GAO, OIG Reviews and Management Challenges

Summary of GAO Reviews

In August 1999, at the request of the Senate Committee on Small Business, the GAO initiated an overall Performance and Accountability Review of the SBA. This review encompassed all aspects of SBA operations: Human Capital, Information Technology, Budget and Financial Management, Organizational Alignment and Procurement all under separate job codes. The SBA was the first Federal Agency to undergo this type of GAO review and the review continued into FY 2001. The GAO issued its report in January 2001entitled *Performance and Accountability Series, Major Challenges and Program Risks, Small Business Administration* (GAO-01-260). During the 1-year period of the review the GAO issued 38 final reports in addition to the one mentioned above, on a total of 47 reviews conducted. Only six of the 38 final reports issued contained specific recommendations. Going into FY 2001, 13 reviews remained open.

We have completely implemented all the recommendations in five of the reports issued. In the sixth report, the GAO provided recommendations for improving the management of information technology in five major areas: investment management, architecture, software development and acquisition, information security and human capital. The SBA has made significant progress in all of the five areas and continues to focus on improving the management of agency-wide IT resources including updating its standards and procedures in accordance with the Clinger-Cohen Act. SBA management is committed to institutionalizing new policy and procedures, but recognizes this is a long-term effort. The SBA has established a target date of 2002 for complete implementation of the GAO recommendations. Completion of the recommendations involves the development, purchase and implementation of an Agency-wide automated program and financial system. The GAO is continuing follow-up audits of this review to monitor the SBA's progress toward full implementation.

In addition to the 13 open reviews, the GAO initiated 25 new reviews in FY 2001. Nine reviews remain open at the end of FY 2001. Only three of the reports on the 29 closed reviews contained recommendations. The following table lists the GAO reviews conducted in FY 2001 and the status of each.

Review Title	Status: Open/ Closed	Recommendations
SBA Overall Review	Closed	None
Effect of Government Procurement Reform on Small Businesses	Closed	None
SBA Review of Consolidated Financial Statements	Closed	None
Loan Monitoring System	Closed	None
Follow-up on Federal Manager Survey	Closed	None
Women Business Centers Sustainability Act of 1999	Closed	2

Review Title	**Status: Open/ Closed**	**Recommendations**
SBA's FY 1999 Performance Report and FY 2001 Performance Plan Review	Closed	None
SBA Best Practices on Debt Collection – IRS Review	Closed	None
Review of SBA's Contract with Farm Credit Bureau	Closed	None
Profile of Telecommunications Budgets, Costs, Procedures and Practices	Closed	None
Monetary Awards to Political Appointees	Closed	None
Small Disadvantaged Business Certification	Closed	None
Small Business Technology Transfer Program	Closed	None
Policies and Procedures Establishing Prime Contracting Goals	Closed	None
DOD Contract Bundling	Closed	None
Verification and Validation of Subcontracting Goals	Open	
Mandated Contract Awards to HUB Zone Businesses	Closed	3
Compliance with Federal Managers' Financial Integrity Act	Closed	None
Subsidy Estimates for 7(a) Loan Defaults and Recoveries	Closed	None
Single Audit Act Requirements Under A-133	Open	
Affordability of Health Insurance to Small Employers	Closed	None
SBA's Organizational Structure	Closed	None
Indian Economic Development	Closed	None
FY 2002 Performance Plan and FY 2000 Performance Report	Closed	3
Readiness For Loan Monitoring System Development	Closed	None
Review of Government Information Security Program Implementation	Open	
Enterprise Architecture	Open	
On-Line Procurement (e-Commerce)	Closed	None
IT Investment Requests in FY 2001 and FY 2002	Open	
TPCC's Strategies for Coordinating Export Promotion	Closed	None
Challenges and Costs Associated with Foreign Patents	Open	
Small Business Activities in DOD Commissaries	Closed	None
Capital Improvements for Drinking Water and Wastewater Facilities	Closed	None
Hiring Practices at CFO Agencies	Open	
Human Capital Flexibilities at Federal Agencies	Open	
Direct Government Support of the Olympic Games	Closed	None
Strategic Information Resources Management	Open	
Review of DCIA Implementation	Closed	None

FMFIA Summary of Corrective Actions for Material Weaknesses

The SBA is proud to announce that the independent auditors granted us its sixth consecutive unqualified "clean" opinion however they did discover one material weaknesses during the FY 2001 review of its financial statements. The material weakness was identified in the internal controls for the financial reporting process. The recommended actions from the auditor through the OIG office began immediately upon receipt of the Auditors Opinion February 20, 2002. The SBA is working hard to develop a plan to ensure timely corrective action complete with timely target dates to eliminate this weakness.

