$18	$1,226	20,196
Alaska	$27	$0	$519	4,185
Arizona	$305	$50	$619	27,589
Arkansas	$74	$13	$160	7,968
California	$2,388	$1,488	$4,104	128,993
Colorado	$345	$199	$884	25,714
Connecticut	$165	$104	$299	16,065
Delaware	$25	$1	$47	7,531
District of Columbia	$16	$26	$2,306	13,614
Florida	$657	$116	$1,763	88,179
Georgia	$429	$107	$805	40,339
Hawaii	$32	$1	$458	12,967
Idaho	$66	$0	$162	10,073
Illinois	$310	$205	$655	44,742
Indiana	$178	$21	$339	17,936
Iowa	$81	$10	$97	16,160
Kansas	$79	$23	$196	9,272
Kentucky	$86	$21	$364	20,511
Louisiana	$137	$10	$407	15,495
Maine	$39	$10	$98	9,502
Maryland	$171	$58	$3,000	20,663
Massachusetts	$276	$180	$799	33,245
Michigan	$239	$65	$459	30,831
Minnesota	$330	$95	$199	17,852
Mississippi	$126	$6	$294	9,391
Missouri	$176	$57	$540	30,852
Montana	$78	$0	$157	10,985
Nebraska	$55	$7	$125	10,469
Nevada	$118	$9	$145	9,578
New Hampshire	$97	$25	$135	7,010
New Jersey	$440	$190	$902	36,878
New Mexico	$58	$4	$496	12,188
New York	$550	$342	$1,090	83,211
North Carolina	$216	$93	$640	23,315
North Dakota	$54	$0	$136	18,999
Ohio	$315	$78	$104	30,181
Oklahoma	$125	$20	$431	13,040
Oregon	$170	$36	$244	33,229
Pennsylvania	$402	$153	$1,031	44,063
Puerto Rico	$82	$3	N/A	13,721
Rhode Island	$100	$19	$155	8,095
South Carolina	$95	$31	$401	10,218
South Dakota	$36	$2	$73	9,220
Tennessee	$145	$50	$650	27,454
Texas	$1,148	$202	$2,214	114,721
Utah	$172	$45	$353	15,421
Vermont	$27	$14	$25	4,718
Virgin Islands	$0	$0	N/A	2,182
Virginia	$202	$164	$5,781	19,034
Washington	$292	$53	$741	30,531
West Virginia	$30	$3	$180	8,875
Wisconsin	$240	$27	$327	16,402
Wyoming	$36	$0	$106	3,407

Conceptual Framework for Performance Assessment

This section presents a conceptual framework for an accountability paradigm that links program outputs with performance goals. In doing so, it provides an overview of the strategies and means by which SBA accomplishes its goals.

The graphic on the following page illustrates how program outputs relate to performance goals for each of the major strategic goals. Using this framework, SBA has measured and monitored those program outputs (i.e., the intermediate product of the Agency's activities) that have demonstrable connections to performance outcomes (i.e., the final impact on small businesses). The first strategic goal of helping small businesses succeed is achieved through multiple means, and the reader can see which specific means lead to specific performance goals.

SBA first sets its performance goals by identifying the desired impact it seeks to have on small business and the economy in general. It then identifies the program outputs that lead to the desired performance impacts. This nexus is the most important, as it helps the Agency understand what level of activities are necessary to achieve its goals. For example, based on recent studies, every $33,000 in 7(a) general business loans to small business leads to one job created. With this information, we can reasonably extrapolate the number of jobs created (our performance goal) from our 7(a) disbursed loan dollar volume (the program output).

While it is difficult to infer direct causal links between SBA program outputs and performance outcomes, taken in the aggregate, SBA activities can indeed be shown to contribute to the success of small business. In addition to the evidence provided by various studies, this is done also by conducting surveys that validate program impacts and charting how business sustainability and job creation relate directly to the availability of capital, credit, and procurement opportunities.

Often, the extent to which program outputs lead to performance goals can change based on the environmental conditions under which small businesses operate in various parts of the country. While SBA provides a performance assessment for the Agency as a whole, there may be critical factors that affect Agency performance in some areas differently than in others. For example, SBA was able to disburse Economic Injury Disaster Loans (EIDL) in the wake of the September 11th attacks more quickly in New York City relative to across the country because the initial response was focused within a narrow geographic region. Throughout this accountability report, SBA will highlight those critical factors that may affect performance.

Following the conceptual graphic on the next page is a summary of SBA's performance indicators. In the detailed assessment that follows this summary, SBA will endeavor to explain the performance outcomes in terms of the extent to which goals were met, the primary reasons for falling short of success, and the plans underway to correct the Agency's actions so that it might become more effective toward achieving each specific goal.

STRATEGIES FOR ACHIEVING PERFORMANCE GOALS

OUR PROGRAM OUTPUTS

CONTRIBUTE TO OUR PERFORMANCE GOALS

Strategic Goal #1: Help Small Businesses Succeed

Program Area #1: Advocacy and Outreach
Small business advocacy and research
Regulatory impact analyses
State conferences and roundtables
Ombudsman hearings
Federal regulatory reviews

Program Area #2: Increase Access to Capital and Credit
Business loans
Equity financings
Surety bond guarantees
Export credit
SBIR grants

Program Area #3: Increase Access to Procurement Opportunities
Federal small business procurement
Certification and development of 8(a) firms
Certification of Small disadvantaged businesses

Program Area #4: Develop Entrepreneurs Through Technical Assistance
Education, training, and counseling
Electronic information and assistance

Goals for Advocacy and Outreach
Strengthened small business sector
Regulatory cost savings
Reduced legal and regulatory burden
Increased regulatory enforcement fairness

Goals for Capital and Credit Access
Increased small business jobs
Increased small business ownership diversity and growth in economically distressed areas
Increased number of start-ups
Increased client firm survival rates
Increased commercialization rate of SBIR projects
Increased small business export sales

Goals for Procurement Assistance Programs
Increased share of Federal procurement to small businesses and targeted groups
Improved 8(a) firms success rate

Goals for Technical Assistance Programs
Increased customer satisfaction

Strategic Goal #2: Help Families and Businesses Recover from Disasters

Disaster loans to families
Disaster loans to businesses

Goals for Disaster Assistance Programs
Field presence within 3 days of a disaster
Applications processed within 21 days
Increased customer satisfaction

STRATEGIC GOALS AND PERFORMANCE INDICATORS

Description	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Target	FY 2001 Actual
Strategic Goal #1: Help Small Businesses Succeed					
Program Area #1: Advocacy and Outreach					
1. Regulatory cost savings to small businesses	$3.2B	$4.3B	$3.6B	N/A	$4.4B
Program Area #2: Increase Access to Capital and Credit					
2. Jobs created by the SBA clients	451,144	522,299	564,205	542,000	516,990
3. Provide gap lending and investment financing	$14.0B	$16.4B	$18.0B	$19.7B	$17.6B
Number of 7(a) and 504 loans:					
4. to 51 percent women-owned businesses	11,084	10,244	9,921	10,000	9,969
5. to 51 percent minority-owned businesses	10,897	12,127	12,120	12,300	12,009
6. to veteran-owned businesses	5,914	5,477	5,215	5,300	5,099
7. Start up firms financed by 7(a) and 504 loans	16,640	16,120	16,630	16,700	14,283
8. Export sales assisted by SBA loans	$413M	$349M	$675M	$537M	$608M
Program Area #3: Increase Access to Procurement Opportunities					
Federal prime contract dollars awarded:					
9. to small businesses	23.4%	23.1%	22.3%	23%	22.7%
10. to small disadvantaged businesses (including 8(a) firms)	6.5%	6.6%	6.5%	5%	6.8%
11. to women-owned small businesses	2.2%	2.5%	2.3%	5%	2.5%
12. to service disabled veteran-owned small businesses	N/A	N/A	N/A	3.0%	0.24%
13. to HUBZone small businesses	N/A	N/A	0.3%	2.0%	0.71%
14. 8(a) client success rate 3 years after graduation	65%	68%	65%	68%	N/A
Program Area #4: Develop Entrepreneurs through Technical Assistance					
15. Number of clients counseled and trained by Partners	1.06M	1.140M	1.300M	1.275M	1.311M
Customer satisfaction rate:					
16. WBC	76%	N/A	N/A	80%	75%
17. BICs	N/A	N/A	93%	93%	88%
18. OSCSs	N/A	N/A	89%	80%	67%
19. SBDC	85%	N/A	N/A	80%	87%
20. SCORE	N/A	N/A	N/A	80%	68%
Strategic Goal #2: Help Families and Businesses Recover from Disasters					
21. Field presence within 3 days of a disaster declaration	100%	100%	100%	98%	100%
22. Loan applications processed within 21 days	77%	60%	91%	80%	94%
23. Disaster customer satisfaction rate	N/A	N/A	81%	80%	N/A

Assessment of Program Results and Performance

Strategic Goal #1: Help Small Businesses Succeed

In 2001, Advocacy's efforts to reduce the regulatory burden on small business yielded positive results. Advocacy reviewed nearly 1,000 rules. Advocacy's efforts resulted in cost savings of approximately $4.4 billion.

A noteworthy example of success is Advocacy's role in the Occupational Health and Safety Administration's (OSHA) ergonomics proposal. The rule would have required businesses to address potential repetitive stress/musculoskeletal disorders in the workplace. Advocacy's quality regulatory and economic analysis highlighted OSHA's failure to adequately consider the small business impact. As a result, the rule was subjected to increased scrutiny and, ultimately, was struck down through legislative action.

This success can be attributed to early intervention in the rulemaking process and sound economic data that demonstrated that the costs of the regulation outweighed the benefits. The challenge for Advocacy in the future will be to see that these elements can be applied to all agencies as they engage in rulemaking activity. Advocacy will continue to expand its outreach and training for rulemaking agencies to make them aware of their responsibilities under the Regulatory Flexibility Act and the Small Business Regulatory Enforcement Act. It will also continue its efforts to make sure that its economic research is focused on important small business policy areas and is done in a timely and effective manner. To assure that SBA is focused on the issues of significant concern to the small business community, Advocacy will increase its outreach to small businesses and their representatives.