In 1994 Congress requested each agency to identify areas of concern or weaknesses now called challenges. The SBA identified several weaknesses and all have been corrected except one on 8(a) Business Development. In FY 2000, the OIG, working with SBA management, identified this issue as one of FY 2000 Top Management Challenges. The OIG elected to continue this challenge into their FY 2001 and the FY 2002 challenges. Coordinated efforts are ongoing between the SBA management and the OIG to resolve and correct this challenge because elimination of this issue requires extensive action, including changes in the law and system modernization. Corrective action was incorporated into the performance plans for FY 2001 and FY 2002 and as actions to be taken in the section on OIG Management Challenges in this document, ensuring this issue remains an active issue to be resolved and monitored through the formal process of managing the OIG's 10 management challenges.

At the SBA, the **Inspector General, Phyllis K. Fong** and the **Chief Financial Officer, Joseph P. Loddo**, work together to stress the importance of Internal Controls for all employees of the Agency. Phyllis and Joe motivated their offices to collaborate on the follow up of audit findings and inspections. The two offices work together on the FY 2001 Management Challenges. Increased cooperation among the Office of the Inspector General (OIG), the Office of the Chief Financial Officer (OCFO) and the Program Offices results in more timely resolution of audit findings. Other benefits include better planning, fewer material weaknesses discovered during audits and shorter time frames in resolving audit findings. The OCFO, with the assistance of the OIG, regularly posts all audit findings and their status on the SBA's Intranet web page. The OIG reviews corrective actions quarterly and provides comment that are also posted on the Intranet. Working together, the OIG and the OCFO look forward to a positive and productive future.

Summary of OIG Reviews

Throughout the year, the OIG conducts audits of the SBA's processes, procedures and programs, and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on SBA's financial and administrative operation, but are very beneficial to SBA's management. The Agency has the option to agree or disagree with OIG recommendations. Once management agrees with a recommendation, it becomes a "management decision." The manager also provides a specific action plan accompanied by a target date for completion. This plan of corrective action is referred to as "final action."

The OCFO is responsible for monitoring the final actions and reporting on their status of implementation. To track and report these to management, the OCFO established a database and developed a status report available on the SBA Intranet page. This is updated as corrective actions are completed. Program offices also provide monthly updates on final action status that are used to update the database.

The OCFO has taken aggressive steps during FY 2001 to greatly improve management's attention to these issues, resulting in 117 final actions. The SBA OIG recognized the Agency's improvement in an audit follow-up during a discussion with the Congress and the GAO.

The following chart depicts the SBA's final action activity for audit recommendations with disallowed or questioned costs. The status of audit recommendations is reconciled with the OIG monthly to ensure actions are posted promptly and accomplished in accordance with the agreed-upon target dates.

Table I
Final Action on Audit Recommendations
With Disallowed / Questioned Costs
October 1, 2000 – September 30, 2001

	Number of Recommendations	Disallowed Costs (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	1	$0
B. Recommendations on which management decisions were made during the period.	11	$3,623
C. Total recommendations pending final action during period.	12	$3,623
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	10	$3,501
(b) Property	0	$0
(c) Other	0	$0
2. Write-Offs	0	$0
3. Total	10	$3,501
E. Recommendations needing final action at the end of the period.	2	$121

Table II
Final Action on Audit Recommendations
With Funds Put To Better Use
October 1, 2000 – September 30, 2001

	Number of Recommendations	Funds to be Put to Better Use (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	3	$952
B. Recommendations on which management decisions were made during the period.	6	$12,516
C. Total recommendations pending final action during period.	9	$13,468
D. Recommendations on which final action was taken during the period.		
1. Value of recommendations implemented (completed).	8	$12,879
2. Value of recommendations that management concluded should not or could not be implemented or completed.	0	$323
3. Total	8	$13,202
E. Recommendations needing final action at the end of the period.	1	$266

Detail of Final Action Activity

Disallowed / Questioned Costs

Report # 0-19, Small Disadvantaged Business Certification Program Obligations and Expenditures
Summary: The purpose of this audit was to determine whether the SBA used Small Disadvantaged Business (SDB) funds for their intended purpose. The audit recommended the CFO adjust the SDB certification charges to other agencies after determining the actual costs, deobligate unexpended balances remaining for ineligible obligations, and develop and implement an allocation methodology that reasonably allocates the cost of the electronic 8(a)/SDB application system between the 8(a) and SDB Certification programs.
Final Action: The SBA made appropriate accounting adjustments, including rebates to participating agencies, deobligations and implemented a methodology to allocate the cost of the electronic application system. $3,042,210.00 collected.

Report # 0-22, Early Defaulted Loan to Accurate Research, Inc.
Summary: The audit objective was to determine f the early loan default was caused by lender or borrower noncompliance with SBA's requirements. The audit recommended the SBA recover costs from the lender as a repair to the loan.
Final Action: The SBA collected $26,723.00 from the lender.

Report # 1-03, Audit of Ranger Insurance Company
Summary: The primary objectives of this audit were to determine if: (1) Ranger complied with policies and procedures in issuing SBA guaranteed bonds, (2) claims and expenses submitted to SBA were allowable, allocable and reasonable, and (3) fees due the SBA were accurately calculated and remitted. The audit recommended the SBA deny liability for claims paid and require Ranger to reimburse the SBA.
Final Action: The SBA advised Ranger that SBA was relieved of all liability and asked them to reimburse the Agency for claims paid to date. $180,762.00 collected.

Report # 1-05, Audit of St. Paul Surety
Summary: The audit objectives were to determine if St. Paul Surety: (1) complied with policies and procedures in issuing SBA guaranteed bonds, (2) claimed only allowable, allocable and reasonable losses and expenses, and (3) remitted fees due SBA timely and accurately. The audit recommended SBA require St. Paul Surety to remit $186,762 for its share of the loss for one bond, remit $484 for inadequately supported legal expenses that had been reimbursed by the SBA, and $63,525 for monies received by the surety, but not remitted to the SBA.
Final Action: The SBA contacted St. Paul Surety and received the requested amounts. $250,771.00 collected.

Report # 1-07, Indemnity Insurance Company of North America
Summary: The primary objectives of this audit were to determine if: (1) Indemnity Insurance complied with policies and procedures in issuing SBA-guaranteed bonds, (2) claims and expenses submitted to the SBA were allowable, allocable and reasonable, and (3) fees due the SBA were accurately calculated and remitted in a timely manner. The audit recommended the SBA advise Indemnity Insurance to implement written policies and procedures to ensure they remits fees due SBA in the normal course of their business and to remit to SBA the questioned surety fee payments.
Final Action: The SBA contacted Indemnity Insurance and received the requested amount. $709.00 collected.

Funds Put to Better Use

Report # 0-10, Early Defaulted Loan to Roshni Foods
Summary: The audit objective was to determine whether the early default was caused by lender or borrower noncompliance with SBA requirements. The audit recommended the SBA prepare SBA form 327, Modification or Administrative Action, to document SBA's release from the loan guarantee.
Final Action: The SBA completed the Modification or Administrative Action form. $204,866.00 (implemented).

Report # 0-12, Early Defaulted Loan to Vincent R. Forshan Medical Corp.
Summary: The audit objective was to determine if the early loan default was caused by lender or borrower noncompliance with SBA requirements. The audit recommended the SBA ensure the lender repays the monies lost when loan guarantee defaulted.
Final Action: The Agency contacted Vincent R. Forshan Medical Corp. and received the requested amount. $621,364.00 (implemented).

Report # 0-17, Early Defaulted Loan to Stop One Convenience Store #2
Summary: The audit objective was to determine whether the early default was caused by lender or borrower noncompliance with SBA requirements. The audit recommended the SBA process a request for denial of liability for the loan.
Final Action: The Agency processed a request for denial of liability. $486,894.37 (implemented).