In FY 2001, SBA supported more than 48,000 loans worth more than $12.2 billion under its 7(a) General Business Loans and 504, Certified Development Company programs. About one third of the loans went to businesses that we consider to be "start-ups, " those which SBA believes are most in need of SBA's financial assistance products. The average loan size was $230,000 under the 7(a) loan program and $433,000 under the 504 program.

Frank Dominguez, President and CEO of Imperial Construction Group, Inc., of Elizabeth, New Jersey, was that state's first Hispanic Small Business Person of the Year. At 21, Dominguez started his business with just five employees; today, 70 full-time employees provide general construction, construction management and design services to Federal, state and local government agencies and private corporations. From 1997 through 2000, sales increased 350 percent from $8 million to over $28 million. Dominguez began with a $15,000 loan from his father, but he credits the SBA for part of the company's success. Since 1992, the company has received 87 contracts totaling $45.4 million under the SBA's 8(a) contracting program. Currently, his company has a $4.6 million contract providing architectural and structural stabilization work on structures on Ellis Island.

At the beginning of FY 2001, the Agency's average monthly lending activity declined over the previous year, generally reflective of the overall downturn in the economy, with fewer small businesses appearing willing to take on new debt and lenders tightening credit. By June and

July, the number of loan approvals increased, and SBA experienced near record levels of lending in August and September 2001.

While the Agency's loan program accomplishments for FY 2001 are noteworthy, it is not serving all the businesses that need SBA's niche help. In addition, SBA's average loan size has increased. SBA is currently re-examining its loan products, policies and procedures to encourage smaller loans, and better reach groups that might most benefit from these products. SBA is also looking at its loan products to make sure they complement rather than compete with each other.

SBA is strengthening the oversight of its lending partners, through continued efforts to put in place automated systems that will provide more comprehensive data on the loans that it guarantees and greater access to that data. Over the past few years, SBA has increasingly delegated to its lenders the authority for making credit decisions. SBA currently relies on these credit decisions for more than 75 percent of its business loans each year. While the Agency has made great strides in establishing compliance review and safety and soundness examination programs, SBA does not yet have the tools we need to effectively conduct reviews. SBA's goal is to have a lender oversight program that uses a risk management framework to analyze the performance and risk characteristics of individual lenders in a cost-effective manner.

During FY 2001, the SBA also increased the availability of private venture capital for small businesses. SBA licensed 51 new Small Business Investment Companies (SBIC) with private capital of $1.1 billion. SBICs provided nearly $5 billion through 4,277 small business financings. While the SBIC program is somewhat successful, there are still market segments that are not benefiting from this program.

For the past 3 years, the SBA has successfully put in place an asset sales program, and during FY 2001, two sales were held. Nearly 50,000 loans were sold, with gross revenues at $1.56 billion. This program allows the Agency to return more to the U.S. Treasury than it would if it continued to service these loans. It also allows SBA to focus its resources to program delivery rather than portfolio management. SBA plans to continue this program, and is devoting additional resources to it to allow up to three sales per year.

The Agency is also looking to find better ways to deliver products where volume has declined in recent years. One of those products is the Surety Bond Guarantee program. Last year, the Agency guaranteed 6,320 bonds, resulting in contracts valued at $1.4 billion. Two years ago, the Agency approved nearly 10,000 bonds supporting more than $2 billion in small business contracts.

The legislative changes in the 1990s dramatically changed the Federal procurement environment. As a consequence, the number of new definitive contracts awarded annually has decreased 50 percent and Federal contracting personnel have been reduced substantially. This has led to reduced prime contract opportunities for its Nation's small businesses. Agencies are consolidating requirements, using Government purchase cards and other streamlined contracting practices to obtain goods and services in support of mission needs. Many of these streamlined contracting practices such as the use of large government-wide acquisition contracts (GWACs) are not friendly to small businesses because of the size and scope of the requirements. Procurement opportunities that were reserved for small business competition prior to acquisition reform are now being obtained through Federal supply schedules or the Government purchase card from any supplier. As a result, Federal agencies are having difficulty achieving small business goals. SBA's challenge is to ensure that its small business procurement programs remain viable so that small businesses get a fair share. There must be a proper balance between the goals and objectives of these programs and a streamlined procurement system.

To address this challenge, SBA will continue to advocate on behalf of small businesses and work with the agencies to develop acquisition strategies that ensure small businesses have an opportunity to compete for Federal prime contract and subcontract opportunities. SBA will seek top level commitment from the heads of departments and agencies in order to achieve its statutory mandate of ensuring that a fair share of Federal procurement is awarded to all categories of small businesses. Agencies must be willing to include SBA earlier in the acquisition planning process as they develop the acquisition strategy for procurements. SBA is also committed to assisting agencies find qualified small businesses by matchmaking these firms with upcoming procurement opportunities at the Federal state, and local levels. SBA will continue its outreach and training efforts to help its Nation's small business overcome barriers to entry in these procurement markets. Small businesses must understand the changing procurement environment and the use of e-government processes and Federal contracting officials and private sector buyers must understand small business programs and the need to broaden the base of capable small business contractors. SBA will continue to build better relationships with its large prime contractors to facilitate subcontracting opportunities. The Agency will provide business development assistance to small businesses so that they can build strong resumes and performance data to be competitive in the marketplace.

The Office of Entrepreneurial Development (ED) has taken steps to generate uniform economic impact data for all of SBA's counseling and training programs. In FY 2002, ED will begin to collect impact information, such as sustainability, sales revenue and employee generation, from its client base. This will aid in long-term program assessment and decision-making.

Cool Breeze of Key West is a six-person development and manufacturing operation established in 1999 by Judith Goldberg, Gregg Steinriede and Dave Colwell. The company designs, develops and markets outdoor cooling systems for humid climates. In the first half of 2001, Cool Breeze secured purchase orders of $500,000. Distributors are being established throughout the United States and Latin America. The company projects sales of $5 million by 2004. Colwell and Steinriede met in March with Alex Sokoloff of the Key West office of the Florida Atlantic University's Small Business Development Center to get an outside perspective Cool Breeze met with First State Bank who put together a loan package for $300,000 that was approved by the SBA. First State Bank also approved a $60,000 working capital line of credit. "We are only limited by our ability to keep pace with demand and maintain a superior quality product," Colwell said. Pictured is employee **Michael Suchran**.

In FY 2001, SBA conducted a review of the Small Business Development Center (SBDC) program. The SBDCs are an important component to the SBA network of partners, receiving 11 percent of SBA's total resources in this budget. The review recommended that the SBDCs work more as a network rather than as separate state organizations, increase the use of Internet technology in counseling, training, and answering frequently asked questions, and evaluate and disseminate "best practices." SBA will work with the SBDC network and other resource partners to improve the collection and analysis of client and other performance data.

ED management has also taken steps to broaden the impact of its Women's Business Center (WBC) program by adding to its capabilities greater focus on women already in business and working to grow. Many of the current clients are women in the pre-business or new business stages. By expanding the focus to not only these kinds of clients, but long-term women business owners, the WBC program will be able to generate larger numbers of jobs, increase revenues, and help grow the economy.

ED is also expanding its services to the Native American community through a new program to be implemented in FY 2003. SBA's Tribal Business Information Center program has achieved good results with the limited number of organizations assisted through the program; however, in FY 2003, SBA is requesting $1 million dollars to assist more of the Nation's 2.5 million American Indians and Alaskan Natives. The initiative will make funding available directly to tribes to assist in economic development and job creation, thereby leveraging the economic development activities already underway with activities specifically tailored to create small businesses in Indian country.

The Veterans Business Outreach Center (VBOC) program was created near the end of FY 1999. In FY 2000, the four VBOCs counseled a total of 3,280 veterans and trained a total of 4,093 veterans. In FY 2001, these same four VBOCs counseled a total of 8,724 veterans and trained a total of 6,040 veterans. The total number of veterans counseled or trained in the 2 years was 22,119. In FY 2001, the newly established Office of Veterans Business Development began a revision of the program to better meet the needs of the veteran customers. In FY 2002, the 4 VBOCs were renewed, and SBA is further revising the program in an attempt to reach the entire Nation through increased Internet based e-mail counseling and training. In FY 2003, we plan to evolve the VBOC program into a collaborative NET VET delivery system. The NET VET program will combine the best resources from SBA, along with the National Veterans Business Development Corporation, other partners, and with locally delivered SBA support programs.

SBA provides services in four program areas:

- Advocacy and Outreach
- Increase Access to Capital and Credit
- Increase Access to Procurement Opportunities
- Develop Entrepreneurs through Technical Assistance

Administrative cost estimates are derived from SBA's cost allocation model. The specific activities that have been included in each indicator cost are defined in the appendix titled Data Validation and Verification.

Program Area #1: Advocacy and Outreach

The Office of Advocacy is an independent voice for small business in the formulation of public policy across the entire Federal Government. It focuses on research of small business trends, characteristics and contributions of small businesses to the economy and monitors compliance with Small Business Regulatory Enforcement Fairness Act (SBREFA). The research being done by Advocacy continues to serve a vital role to Congress, the media and the general public as the key information source on small business data. Advocacy is likewise making a difference in its role of regulatory interaction by training agencies on regulatory analysis and the impact on small business.

Donna Allie is the successful owner of Team Clean. Her company's sales grew from $1.2 million in 1993 to $6.7 million in 2000. Donna earned the SBA Philadelphia District Office's *"Minority Enterprise Development*" award winner for 2001. She currently participates in the SBA's 8(a) Contracting Program. SBA helped Team Clean obtain one of its largest contracts to date, a $2.8 million contract with the Department of Defense. The SBA also guaranteed three loans to Team Clean, Inc. Donna received close to one-half million dollars in loans from local lenders and the SBA to help her to grow her business. She has paid off all three loans, some ahead of schedule. Customers include Veterans Stadium, City Hall, the Criminal Justice Center, and the Pennsylvania Convention Center. "No job is too large or too small," says Donna. "Our ability to do this is the result of a strong management team that deploys a skilled and experienced 250 person work force," she says.