Report # 0-21, Y2k Loan To Municipal Management Associates, Inc.
Summary: The audit objective was to determine whether loans under the Y2K Loan Program were processed, disbursed and proceeds used in accordance with the Small Business Year 2000 Readiness Act. The audit recommended the lender limit disbursements for one loan to the amount needed for Y2K purposes, as required by the Act.
Final Action: The SBA instructed the lender to cancel the undisbursed portion of the loan and obtained a refund of guarantee fees paid. $346,000.00 (implemented).

Report # 1-10, Early Defaulted Loan to MVP Sports Cafe
Summary: The audit objective was to determine if the reason the borrower defaulted early on the loan was due to lender or borrower noncompliance with SBA requirements. The audit recommended SBA recover the amount paid to purchase the guarantee, less any prior recoveries.
Final Action: After deducting proceeds from the sale of assets, the SBA received the requested funds. $560,000.00 (implemented) and $81,994.00 (not implemented).

Report # 1-13, Early Defaulted Loan to Alexander's Auto Salvage, Inc.
Summary: The audit objective was to determine if the early loan default was caused by lender or borrower noncompliance with SBA requirements. The audit recommended that the SBA determine the financial impact of the lender's noncompliance and initiate a recommendation for denial or repair of the guarantee, as appropriate.
Final Action: The SBA prepared a recommendation for denial of liability. $120,000.00 (implemented).

Report # 86F008023, Defaulted Loan Made by Arkansas Capital Corporation
Summary: The audit objective was to determine if the lender processed the loan in accordance with applicable SBA requirements. The audit recommended that SBA recover the amount of the guarantee paid the lender.
Final Action: The SBA reached a settlement with the lender. $240,000.00 implemented and $240,575.00 (not implemented).

Report # A1-02, Identification of Possible Ineligible Borrowers
Summary: The purpose of the advisory memorandum report was to alert the Agency to an issue identified during an audit of PLP Oversight that SBA is providing loans to borrowers who defaulted on prior SBA guaranteed loans. The audit recommended that SBA cancel loan guarantees for those applicants with prior loan defaults where a waiver for good cause is not warranted.
Final Action: The Agency found that some of the loans are fully disbursed and/or have zero balances; other loan guarantees were cancelled. $10,300,000.00 (implemented).

Final Action on Audit Recommendations Not Completed within 1 Year
October 1, 2000 – September 30, 2001

Report # 43H006021, 8(a) Continuing Eligibility Reviews
Program: 8(a)
Date Issued: 9/30/94
Management Decision Date: 10/30/94
Explanation: One recommendation remains open concerning the establishment of procedures for determining whether 8(a) participants should no longer be considered economically disadvantaged based on their ownership interest in their 8(a) firms. The 8(a) program office is working with the OIG to revise or eliminate this management decision and close the issue.

Report # 53H004006, SBA Loan Servicing & Debt Collection Activities
Program: 7(a)
Date Issued: 3/31/95
Management Decision Date: 4/30/95
Explanation: The one remaining open recommendation concerns revising bank agreements to require guaranty fees be remitted to the SBA via electronic funds transfer. SBA continues to work on a revised loan authorization form. Numerous issues still need to be resolved. The revised document is expected to be completed by 12/31/2001.

Report # 75H01126, Business Loan Guarantee Purchases
Program: 7(a)
Date Issued: 9/30/97
Management Decision Date: 8/15/00
Explanation: The one remaining open recommendation is to seek recovery of the guarantee payments where full purchase decisions should not have been made. The SBA's Office of General Counsel (OGC) is reviewing recovery options. Where it is determined appropriate, legal remedies to pursue recovery of the guarantee payments will be initiated.

Report # 87H002017, NOAA Computer Workstation Contracts
Program: 8(a)
Date Issued: 6/18/98
Management Decision Date: 3/1/99
Explanation: The one remaining open recommendation is to provide definitive guidance and definitions to evaluate the manufacturing criteria at 13 CFR 121.206. The SBA is developing a

new category to accommodate the value-added reseller. Promulgation of this rule will resolve this recommendation. Corrective action is expected to be completed by 7/31/02.