The Office of the National Ombudsman addresses specific regulatory enforcement and compliance concerns identified by small businesses in their interactions with Federal agencies, with the goal of ensuring equity and fairness.

Through SBA's 37 advisory councils with nationwide membership, the Agency has created a systematic process for soliciting citizens' advice, ideas and opinions on small business issues and the SBA programs. In addition, the councils serve as links to local business and can help to measure the effectiveness and need for current and proposed SBA programs.

- ***Performance Goal 1: Regulatory Cost Savings to Small Business***

Regulatory cost savings to small business	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Target	N/A	N/A	N/A	N/A	N/A[1]
Actual	N/A	$3.2B	$4.3B	$3.6B	$4.4B
Percent accomplishment	N/A	N/A	N/A	N/A	N/A
Administrative cost	N/A	N/A	N/A	$0.8M	$1.1M

Program Area #2: Increase Access to Capital and Credit

In numerous surveys small businesses identified access to capital and credit as one of the most serious impediments to their success. The SBA works in partnership with approximately 7,000

[1] No target was established in FY 2001 for this performance goal. A goal of $3.5 billion has been established for FY 2002.

private sector lenders and investment companies, which offer equity and capital 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.

As a "gap lender" (providing capital to entrepreneurs who cannot obtain conventional financing), the SBA offers general business loan guaranties, equity financing and surety bond guarantees through the following programs:

7(a) loans are made through the **General Business Loan Program**, authorized by Section 7(a) of the Small Business Act. This is the SBA's largest financial assistance program, providing over 40,000 loans annually. Banks and certain non-bank lenders make loans guaranteed by the SBA to small businesses. The SBA guarantees between 50 percent and 90 percent of each loan, up to a maximum of $1 million.

The Certified Development Company (CDC) Program, known as Section 504 provides long-term, fixed-asset financing. The CDCs are generally non-profit organizations certified by SBA that are focused on economic development in their communities or regions. Each 504 loan package must demonstrate significant economic impact on the community and include at least a 10 percent equity injection by the small firm combined with a bank loan covering 50 percent of the project's cost. The balance comes from a debenture issued by the CDC and fully guaranteed by SBA.

The Microloan Program, which began as a demonstration program in June of 1992 was made permanent in FY 1997. The program provides small-scale financing ($35,000 maximum) on a short-term basis for equipment, inventory, supplies and working capital through non-profit and quasi-government microloan intermediaries. The SBA makes direct loans and provides loan guarantees to these intermediaries who use the funds to create a revolving account from which to make loans to the smallest of businesses. An integral part of the program is providing technical assistance to borrowers.

The Small Business Investment Company (SBIC) Program was established in 1958 to address the need for venture capital by small emerging enterprises and to improve opportunities for growth, modernization and expansion. The program provides financing through SBICs, which use their own privately raised capital, along with funds obtained through the sale of SBA-guaranteed debentures and participating securities, to provide equity capital, long-term loans, debt-equity investments and management assistance to qualifying small businesses.

The New Markets Venture Capital (NMVC) Program is a pilot program using investment companies formed for-profit with private management to make equity-type investments in smaller enterprises located in low-income geographic areas. The SBA designates and enters into a participation agreement with each NMVC company that details the specific low-income areas that the NMVC will serve, how it will serve them, what results it expects to achieve, and how its success is measured. The NMVC companies must raise a minimum of $5 million of private capital for investments. The SBA provides NMVC companies with matching investment funds in the form of SBA-guaranteed deferred payment debentures, and matching operational assistance funding in the form of grants.

The Surety Bond Guarantee (SBG) Program is a public-private partnership that assists small contractors obtain bid, payment and performance bonds for construction, service and supply contracts. These contractors generally lack the required experience, financial strength or historical experience to get bonding through standard surety channels. The SBA partially guarantees surety companies against losses sustained as result of a contractor's default on a guaranteed bid, payment or performance bond. Both the surety company and the contractor pay a fee for the SBA surety bond guaranty.

➢ ***Performance Goal 2: Jobs Created by the SBA Clients.***

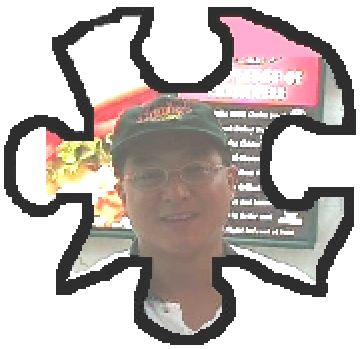
This performance goal was new for FY 2001. An important result of SBA loan and equity programs is the contribution to borrower success. Success can be partially measured by the number of jobs that have been created after the firm received financing. Several studies exist that estimate the number of dollars in a given program that lead to the creation of one job (the job creation coefficient). SBA is working with the Bureau of Labor Statistics to improve these estimates.

This indicator has an achievement rate of over 95 percent. A major reason that this goal was not achieved is that the economy went into a recession early in 2001 that reduced the volume of 7(a) loans and SBIC financings (see table below).

Jobs created by SBA clients	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target	N/A	N/A	N/A	542,000
Total	451,144	522,299	564,205	516,990
Percent accomplishment	N/A	N/A	N/A	95.3%
Administrative Cost	N/A	N/A	N/A	$122.3M

The total jobs created have been generated from an analysis of each financing program. The annual disbursed dollar volume for each program is divided by the job creation coefficient (number of dollars it takes to generate one job).

Breakdown of jobs created by financing program	FY 1998	FY 1999	FY 2000	FY 2001
7(a)[2]	306,428	342,478	349,688	328,528
504—CDC[3]	53,288	59,821	54,517	68,932
SBIC[4]	91,429	120,000	160,000	120,000
Total	**451,145**	**522,299**	**564,205**	**516,990**



Kevin Yang used to be a Vice President at Bank of Hawaii. Yang's team provided so many SBA-backed loans to clients that the bank handily captured SBA Lender of the Year honors for two years, back-to-back. Small wonder Yang himself caught the entrepreneur bug. Yang struck a business deal with Jason Kim, a Guam attorney and college classmate. Pacific Sunrise, Inc., brings Guam the first outlet of Charley's Steakery, a growing U.S. submarine sandwich franchise. Financing for the first restaurant was obtained–how else?–through a SBA-guaranteed "LowDoc" loan. Charley's Steakery distinguishes itself from other sub sandwich outlets on Guam by showing customers how their food is cooked, Yang said. "We don't cook in the back of the store, Charley's cooks prepare their sub sandwiches on a grill right in front of customers."

➢ ***Performance Goal 3: Provide gap lending and investment financing.***

This performance goal was new for FY 2000. Previously, the goal was stated in terms of the number of loans. The 7(a) and 504 programs and the SBIC equity capital financings amounted to $17.6 billion for an administrative cost to taxpayers for loan making of $122.3 million (not including the subsidy).

Provide gap lending and investment financing	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Target	N/A	N/A	N/A	$18.0B	$19.7B
Actual	$13.3B	$14.0B	$16.4B	$18.0B	$17.6B
Percent accomplishment	N/A	N/A	N/A	100%	89.3%
Administrative cost	N/A	N/A	N/A	$77.9M	$122.3M

The performance goal was not met. One reason is that the economy went into a recession in early 2001, which reduced the volume of 7(a) loans and SBIC financings. Another reason is that

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[2] Job estimate obtained by dividing gross original 7(a) loan dollars by the job creation coefficient of $27,739 per job created.

[3] Job estimate based on SBA's job creation coefficient of $33,366 for loan dollars disbursed 1998-2000. In addition 504 loans have an equally large impact on the number of jobs retained.

[4] SBIC: Based on the Arizona Venture Capital Impact Study made by the Zermatt Group (1999). Study estimates a job creation coefficient of one job for every $35,000 invested in 1999.

private sector lenders have begun to target small businesses with new loan products, simplified loan applications and better terms. This targeting has reduced some of the demand for SBA loans, partly as a result of SBA's new loan products, such as LowDoc and SBA*Express*, that have demonstrated that loans can be made to small businesses with high efficiency and controlled risk.

➢ ***Performance Goal 4: 7(a) and 504 loans for women-owned businesses.***

Even in times of high economic growth, "pockets" of areas exist that are underserved by lenders. For a business to be counted by the SBA as "women-owned," at least 51 percent of the business must be owned by women, as defined in SBA's underlying statute. The performance goal was unrealistically high for FY 1999 and FY 2000 and was adjusted downward for FY 2001. Actual performance has stayed at about the same level since FY 1997. A list of actions to be taken by SBA for performance goals 4 through 6 has been developed. (See information listed under performance goal 6.)

7(a) and 504 loans to 51 percent women-owned businesses	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target	12,124	12,372	15,395	15,395	10,000
Actual	10,788	11,084	10,244	9,921	9,969
Percent accomplishment	89%	90%	67%	64%	99.6%
Administrative cost	N/A	N/A	N/A	$12.5M	$14.6M

If SBA instead had used the definition of 50 percent women-owned businesses, the number of loans to firms would increase markedly. See comparative chart below.

Comparative Analysis	**FY 2000**	**FY 2001**
7(a) and 504 loans to 50% or higher women-owned businesses	20,731	20,668
Total 7(a) and 504 approved loans	48,313	48,170
Share going to 50% or more women-owned firms	43%	43%

➢ ***Performance Goal 5:7(a) and 504 loans to 51% minority-owned businesses.***

This indicator had a goal achievement of almost 98 percent for FY 2001. Actual performance for FY 2000 indicated that the target was unrealistically high and should be reduced for FY 2001. The actual result in FY 2001 was similar to the previous year in spite of the slowdown in the economy.

7(a) and 504 loans to 51% minority-owned businesses	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target	9,841	11,135	11,589	13,333	12,300
Actual	10,616	10,897	12,127	12,120	12,009
Percent accomplishment	108%	98%	105%	91%	97.6%
Administrative cost	N/A	N/A	N/A	$15.3M	$17.6M

➢ *Performance Goal 6: 7(a) and 504 loans to 51% veteran-owned businesses.*

Goal achievement for loans to veteran-owned businesses was greater than 96 percent for FY 2001. This goal was set using 1992 census population data and includes older veterans who no longer seek business ownership as an occupation. This performance goal was re-evaluated in FY 2001 to more appropriately reflect the aging veteran population and the consequent reduction in the population of veterans at an age when they may start a small business. The slowdown in the economy is also a factor in not achieving the goal.