Report # 9-11, Non-Tax Delinquent Debt
Program: 7(a)
Date Issued: 7/28/99
Management Decision Date: 8/13/99
Explanation: The one remaining open recommendation is to establish a timeframe for implementing administrative garnishment of non-Federal wages. Regulations for wage garnishment (including offset Treasury regulations) have not been published yet. SBA is working on issues pertaining to the hearing process and other matters. The target date for final action is 12/31/01.

Report # 9-15, Disaster Home Loan Servicing Centers
Program: 7(b)
Date Issued: 8/3/99
Management Decision Date: 9/20/99
Explanation: Open recommendations involve incorporating procedures into the SOP to contact past-due borrowers more frequently, discontinue collection efforts and transfer loans to liquidation status sooner, and to refer more loans to the Department of Justice for litigation. Procedures have been incorporated into the SOP, which has been cleared, but not yet issued. Final action is expected 12/31/01.

Report # 9-23, Survey of Electronic Records Management
Program: M&A
Date Issued: 9/15/99
Management Decision Date: 11/30/99
Explanation: The one remaining open recommendation is to implement an electronic records management program meeting the requirements of 36 CFR 1222, 36 CFR 1228 and 36 CFR 1234. The Agency has begun to implement an electronics records management program. A records manager has been identified and has begun working in coordination with the National Archives and Records Administration to identify offices in SBA to be trained and piloted in electronic record transformation. The full program will be established when full resources are identified (appropriate staffing and software acquisition). This recommendation is not expected to be completed until FY 2003.

Report # 0-11, Early Defaulted Loan to NADI Manufacturing, Inc.
Program: 7(a)
Date Issued: 3/28/00
Management Decision Date: 6/13/00
Explanation: The one remaining open recommendation is to repair the loan guarantee by recovering monies from the lender for one loan. A legal opinion has been issued by the Agency's OGC. Final action is anticipated by 12/30/01.

Report # 0-14, 7(a) Service Fee Collections
Program: OCFO
Date Issued: 3/30/00
Management Decision Date: 8/22/00
Explanation: The one remaining open recommendation is to establish receivable accounts for 7(a) loan service fees. The Agency's Loan Monitoring System (LMS) will address this issue. The LMS project is currently under review within the SBA. Anticipated completion is 10/31/02.

Report # 0-15, SBA's Proposed Systems Development Methodology
Program: OCIO
Date Issued: 3/30/00
Management Decision Date: 9/29/00
Explanation: The one remaining open recommendation is to establish responsibilities, budgets, milestones and deliverables to ensure completion of programming and application standards, cost/benefit analysis methodology, standard release procedures and gap analysis procedures. Final action is expected by 9/30/02.

Agency Management Challenges

Identification of the SBA's Office of Inspector General (OIG) Management Challenges is the direct result of close coordination between the OIG and the SBA management. Regardless of the complexity of the challenges and their importance in today's environment, the SBA management believes the Agency has taken major strides toward corrective actions on the recommendations made by the OIG in FY 2001. The Office of Chief Financial Officer (OCFO) established a database to track the Challenges and the corrective actions taken. A report from that database is published on the SBA Intranet and corrective action is published when it occurs. In addition, a monthly request is sent out to the program offices from the OCFO requesting updated information depicting current actions toward completion of the planned corrective action. This information from the program offices is also placed on the Intranet. The OIG reviews corrective actions periodically and provides the result of their assessment on the Intranet. This working coordination has proved beneficial to the SBA. The periodic reviews conducted by the OIG allow a clear understanding between the OIG and the SBA management. That understanding results in clearer, more precise recommendations from the OIG for the FY 2002 Challenges. The close coordination resulted in more precise recommendations from the OIG to help management complete the corrective actions needed and improved detailed plans developed by management to carry out the corrective actions.

Following are excerpts from the OIG's, *FY 2002 Agency Management Challenges, Report No. 2-02* concerning the assessment of actions taken (or not taken) by the SBA management during FY 2001 and activity the OIG stated in the report as needing to be accomplished for FY 2002. The OIG's chart presented and displayed in the "Progress" column numbers 1-3. A "1"reflects the action has been implemented; a "2" means that progress is being made and a "3" indicates that the action has not been implemented and no substantial progress has been made.