7(a) and 504 loans to veteran-owned businesses	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target	6,957	6,650	7,395	7,395	5,300
Actual	6,607	5,914	5,477	5,215	5,099
Percent accomplishment	95%	89%	74%	71%	96.2%
Administrative cost	N/A	N/A	N/A	$6.6M	$7.5M

Several steps are being taken to improve performance in the number of loans to women-owned, minority-owned and veteran-owned firms. These actions include:

Enterprise Investment Fund, Inc. (EIFI), an affiliate of The Reinvestment Fund, was the first non-bank lender to be named a "Certified Lender" in the SBA's 7(a) Guaranty Loan Program. The designation recognizes EIFI's efforts to increase access to capital for small businesses. EIFI's area of expertise is approving loans to women- and minority-owned small businesses. This specialty has opened up many opportunities for those small business owners who need loans to start their businesses. EIFI's certification covers five counties in Eastern Pennsylvania served by the SBA's Philadelphia District Office. As a Certified Lender, EIFI receives a commitment from the SBA to process complete loan guaranty application requests within three working days. Pictured is **Alan Wilson**, Director of EIFI.

1. Increase marketing efforts to these markets;
2. Utilize the small loan incentives from the SBA's FY 2000 reauthorization legislation to market small loans;
3. Expand the lender liaison activities; and
4. Increase field office visits to lenders.

➢ *Performance Goal 7: Start-up firms financed by 7(a) and 504 loans.*

The SBA is helping thousands of credit-worthy entrepreneurs who cannot get help elsewhere to start new businesses. In 2001, we provided more than 14,000 loans to start-ups. The slowdown in the economy explained most of the reduction in the number of loans provided to start-ups. The steps being taken to increase loans to women-owned, minority-owned, and veteran-owned firms will also be used to increase the number of loans to start-up firms.

Start-up firms financed with 7(a) and 504 loans	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target	N/A	N/A	N/A	N/A	16,700
Actual	17,129	16,640	16,120	16,630	14,283
Percent accomplishment	N/A	N/A	N/A	N/A	85.5%
Administrative cost	N/A	N/A	N/A	$21M	$20.9M

➢ ***Performance Goal 8: Export Sales assisted by SBA loans.***

International trade activities at SBA include trade finance, trade-finance training, export counseling, trade events, export promotion, and strategic and international trade policy.

Small businesses account for 52 percent of employment and 51 percent of private sector output, but only about 20 to 30 percent of U.S. exports. The Nation's overall export performance would improve notably if more small companies participated in the export market. The SBA offers specific loans for small businesses to finance these exports. An intermediate outcome measure is the number and dollar volume of export sales financed by the SBA export loans.

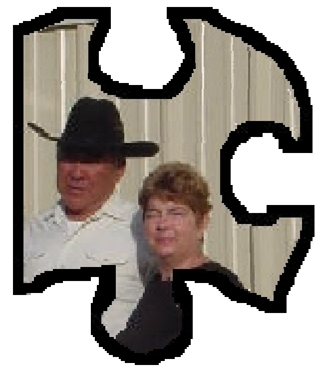
In FY 2001, the SBA guaranteed 425 export loans supporting an estimated $608 million in export sales. In addition, the Agency provided training, counseling and assistance for activities which resulted in an additional $904.1 million in sales for a total of $1.5 billion in sales. The information on sales supported for FY 2001 was obtained directly through client loan applications and client estimates of export sales.

Export sales assisted by SBA loans	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target	N/A	N/A	N/A	$492M	$537M
Actual	$376 M	$413 M	$349M	$675M	$608M
Percent accomplishment	N/A	N/A	N/A	137%	113.2%
Administrative cost	N/A	N/A	N/A	$3.3M	$5.9M

Program Area #3: Increase Access to Procurement Opportunities

The SBA has a statutory responsibility to ensure a fair share of the $200 billion in Federal procurement is awarded to all categories of small businesses. The SBA's objective is to increase Federal procurement dollars to small businesses in order to assist small and small disadvantaged entrepreneurs participate fully and successfully in the American economy.

Henry Vallo started SSS Construction, Inc., in 1978 in Bernalillo, New Mexico, with his wife, **Karin**, and named the business after an uncle, Chief Sunny Skies. Their son, Daniel, manages the Landscaping Division. Another son, Marc, commands the Utility Division. Henry gained experience in this field, beginning as a laborer and advancing to heavy equipment operator. By 1978, Henry said, "the desire to start my own business was constantly with me." He and his wife worked extra jobs for while Henry studied for his contractor's license. SSS Construction, Inc., is a Native American owned 8(a) contractor. They have worked on several contracts for government agencies. They added landscaping services in 1988 and residential remodeling in 1992. The Vallos state that financing has been the biggest problem they have had to face in the business. Today, they have fourteen employees and provide job opportunities and training. Their motto is: *"Never Give Up."*



SBA works 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 its Nation's general economic health and research and development efforts. SBA reviews cases in which Federal Agencies have "bundled" several small procurements into one large contract. The review is done to ensure contracts not suitable for small businesses to perform as prime contractors still provide subcontracting opportunities for small businesses. SBA also works to educate small businesses about the constantly changing procurement environment and the need to engage in the electronic commerce marketplace.

Agencies report actual performance results through the General Services Administration's (GSA) Federal Procurement Data System (FPDS). Based on preliminary FY 2001 data, agencies failed to achieve the statutory goals, except for the 5 percent small disadvantaged business goal. The small businesses share of Federal prime contracts was 22.7 percent, which is slightly above the FY 2000 results.

SBA has developed a strategic plan to facilitate the achievement of performance goals 9, 10, 12 and 13. SBA will secure commitment from the heads of the major departments and agencies to achieving the statutory goals. We will focus our efforts on the large procuring agencies (Department of Defense, Department of Energy, and the National Aeronautics and Space Administration (NASA)) by helping to develop innovative acquisition strategies to increase opportunities for small businesses. These agencies must achieve their goals in order to meet the government-wide statutory goals.

SBA will continue to be strong advocates for the 8(a) and HUBZone programs and promote opportunities for women-owned small businesses, service disabled veteran-owned and minority-owned firms. To enhance the effectiveness of the 8(a) Program, SBA will develop and implement a plan that will focus on providing business development assistance to build management and technical capacity to ultimately result in a more equitable distribution of program benefits. Agencies must place more emphasis on providing opportunities for qualified

HUBZone small businesses. To help in this effort, SBA will continue to provide outreach and training to contracting officials and small businesses. SBA has developed a new tool on the website, the Contracting Officer Gateway. This tool provides easy access to the database of certified HUBZone firms. Finally, based on recent statutory requirements, SBA has developed regulations to implement a set-aside program for women-owned small businesses. When implemented, this will be another tool to help agencies achieve their women-owned small business goals.

➢ ***Performance Goal 9: Federal prime contract dollars awarded to small businesses.[5]***

The SBA negotiates prime and subcontracting goals for small businesses with each Federal agency. Agencies report actual performance results through the GSA's FPDS.

Federal prime contract dollars awarded to small businesses	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target (statutory goals)	20.0%	23.0%	23.0%	23.0%	23.0%
Actual	22.6%	23.4%	23.1%	22.3%	22.7%
Percent accomplishment	113%	102%	100%	97%	98.6%
Administrative cost	N/A	N/A	N/A	$7.2M	$8.0M

➢ ***Performance Goal 10: Federal prime contract dollars awarded to small disadvantaged business (including 8(a) firms).***

SBA was successful in achieving the goal of prime contract dollars to small disadvantaged businesses, including 8(a) firms.

Federal prime contract dollars awarded to small disadvantaged businesses (including 8(a) firms)	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target (statutory goals)	5.0 %	5.0 %	5.0 %	5.0 %	5.0 %
Actual	6.2%	6.5%	6.6%	6.5%	6.8%
Percent accomplishment	124%	130%	132%	130%	136%
Administrative cost	N/A	N/A	N/A	$2.1M	$4.9M

[5] FY 2001 year-end numbers for Federal procurement goals represent preliminary numbers from FPDS. Applies to performance goals 9-13.

➢ ***Performance Goal 11: Federal prime contract dollars awarded to women-owned small businesses.***

Federal prime contract dollars awarded to women-owned small businesses	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target (statutory)	5.0 %	5.0 %	5.0 %	5.0 %	5.0 %
Actual	1.9 %	2.2 %	2.5 %	2.3%	2.5%
Percent accomplishment	38 %	44 %	50 %	46 %	50%
Administrative cost	N/A	N/A	N/A	$0.8 M	$0.9M

➢ ***Performance Goal 12: Federal prime contract dollars awarded to service disabled veteran-owned small businesses.***

Federal prime contract dollars awarded to service disabled veteran–owned small businesses	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target (statutory)	N/A	N/A	N/A	N/A	3.0%
Actual	N/A	N/A	N/A	N/A	0.24%
Percent accomplishment	N/A	N/A	N/A	N/A	8%
Administrative cost	N/A	N/A	N/A	N/A	$0.08M

➢ ***Performance Goal 13: Federal prime contract dollars awarded to HUBZone small businesses.***

Federal prime contract dollars awarded to HUBZone small businesses	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target (statutory)	N/A	N/A	1.0 %	1.5 %	2.0 %
Actual	N/A	N/A	0.0 %	0.3 %	0.71%
Percent accomplishment	N/A	N/A	0.0 %	20 %	35%
Administrative cost	N/A	N/A	N/A	$5.8 M	$0.3M

➢ ***Performance Goal 14: 8(a) client success rate three years after graduation.***

The goal of the 8(a) program is to help small disadvantaged-owned firms become viable, successful enterprises by providing technical, management and Federal contract assistance. The performance measure is the percentage of graduated firms that are economically viable three years after graduation. Economically viable is defined as firms that are independently operated – i.e., have not been sold or gone out of business. The indicator is measured by field surveys, FPDS data, or the Dun and Bradstreet database for the next fiscal year.

As part of the SBA's efforts to identify a more informative outcome, a determination was made, with the guidance of the OIG, to survey firms exiting the 8(a) Program during a three-year period prescribed by statute. Use of this information helps the SBA identify success in the program and evaluate the assistance and training provided to the small business according to how many companies exit the program and survive and prosper on their own.

This information is collected manually by approximately two hundred staff in nearly 70 district offices, and is entered into an internal database. Reliability of data is a function of many factors, including correctness of characterization of firm success, completeness, accuracy, and timeliness of data entry. This process is not complete until the end of the second quarter of the succeeding fiscal year. Performance, therefore, is to be evaluated on FY 2000 results, which was 93 percent.

8(a) client success rate 3 years after graduation	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target	N/A	N/A	N/A	70%	68%
Actual	41%	65%	68%	65%	N/A
Percent accomplishment	N/A	N/A	N/A	93%	N/A[6]
Administrative cost	N/A	N/A	N/A	$30.6M	$28.7M

Givens Cleaning Contractors, Inc., of Wichita, Kansas, is SBA's 2001 8(a) Graduate of the Year. When the firm entered the 8(a) Program in January 1991, it was a one-man janitorial operation. With little capital, equipment, or management training, **Edward Givens**, the firm's founder, worked many 16-18 hour days to establish the business and make a living for his family. He now employs more than 75 people. Givens credits the SBA with providing exceptional training in business management, bidding and estimating, financing and contract opportunities. Givens and his sons, Darryl and Charles, are now able to compete equally in the market. The company developed competencies in restoring fire, water and smoke damage, air-duct restoration, mold remediation and ultra-sonic cleaning. Givens' philosophy is to never forget where he came from and to help wherever and whenever needed. Company policy is to seek out other minority firms as vendors and subcontractors and to assist others through mentoring programs, joint ventures and counseling.

Program Area #4: Develop Entrepreneurs Through Technical Assistance

Besides inadequate access to capital and credit, perhaps the most significant impediment to small business success is the lack of business development assistance, including management and technical assistance and access to timely and accurate information, training, counseling, and education. A vast network of resource partners including about 1,000 Small Business Development Centers (SBDCs); 11,500 Service Corps of Retired Executives (SCORE) volunteers; 78 Business Information Centers (BICs); 19 U.S. Export Assistance Centers (USEACs); 83 Women's Business Centers (WBCs); and electronic access points (Internet), such as its Online Women's Business Center, provide support to entrepreneurs.

6 Due to the extended time it takes to collect information on this indicator, performance is based on FY 2000 actuals.

➢ ***Performance Goal 15: The number of clients counseled and trained by Partners.***

The SBA provides access to business development assistance for small businesses and entrepreneurs wishing to start a new business or grow an existing business. The vast majority of the SBA assistance is provided through a number of resource partners including SBDCs, SCORE, WBCs, Drug Free Workplace Intermediaries, BICs and Tribal Business Information Centers. In FY 2001, SBA provided counseling and training to over 1.3 million clients and served approximately 200,000 unique student users through the SBA Online Classroom and served 59,118 clients through SCORE e-mail counseling at a cost of $145.2 million.

Clients counseled and trained by Partners	FY 2001 Target	FY 2001 Achievement	Goal Achievement
SBDC	612,000	609,646	99.6%
SCORE	394,500	387,938	98.3%
OSCS[7]	79,800	92,071	115.3%
BIC	134,400	142,148	105.7%
TBIC	4,000	5,385	134.6%
WBC	50,000	60,767	121.5%
Drug Free Workplace	N/A	10,974	N/A
Other[8]	N/A	2,983	N/A
SUM	**1,274,700**	**1,311,912**	**102.9%**

➢ ***Performance Goal 16: Customer satisfaction rate WBC.***

In September 2000, SBA contracted with the University of Michigan to conduct surveys of clients from the SCORE, One Stop Capital Shops (OSCS), and WBCs using the American Customer Satisfaction Index. The contractor conducted the interviews in February and March and submitted the final report in the spring of 2001. The government-wide average for customer satisfaction is 69 percent. Even though SBA did not reach its target in this performance indicator, the results were higher than the Government average. This indicates that SBA set its target customer satisfaction goal too high.

Customer satisfaction rate WBC	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Target	N/A	76%	N/A	N/A	80%
Actual	N/A	76%	N/A	N/A	75%
Percent accomplishment	N/A	100%	N/A	N/A	93.7%
Administrative cost	N/A	N/A	N/A	N/A	$10.3M[9]

[7] Funding was not provided for the OSCS program in FY 2002.
[8] Represents direct counseling and training provided by the SBA's district offices.
[9] Costs associated with the ED graphs on customer satisfaction represent the fully loaded costs for each ED program using the SBA's Managerial Cost Accounting/Modeling for each ED program.

➢ ***Performance Goal 17: Customer satisfaction rate BIC.***

Customer satisfaction rate BIC[10]	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Target	N/A	N/A	N/A	93%	93%
Actual	N/A	N/A	N/A	93%	88%
Percent accomplishment	N/A	N/A	N/A	100%	94.6%
Administrative cost	N/A	N/A	N/A	$11.8M	$11.6M

➢ ***Performance Goal 18: Customer satisfaction rate OSCS.***

Customer satisfaction rate OSCS	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Target	N/A	N/A	N/A	89%	80%
Actual	N/A	N/A	N/A	89%	67%
Percent accomplishment	N/A	N/A	N/A	100%	83.7%
Administrative cost	N/A	N/A	N/A	$7.9M	$7.3M

➢ ***Performance Goal 19: Customer satisfaction rate SBDC.***

Customer satisfaction rate SBDC[11]	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Target	N/A	N/A	N/A	N/A	80%
Actual	N/A	85%	N/A	N/A	87%
Percent accomplishment	N/A	N/A	N/A	N/A	108.7%
Administrative cost	N/A	$71.6M	N/A	N/A	$93.2M

➢ ***Performance Goal 20: Customer Satisfaction rate SCORE.***

Customer satisfaction rate SCORE	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
Target	N/A	N/A	N/A	N/A	80%
Actual	N/A	N/A	N/A	N/A	68%
Percent accomplishment	N/A	N/A	N/A	N/A	85%
Administrative cost	N/A	N/A	N/A	N/A	$8.8M

[10] The BIC survey was developed and conducted in-house by SBA.
[11] The Association of Small Business Development Centers supplies the customer satisfaction information for the SBDC program.

In 1976, a robbery at Mike Haun's house inspired him to develop a home security system. Tom Bell was one of Mike's first customers. Mike and Tom attended workshops conducted by the SBA and the Service Corps of Retired Executives (SCORE). The company started operations in 1977, selling telephone systems to compliment the security systems. The telephone systems business had more potential. They sold the security portion of the business, then became the first cellular telephone dealer in Central Ohio. By 1993, the company had grown to 28 employees with sales of $1.8 million. They secured an $800,000 SBA backed loan to purchase a building. That loan was paid in full. They now employ 45 people, have sales over $5,000,000, and serve clients all over the United States. Regarding the SCORE workshops Mike Haun attended, Mike said, "You know, I still have my notes from those seminars". Pictured are **Tom Bell**, left, and **Mike Haun**.

Strategic Goal #2: Help Families and Businesses Recover from Disasters

In the wake of physical disasters, the 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. This program helps homeowners, renters and businesses of all sizes, including nonprofit organizations and is the primary form of assistance for non-farm, disaster losses. The SBA assists in disasters through two programs: Home Disaster Loans and Business Disaster Loans.

Loans are made at favorable terms and conditions to cover uninsured losses of real and personal property and economic injury caused by disasters. The program provides Federal assistance for non-farm private sector losses.

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

The primary challenge facing SBA's Disaster Assistance Program is responding to the unpredictability of disasters; making it difficult to plan for resource requirements in a fiscal year. For example, in FY 2001 the Houston floods presented several logistical obstacles. The initial disaster assessment underestimated the amount of damage, and at the peak SBA was receiving approximately 1,200 to 1,500 loan applications a day. This number of files strained the site-verification function in particular. A process that normally takes 2 to 3 days to accomplish was stretched to an average of 10 days. SBA had to quickly train, hire, and locate staff to reduce a mounting backlog, which had quickly developed in order to meet the program goal of processing loans within 21 days of receipt.

Another challenge came in the wake of the events of September 11. Traditionally, about 80 percent of SBA's disaster loan applications are from homeowners and renters. What followed September 11 was a different mix. About 90 percent of the applications received were from small business owners requesting economic injury. This placed an increased demand on the business loan officers and on recruiting because of the higher skill sets that are required to process these complex loan requests. All this took place as SBA cut the response time from 21 to 10 days to respond to the terrorist attacks.

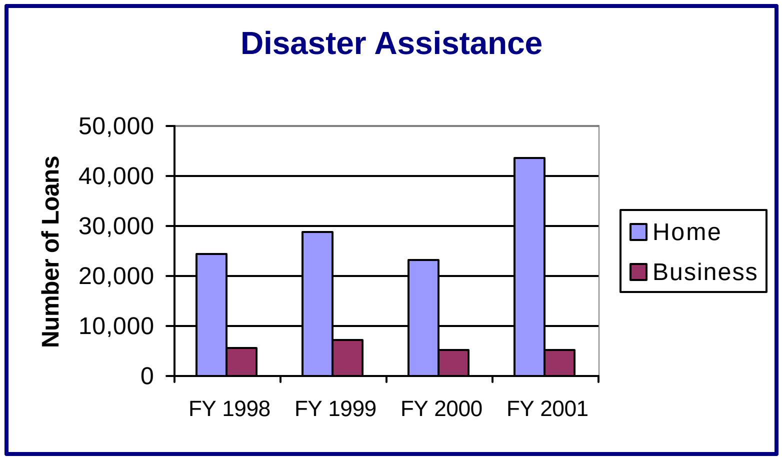
In FY 2002 and FY 2003, SBA is continuing to seek ways to improve response times and reduce costs through a modernization effort. The Office of Disaster Assistance is focusing on internal streamlining. Areas of focus include providing applicants with the ability to apply online or by telephone and the use of electronic files for processing and managing the program.