The full OIG report on the SBA Management Challenges may be viewed on the OIG web site at www.sba.gov/ig.

The Performance and Accountability report includes the "Actions to be Taken." These are corrective actions the SBA management will take to resolve these challenges. This is not included in the OIG's FY 2002 report No. 2-02.

The OIG developed the charts presented below as part of their *Small Business Administration Office of Inspector General FY 2002 Agency Management Challenges, Report No. 2-02* issued January 16, 2002.

Challenge 1. SBA needs to improve its managing for results processes and performance data.

Summary - SBA needs to develop effective outcome measures, ensure that its performance data are accurate and reliable, and establish systems to manage for results. The Agency has taken steps to identify more program outcomes, improve performance measures, and increase the accuracy of its data. SBA still needs to implement the agency-wide guidance issued in July 2001 for preparing more effective performance goals and indicators, and ensuring that standards and procedures for data verification, validation, client surveys, and other methods to obtain outcome information are fully implemented.

Actions Needed	Progress
Top management provides positive and supportive attitude toward performance based management focused on managing for results.	
• Top management provides leadership to coordinate the Agency's managing for results program and has designated sufficient resources to support the leadership effort.	2
• Strategic plan is ratified and reflects top management's vision and direction.	3
-- Appropriate Agency program goals and objectives are established.	3
-- Appropriate performance measures and indicators are established.	2
-- Program managers support SBA's strategic plan, performance goals, and objectives.	3
-- Training programs are provided to managers and others responsible for implementing the performance results requirement.	3
• Management provides adequate resources to support processes necessary to have an effective performance-based and results-driven operation.	2
SBA analyzes risks associated with achieving objectives.	
• SBA periodically assesses the risk that it may not achieve its goals, and results are used to redirect performance to enhance the successful attainment of goals.	2
• Performance outcomes are regularly measured and reflect results attributable to Agency programs and services delivered.	3

Policy and procedures provide guidance to ensure consistency among organizational components.	
• Policies and guidelines for developing performance goals, objectives, and measures, and for verifying and validating data are published.	1
Information is recorded and communicated to management and others who need it to fulfill their oversight and stewardship responsibilities.	
• Managers have and use operational and financial data to assess their progress in meeting Agency goals, and ensure accountability for effective and efficient use of resources.	2
• Performance data are verified and validated.	3
Monitoring of performance occurs and findings of relevant audits and other reviews are promptly resolved.	
• Top level review and tracking of major Agency achievements occurs, and comparisons are made to plans, goals, and objectives.	2
• Feedback process is used to improve performance goals, measures, and accuracy of data.	2

Significant Open Recommendations
Management has agreed with OIG audit recommendations and issued guidance, but the guidance needs to be fully implemented.

Actions to be Taken
Produce Strategic Plan in FY 2002 for the FY 2003- FY 2007 period.
Conduct training on performance measurement, development of indicators, and data quality to middle and senior personnel to be completed during FY 2002.

Challenge 2. SBA faces significant challenges in modernizing its major loan monitoring and financial management systems.

Summary - SBA implemented the Joint Accounting and Administrative Management System (JAAMS) on October 9, 2001. JAAMS is a software acquisition project intended to improve SBA's financial management systems. The previous accounting and financial management system used by SBA was becoming obsolete, and the service provider was planning to shut down the system. SBA had plans to modernize and update its loan information system–Loan Monitoring System (LMS). LMS was initially planned to include a new loan financial tracking system as a replacement to SBA's Loan Accounting System, as well as a loan monitoring, portfolio analysis, and lender oversight system. LMS is on hold awaiting decisions on its future. SBA has made some progress, but needs to formulate and implement sound procedures for system development and software acquisition for all its systems under development.