Recent legislation was passed to establish two additional categories of business disaster loans. The Pre-disaster Mitigation Pilot Loan Program is a 5-year program that provides financial assistance to small businesses located in support of Federal Emergency Management Agency's formal mitigation program to protect property from future disaster damage. The legislation authorizes SBA to use up to $15 million of loan authority in each fiscal year. The Military Reservist Economic Injury Loan Program provides financial assistance to small businesses that are economically impacted because its owner(s) or employee(s) are called up for active duty in response to a military conflict.

The dollar volume of approved loans varies widely from year-to-year. SBA's primary objective is to offer victims quality, timely, easy access, and cost-effective help to rebuild their homes and businesses and return to work.

Loan volume

Disaster Assistance	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Number of approved Home Loans	38,027	24,374	28,811	23,070	43,519
Number of approved Business Loans	11,488	5,780	7,365	5,148	5,333
Jobs retained as a result of SBA disaster business loans	N/A	N/A	35,196	33,116	30,654



The number of applications processed from 1997 to 2001 indicates the variability of this program (107,000, 76,000, 105,000, 63,000 and 122,000 respectively). The deterioration of the 21-day performance indicator in FY 1999 was primarily due to the strain on human resources in responding to widespread multiple disasters, including Hurricane Floyd that affected 10 states along the east coast and major widespread flooding in Texas. In FY 2001, the actual performance of the 21-day standard improved to 94 percent. This included 43,519 home loans at 95 percent and 5,333 business loans at 88 percent.

Customer satisfaction is a key element of success for this program. SBA's in-house customer satisfaction survey for the disaster program has not been completed. It is currently at OMB for review.

➢ ***Performance Goal 21: Field presence within 3 days of a disaster declaration.***

Federal rules establish who may receive a disaster loan. Indicators 21 and 22 measure how quickly the SBA responds and processes applications following a disaster declaration.

Field presence within 3 days of a disaster declaration	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target	N/A	97%	98%	98%	98%
Actual	95%	100%	100%	100%	100%
Percent accomplishment	N/A	103%	102%	102%	102%
Administrative cost	N/A	N/A	N/A	$3.0M	$15.8M

➢ ***Performance Goal 22: Loan applications processed within 21 days.***

Loan applications processed within 21 days	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target	N/A	90%	80%	70%	80%
Actual	87%	77%	60%	91%	94%
Percent accomplishment	N/A	86%	75%	130%	117.5%
Administrative cost	N/A	N/A	N/A	$84.8	$95.9M

➢ ***Performance Goal 23: Disaster customer satisfaction rate.***

Disaster customer satisfaction rate	**FY 1997**	**FY 1998**	**FY 1999**	**FY 2000**	**FY 2001**
Target	N/A	N/A	N/A	81%	80%
Actual	N/A	N/A	N/A	81%	N/A
Percent accomplishment	N/A	N/A	N/A	100%	N/A
Administrative cost	N/A	N/A	N/A	$105M	$111.7M

Jose Antonio Blanco risked it all when he came to Atlanta three years ago to find a location for his "Chicago Supermarket" food store. He and his partners, Guillermo and Patricia Medina of Chicago, leased a building in Pinetree Plaza off Buford Highway, but they only had enough money for a few months rent. Fortunately, they were able to secure a 7-year loan for $400,000 in early 1999 to install equipment, hire employees and bring in food stocks. The 7(a) loan was 75 percent guaranteed by the SBA. "If we had not received the SBA guaranteed loan from the bank, our project would never have gotten off the ground," says Blanco. He also got help from the Hispanic Chamber of Commerce and the Atlanta Minority Business Development Center. The food store, with 28 employees, is one of the few fully stocked Hispanic supermarkets in the city.

Corporate Management Strategies

Strategy #1: Manage for Results

The Results Act requires Federal agencies to institute behavior changes, measure and declare the value of public sector programs, and improve internal management and decision-making. The core of the Act is the ability of a Federal agency to be transparent (i.e., define its work, its success, and its costs) and to be accountable (i.e., measure and report on progress). To manage for results, SBA must ensure that performance information is available, valid and verifiable, and that it has a cost allocation system that links resources to results achieved.

Major Accomplishments in FY 2001:

- Developed guidance on the preparation of outcome-based performance indicators and the improvement of data quality.
- Developed an activity based budgeting process to link resources to strategic goals.
- Produced SBA's first Integrated Performance and Accountability Report in March 2001.
- Integrated FY 2002 Annual Performance Plan with the President's budget.
- Carried out customer satisfaction surveys (SCORE, OSCS, and WBC clients).
- Evaluated the SBDC program.
- Conducted a preliminary study of how to develop an econometric approach to estimate the demand for 7(a) loans.

Strategy #2: Transform the Workforce

An organization's workforce represents the single largest resource in most agencies and, therefore, needs to be managed strategically. This means assessing the current capabilities and skills of the workforce; developing employee performance plans; recruiting and developing new employees; creating viable succession and retention plans; modernizing human resource management with electronic processing; reducing the number of organizational layers; and moving more personnel into front line positions.

Mamie Salazar Harper is the owner of M Rentals, Inc., in El Paso, Texas, operating under the name of Fiesta Rent-To-Own. Her lease-purchase stores provide affordable options for consumers who want to rent but can eventually purchase appliances, electronics, furniture and computers. She moved to El Paso and started her business in 1990. Without benefit of family, friends, formalized training, or a college degree, she started her business with a "no money down, take over payments" of another rental company franchise. Mamie received an SBA guaranteed loan of $350,000 in 1993., She later received and paid off 3 more SBA guaranteed loans. In 2001, she received her 5th such loan to purchase two competitors' stores. Mamie is active on the boards of several trade organizations and has testified twice before Congress on pending legislation. Mamie spoke at the White House Economic Roundtable in 2001. She volunteers time with the SBA and the Service Corps of Retired Executives.

Human capital planning is more important than ever because technology, an increasing demand for small business information and training, and changes in loan processing functions will require significant changes in SBA personnel needs. SBA will have fewer employees involved in loan processing, and more employees focused on outreach and lender oversight. Additionally, SBA will increasingly require personnel proficient in using and applying new technologies.

Major Accomplishments in FY 2001:

- Completed workload and staffing analysis of Headquarters.
- Provided 1,087 instances of training (i.e., one person taking one course).
- Completed competency models for the Agency's business development function and the lender oversight function.
- Continued with the leadership development curriculum by training 106 senior managers and supervisors.
- Drafted a plan to have a portion of its workforce involved in some form of telecommuting.
- Conducted the first National Conference for District Office Veterans Affairs Officers.

Julie Damon, Executive Director of the Self Employment for Enterprising Disabled (S.E.E.D.) Institute in Irvine, California, was named National Home-Based Business Advocate of the Year 2001. Damon was nominated for her efforts and advocacy in support of self-employment as a viable option for people with disabilities. The S.E.E.D. Institute provides training and support to individuals with disabilities who are seeking to start their own home-based businesses. Damon has had her share of challenges; in 1990, she lost a significant portion of her central vision to Best's Disease. As a college student, she met many other students with disabilities interested in starting their own businesses. In 1995, Damon approached Irvine Valley College about sponsoring a 1 day seminar just for people with disabilities who wanted to be entrepreneurs. The seminar was a huge success and, in February of 1996, the S.E.E.D. Institute was born. Its 3 month Business Basics program teaches individuals how to start and run a home-based business. Since 1999, seventy-four individuals have completed the program and forty-one went on to start or are in the process of starting their own businesses.

Strategy #3: Modernize Information Systems

SBA has undertaken a multi-year information technology (IT) management improvement and systems modernization effort that upgrades its infrastructure, offers electronic access, and ensures timely and accurate information. In accordance with Administration strategies and SBA strategic goals, the Agency's future technology environment must be able to support:

- "Anytime, Anywhere" access to SBA services products and information.
- Increased face-to-face communications, internally within the SBA and externally with resource partners and small businesses through use of electronic interactive communications.
- Enterprise-wide databases that transcend separate systems and office boundaries.
- A reliable, expandable, high-capacity and cost-efficient information technology and communications infrastructure based on acknowledged technical standards, to support the SBA's work processes, as well as public access to its products and services.
- Timely and relevant information made available to all employees.
- An empowered workforce that can realize the productivity gains made possible by well-designed information technology.
- Improved delivery of services, products and information to small businesses.

Modernization efforts include:

- Implementing Enterprise architecture which is a blueprint for systematically and completely defining the organization's current (baseline) and desired (target) technology environment in support of its business goals.
- Developing an IT investment management guide as the Agency blueprint for selecting, controlling and evaluating IT projects within the Agency's IT projects portfolio.
- Implementing a formal investment process including an active investment review council, investment guidance, and the Information Technology Investment Portfolio System (ITIPS) automated reporting system.
- Improving systems security through institutionalizing its security program management procedures, developing an organizational framework for identifying and assessing risks and deciding what mix of policies and controls are needed, and regularly evaluating the effectiveness of IT security policies and controls, and acting to address any identified weaknesses.

Major Accomplishments in FY 2001:

- Implemented a pilot of electronic loan applications for loans processed through the Preferred Lending Partner (PLP) Center for a small set of test lenders.
- Implemented a new lender information system as part of the Loan Monitoring System (LMS): Partner Identification and Management Systems (PIMS).
- Continued implementation of the Clinger-Cohen Act with implementation of new procedures such as the Information Technology Investment Manual (ITIM) and the development of other draft procedures such as IT Architecture maintenance, project management, and software acquisition.
- Completed SBA's Government Paperwork Elimination Act (GPEA) implementation plan.

Strategy #4: Improve Financial Management

Timeliness and accuracy of financial management information is essential for SBA. The GAO has recognized SBA for its analytical work on loan subsidy rates, its work on establishing a comprehensive cost allocation system, its integration of the budget and planning processes, and its implementation of internal controls.

Major Accomplishments in FY 2001:

- Received its sixth consecutive unqualified audit opinion on its FY 2001 financial statements.
- Improved internal control framework through computer-based training and management assessments of all higher risk areas.
- Continued to develop and enhance subsidy rate analyses, including completing limited econometric analysis and developing a more robust asset sales valuation model.
- Implemented a web-based cost allocation survey and system to tie resources to activities and results. Began integration of cost accounting with the budget planning and execution processes.
- Completed implementation of the first phase of a modern, integrated financial management system to serve as SBA's core financial management system.
- Increased the use of e-commerce for financial transactions with SBA employees and the public.

Strategy #5: Improve Credit Program Management

The SBA has a loan portfolio of approximately $53 billion (gross outstanding dollars). Improving loan portfolio performance has an impact on the loan subsidy rates and the fees charged to borrowers.

SBA's Office of Lender Oversight (OLO) has two major responsibilities: (1) monitoring and overseeing the SBA's lending and investment partners; and (2) identifying, quantifying, assessing and evaluating the credit and program risk in the SBA's loan portfolio. OLO achieves these responsibilities through effective off-site risk management analysis and on-site examinations and regulatory reviews. OLO's overall approach to oversight is risk based. Analyses conducted and resources utilized are prioritized toward those areas representing the most risk to the SBA in terms of both credit and program risk.

Four separate measures evaluate results in this area: currency rates for 7(a), 504 and disaster home loans and recovery rates for 7(a) loans that have been purchased.

	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
7(a)- currency rate	76.1%	89.4%	89.8%	90.4%	92.2%
504- currency rate	97.5%	98.0%	98.0%	98.4%	99.6%
Disaster home loans- currency rate	89.7%	90.8%	90.6%	89.6%	90.7%
Disaster business loans- currency rate	80.9%	82.9%	85.0%	85.1%	89.4%
Net recoveries of purchased 7(a) loan guarantees	22.2%	21.9%	22.5%	23.0%	23%

Major Accomplishments in FY 2001

- Improved SBA's loan portfolio management through centralized loan servicing, improvements in loan liquidation procedures and sales of loan assets to the private sector, oversight provided by the new OLO, the Risk Management Committee and the implementation of the LMS.
- Developed and began testing of a lender ranking model designed to identify lenders with high-risk financial conditions characteristics.
- Conducted initial risk management analysis to identify those individual lenders representing the highest risk to the Agency in terms of loan volume and/or loan performance.
- Completed seven SBLC safety and soundness examinations. Utilized a risk-based approach to examinations by assigning levels of concern to each of the SBLCs. Based on the level of concern assigned, SBLCs are subject to examinations on a 12 to 24 month cycle.
- Completed the third cycle of PLP compliance reviews mandated by Congress and began the fourth cycle with programmatic changes to ensure that results are better communicated, more meaningful and available to program officials in a timely manner to make decisions regarding a lender's continued program participation.
- Developed and implemented a tracking system to assess and track district office progress in completing reviews of all non-PLP lenders over a 3-year cycle. (FY 2001 was the second year of the 3-year cycle.)

Strategy #6: Create Electronic Government

The Internet has become an important channel for outreach to small businesses. Most businesses are on-line. According to a study conducted for SBA in early 2001 by Access Markets International, about 5 million of the 7.5 million small businesses with employees (67 percent) are online. The Internet is rapidly becoming an important delivery channel for SBA. The average number of weekly "hits" at SBA's websites have grown from less than 1 million in 1995 to 10 million in 2001.

Major Accomplishments in FY 2001:

- SBA developed the *BusinessLaw.gov* website. The law affects every business from licensing requirements to product liability. Many small businesses fail because they do not seek legal help at critical development stages. Determining which laws and regulations apply, understanding what they require and complying with them are ominous tasks. These tasks are further complicated by the fact that the rules are imposed by numerous different agencies at all levels of government: Federal, state and local.

  The primary goal in developing *BusinessLaw.gov* is to ease the burden of laws and regulations on small businesses by collecting legal information and providing a central location where it can be accessed. In addition, the website offers access to compliance assistance tools and electronic licenses and permits in selected locations. By providing greater access to important legal and regulatory topics in plain English, SBA will be helping small businesses identify potential problems early and take preventative action.

- OMB has initiated 23 Quicksilver initiatives that seek to streamline the provision of citizen services using the Internet. SBA is the managing partner for the Business Compliance Assistance initiative. The initiative includes, as participating partners, the Departments of Interior, Transportation, Energy, and Labor, and along with EPA, OSHA, IRS, and INS. SBA is also participating in six other Quicksilver initiatives:
  - E-loans
  - Eligibility assistance on-line
  - Federal asset sales
  - International trade process streamlining
  - Disaster assistance and crises response
  - Integrated acquisition portal

Program and Unit Costs

The SBA has conducted cost studies for many years to identify the operating expenses to be allocated to the business and disaster programs in its budget. In recent years, the need for cost reporting has increased. The Government Performance and Results Act of 1993 placed a new emphasis on identifying agency program costs. Also, the Federal accounting standard on cost accounting issued in 1997 requires agencies to develop cost-accounting systems for use in management and financial reports. Finally, the CFO financial statements required a report of program costs beginning with FY 1999 reporting.

In order to meet the above requirements, the SBA contracted for cost-accounting support for its fiscal 1997 reporting of costs. The Activity Based Costing (ABC) methodology is used for the SBA's cost accounting with the OROS® cost-accounting model. Using ABC, the SBA's program activities are defined and surveys of agency personnel are used to relate costs to these program activities. These activity costs are then, in turn, related to the "cost objects," i.e., SBA services, such as guaranteed loans or disaster loans.

Besides financial reporting, the SBA also uses ABC-developed costs for management decision-making. The cost of making and servicing loans, for example, provides information for decisions on resource allocation within the SBA and for outsourcing alternatives. In addition, the SBA began using Activity Based Budgeting for the development of fiscal 2001 year program office budgets. ABC and ABB have provided a modern management tool for the SBA's use in strategic and operating decision-making. The identification of program costs is another important step for the SBA.

The following table shows allocated operating expenses by SBA program and major program areas. These exclude subsidy, asset sales and other program costs.

Program area and activities	Operating Expense	Sum by Program Area
Disaster		
LM-Home Disaster Loans	99,599,250	
LM-Business Disaster Loans	12,207,883	
LS-Routine Home Disaster Loans	13,222,091	
LS-Routine Business Disaster Loans	5,112,034	
LS-ACS Loans	7,022,000	
LS-Intensive Home Disaster Loans	4,250,131	
LS-Intensive Business Disaster Loans	2,358,027	
LL-Home Disaster Loans	3,510,379	
LL-Business Disaster Loans	3,799,795	151,081,591
Business Loan Programs		
LM- PLP loans	5,449,192	
LM-CLP/Regular 7(a) loans	38,359,424	
LM-SBA Express Loans	3,843,672	
LM-Low Doc Loans	7,274,083	
LM-IT Loans	3,747,669	
LS-PLP Loans	3,661,127	
LS-CLP/Regular 7(a) loans	9,637,455	
LS-SBAExpress Loans	1,300,118	
LS-LowDoc Loans	6,202,499	
LS-IT Loans	200,144	
LL-PLP Loans	4,525,705	
LL - CLP/Regular 7(a) loans	6,590,400	
LL-SBA Express Loans	103,389	
LL-Low Doc Loans	5,089,967	
LL-IT Loans	61,499	
Lender Oversight/Risk Management	6,669,471	
Asset Sales Support	6,605,550	
Microloan Program	23,806,768	
Rural Pilot Program	285,926	
SMI Phase I (LMS)	8,570,122	
SMI Phase II (JAAMS)	6,077,183	148,061,363
Development Company Programs		
LM-Regular 504 Loans	11,564,353	
LM-PCLP Loans	492,423	
LS- Regular 504 Loans	4,082,225	
LS-PCLP Loans	173,337	
LL-PCLP Loans	21,774	
LL-Regular 504 Loans	3,498,374	19,832,486

Program area and activities	Operating Expense	Sum by Program Area
Small Business Investment Company (SBIC) Programs		
SBIC Debentures	5,422,364	
SBIC Participating Securities	15,929,340	
New Market Venture Capital	672,043	22,023,748
Surety Bond Guarantees Program		
Surety Bond Guarantees	3,883,444	3,883,444
Business Development Programs		
BD-Section 8(a) Program	28,702,187	
BD-Section 7(j) Program	6,624,343	
BD-Small Disadvantaged Business	2,508,658	
HZ-HUBZones Program	4,781,546	42,616,734
Government Contracting Programs		
GC-Prime Contract Program	8,087,245	
GC-Subcontracting Program	3,544,867	
GC-Natural Resources Sales	1,062,471	
GC-PRONet Program	446,667	
GC-Competency Certification Program	1,571,634	
GC-Preference Goaling Program	526,931	
GC-Fed Contract - Women Bus Owners	1,696,198	
GC-Fed Contract - Veteran Bus Owners	148,409	
PPL-SBIR	1,241,116	
PPL-Size Standards Program	2,085,605	
PPL-FAST Program	108,332	
PPL-Rural Outreach Program	904,995	21,424,471
Entrepreneurial Development Programs		
ED-SCORE	8,833,317	
ED-Women's Business Ownership	17,533,696	
ED-Small Business Development Centers	93,272,655	
ED-Drug-Free Workplace	5,043,997	
ED-One Stop Capital Shops	7,310,663	
ED-Business Information Centers	11,609,280	
ED-Youth Entrepreneurship	343,180	
ED-SB Classroom & e-commerce	131,914	
ExD-Disability Initiative	20,656	
BD-Business Linc	2,339,958	
PRIME	125,858	
USEAC Program	2,233,458	
Export Promotion	2,141,654	
ED-Native American Affairs	1,425,954	152,366,241

Program area and activities	Operating Expense	Sum by Program Area
Improving Business Environment		
Economic Research for Advocacy	2,500,530	
Inter-Agency Advocacy	4,535,730	
Veteran's Business Corporation	4,000,000	
Veterans Affairs	3,011,735	
NCS-Ombudsman	891,421	
Women's Business Council	794,977	15,734,392
Unassigned Costs		
Reimbursable Programs	2,479,847	
Inspector General	14,295,594	
Congressional Initiatives	15,176,305	31,951,746
Total Operating Expense	**608,976,216**	**608,976,216**

Unit Cost Information

Unit costs provide important management information on the cost of producing goods and services. SBA's managerial cost accounting system makes it possible to identify the fully loaded administrative costs (expenditures) of the various program activities in support of SBA's mission. Fully loaded costs are the most relevant definition of resources used from the perspective of an external stakeholder.

The following table shows FY 2001 unit costs for some of SBA's outputs. There are some limitations in the methodology used to generate the estimates:

- SBA's administrative appropriation, in many cases, does not reflect total costs associated with a particular activity or indicator of performance. Other resources may be consumed in the achievement of these results, such as in-kind and cash contributions, program income, fees, interest, and subsidy appropriations. For this presentation, these additional costs are not included, and may not be fully available.

- SBA's method of program delivery and level of service to an individual client can vary greatly across activities and indicators that may appear in name to be similar. For example, the level of effort, costs, and complexity, and "value" of a section 7(a) loan that is approved is different than that of a disaster loan, or an SBDC counseling session is different than one provided by a

The Fresno District Office of the SBA recently recognized **Jeffrey Leon Hinders**, owner of Leon Construction, Inc. of Grover Beach, as the 2001 Central California Small Business Person of the Year. Awarded annually, the designation recognizes a business owner who exemplifies the entrepreneurial spirit and honors his or her individual contributions to the community." Antonio Valdez, District Director of the Fresno SBA office said, "The Small Business Administration is very proud of the tremendous growth and success that Jeffrey Hinders has achieved with Leon Construction. His company serves as a role model for other small business entrepreneurs."

WBC. Therefore, one should be careful when comparing unit costs across activities and indicators without full understanding of unique factors.

- SBA's cost allocation model is still being improved. This means that estimated costs and unit costs reflect the cost allocation methodology at its current level of development.

Unit costs are based on operating expenses and do not include credit program subsidy expenses, interest, fees and other income. The estimated unit costs for 7(a) PLP, LowDoc and SBA Express loan making suggest that SBA's strategy of delegating part of its authority for credit decisions and simplified processes is resulting in lower administrative costs. The unit costs for the Entrepreneurial Development programs have not been calculated as data is neither available on the total expenditures by SBA partners nor on comparable program outputs to permit meaningful comparisons.

Activity	**Actual FY 2001 Performance**	**Operating Expenses**	**Estimated Unit Operating Cost**
7(a) Preferred Lender Program (PLP) Loan Making	13,426 loans approved	$5,449,192	$406 per loan
7(a) Regular &Certified Lender Program (CLP) Loan Making	8,614 loans approved	$38,359,424	$4,453 per loan
7(a) LowDoc Loan Making	8,738 loans approved	$7,274,083	$832 per loan
7(a) SBA Express Loan Making	11,755 loans approved	$3,843,672	$327 per loan
504 Certified Development Company (CDC) Debentures	4,481 debentures approved	$11,564,353	$2,581 per debenture
504 Premier CDC Debentures	732 debentures approved	$492,423	$673 per debenture
Home Disaster Loan Making	43,518 loans approved	$99,599,250	$2,289 per loan
Business Disaster Loan Making	5,334 loans approved	$12,207,883	$2,289 per loan
7(a) loan servicing (all types)	186,897 loans serviced	$37,372,343	$200 per loan
504 CDC Loan Servicing (all types)	34,598 loans serviced	$7,775,710	$225 per loan
Disaster Loans Servicing	220,025 loans serviced	$32,252,457	$147 per loan
Historically Underutilized Business Zones Contracting Program	2,066 firms certified	$4,781,546	$2,314 per firm
Section 8(a) Program	6,942 firms in program	$28,702,187	$4,135 per firm
Surety Bonds Approved	6,320 bonds approved	$3,883,444	$614 per bond

Internal Controls

FMFIA Assurance Statement FY 2001

Based on the Small Business Administration's (SBA) continuing efforts to strengthen its internal control program, I certify, with reasonable assurance, that the Agency's controls are achieving the intended objectives in accordance with the Office of Management and Budget (OMB) Circular A-123 and the Federal Managers Financial Integrity Act (FMFIA).

The SBA's internal control program is continuous throughout the year and requires the active involvement of field and Headquarters managers. These managers submit to the Chief Financial Officer (CFO) assertion letters on the status of their respective organization's internal controls. The managers employ various assessment tools, including risk and control assessment models, functional checklists, facilitated workshops and computer based training in their internal control assessment. The managers' assertions take into account the results of various internal control methods employed by their organizations and discuss corrective actions taken on any weaknesses identified by the General Accounting Office, Office of Inspector General, Quality Service Reviews or through the local internal control process.

The Office of Field Operations (OFO) reviewed the assertion letters from the field managers to ensure that any areas of concern noted by these managers, or any reported trends were incorporated into the Agency's internal control process, especially the Quality Service Review process. Based on its review of the field assertion letters, the OFO provided comments to the CFO. The CFO reviewed the OFO comments and the assertion letters from each senior Headquarters manager to determine whether outstanding audit issues were adequately addressed and whether each manager took the appropriate corrective action. The CFO reports that there were no serious concerns or issues raised for FY 2001, and that each senior Headquarters manager and the OFO has addressed any corrective actions that were outstanding from FY 2000.

The SBA's Independent Public Accountants (IPA) provided SBA with its sixth "clean" unqualified opinion on the FY 2001 financial statements, but identified one material internal control weakness on the financial reporting process, and three other non-material weaknesses. The financial reporting weakness resulted due to the SBA's early implementation of reporting requirements in OMB Bulletin 01-09 that are required for FY 2002 reporting. The SBA has already begun to work on this weakness and we expect to remedy it in FY 2002 reporting. Also, it is important to note that this audit finding is limited to the internal controls over the preparation of the SBA's financial statements. As a result, this audit finding does not materially affect the Agency's overall internal control status.

My certification is based on the internal controls that SBA has put in place over its financial management and program operations. These controls provide reasonable assurance that the Agency is in compliance with sound accounting policies and procedures, and FMFIA provisions, and that reports are presented accurately and adequately. The supporting documentation for this statement of assurance is maintained by the Office of the CFO, the lead for SBA's internal control efforts.

I am pleased to report that during this past year we successfully implemented the first phase of an Enterprise Resource Planning financial management system, the Joint Accounting and Administrative Management System, and improved our Managerial Cost Accounting system. These systems will strengthen the SBA's management and control in the future.

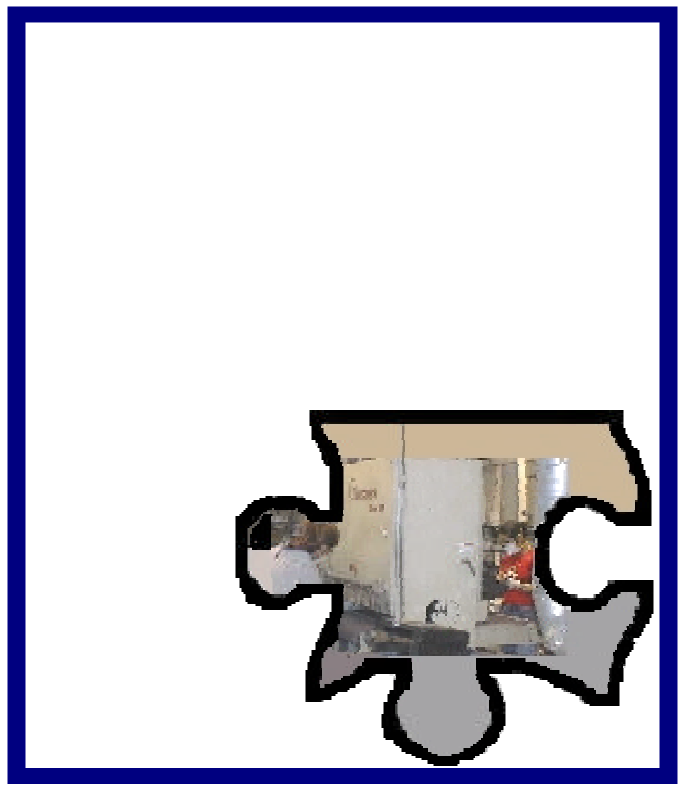
Hector V. Barreto

Administrator

At the SBA, sound internal controls are an integral component of the Agency's functions, and fully support the SBA's strategic plan of providing access to capital and credit markets, creating procurement opportunities, providing entrepreneurial development assistance and aiding disaster victims. The SBA's internal control effort is led by the Chief Financial Officer (CFO).

The SBA closely adheres to the GAO's *Standards of Internal Control in the Federal Government*, the requirements of the Federal Managers Financial Integrity Act (FMFIA), and OMB Circular A-123.

The CFO provides the Administrator a memo documenting the process used in the SBA that supports the annual assertion letter. The CFO states each program Associate Deputy Administrator (ADA), every District Director (DD), Branch Manager (BM) and Regional Administrator (RA) has provided an assurance letter on the status of their organization's internal controls. The ADAs', DDs', BMs' and RAs' assurance letters resulted from the assurance letters provided them by their staff.



The CFO also informs the Administrator on actions taken during the fiscal year in the internal control (IC) program. This year 23 district offices completed formal IC reviews that included training, assessment, validation and verification. A total of 27 IC Immersions and 61 Management's Assessment Process (MAPs) were completed, and 2,078 SBA employees completed the IC computer based training (CBT), 17 Quality Service Reviews were conducted and 93 Risk Assessments have been completed.

The assertion letter process began in the 2nd quarter of the fiscal year. The Internal Control Checklist and Assurance Letter template are made available to the SBA's managers on the COSO/Internal Control web page. The managers complete the checklist and indicate the corrective actions taken on identified weaknesses from the GAO, OIG, Quality Service Reviews or the local IC process. The manager then signs the assertion letter that includes the statement below and forwards this assertion to their immediate supervisor. The program supervisor forwards the combined assertions to the CFO on behalf of the Administrator.

Once these letters are received, the CFO reviews for completeness and files. The CFO then compiles the Administrators internal control assertion and it is placed in this report.

Assertion

"As a result of the aforementioned assessment, I have identified (no) material weaknesses in our internal controls for this fiscal year and have assurance that we have met the stated internal control objectives for our operations. I will ensure that all weaknesses not corrected at the time of this report are monitored and corrected in a timely manner."