Actions Needed	Progress	
	JAAMS	LMS
Top management provides a positive and supportive attitude toward adherence to Information Technology (IT) capital investment methodology.		
• Top management designates an official or advisory board to oversee IT capital investment projects, and these projects adhere to the requirements of the Information Technology Management Reform Act (known as the Clinger-Cohen Act of 1996).	1	1
• Employees are trained in fulfilling their responsibilities for managing IT capital investment projects.	2	2
• Management provides adequate resources to support system development projects.	2	2
Top management identifies risks associated with IT capital investment projects.		
• IT projects have risk management programs designed to identify potential risks to the projects and possible risk mitigation plans to minimize identified risks.	2	2
Policies and procedures provide guidance to employees to ensure an effective system development and acquisition process.		
• Policies and procedures are established to define processes for investment selection, control, and evaluation.	1	1
• Procedures provide a systematic process for architecture development and maintenance, and target dates for implementation of the maintenance process.	2	2
• Agency-wide use of SBA's Systems Development Methodology (SDM) is institutionalized and enforced.	2	3
• Policies, procedures, and processes address areas such as requirements management, project planning, project tracking and oversight, software quality assurance, configuration management, acquisition planning, solicitation, contract tracking and oversight, product evaluation, and transition to support.	2	2
• Policies and procedures mandate effective communication of project progress to project participants, stakeholders, and SBA management.	2	2
• Policies and procedures ensure that systems are adequately documented and tested before those systems are implemented.	2	2
• Proper evaluation of prototype software and documentation is defined by procedure before the prototypes are put into production. Specifically for LMS, a decision is made to consider whether the software should be separated from LMS and implemented, separated from LMS and further modified to meet mission needs, or held in suspense until all LMS requirements and plans have been completed.	N/A	3

Significant Open Recommendations
SBA has accepted all significant recommendations in this area. Continued efforts, however, are needed to implement them into day-to-day operations.

Actions to be Taken

- Institutionalize and enforce agency-wide use of SBA's Systems Development Methodology (SDM) implemented by the end of FY 2003.
- Define procedures for proper evaluation of prototype software and documentation before the prototypes will be implemented by end of FY 2003.

Challenge 3. Information systems security needs improvement.

Summary - *SBA operations depend heavily on the Agency's information systems and the security of those systems is critical. The Agency has made a substantial commitment of resources for enhancing computer security, providing technical staff support, and developing security training. SBA needs to fully implement its agency-wide systems security program to include assessing risks, establishing and updating policies and controls, promoting awareness, and evaluating security effectiveness.*

Actions Needed	Progress
SBA needs to fully implement and maintain an ongoing information security program aimed at understanding and reducing its information security risks. This program should include assessing risks, implementing appropriate policies and controls, promoting awareness, and monitoring and evaluating policy and control effectiveness.	
• The Chief Information Officer (CIO), in conjunction with appropriate program offices, develops and implements procedures for monitoring, assessing, and measuring security program effectiveness.	2
• The CIO develops procedures to require review and approval of all proposed changes to server configurations.	2
• The CIO, in conjunction with appropriate program offices, identifies and eliminates incompatible duties, responsibilities, and functions.	2
• The CIO, in conjunction with appropriate program offices, develops a disaster recovery and contingency test plan and expedites a review for storing backup and recovery tapes.	2
SBA needs to complete planning and assessment activities to protect its critical infrastructure as required by Presidential Decision Directive (PDD) 63.	
• The CIO develops a multi-year funding plan.	1
• The CIO includes infrastructure assurance functions in the strategic planning and performance measurement framework.	1

• The Chief Information Assurance Officer coordinates physical infrastructure protection efforts with the General Services Administration.	2
SBA needs to comply with the Government Information Security Reform Act (GISRA).	
• The CIO completes risk assessments and security plans for SBA's high-priority and cyber-based systems. Once the vulnerabilities are identified in the risk assessments, the system owner should accept, correct, or mitigate the risk to SBA systems.	2
• The CIO completes a formalized management control process to formally act on risks identified from risk assessments. The management control process includes a schedule to correct identified deficiencies, dates for completion, and funding requirements.	3
• The CIO develops a program to perform Security Test & Evaluation (ST&E) reviews on all of SBA's high-priority computer systems.	3
• The CIO identifies Agency personnel who should be required to undertake security training as end-users, Designated Security Officers (DSO), Information Resource Managers (IRM), and back-up personnel; and requires those individuals to take the course on DSO/IRM security training.	2
SBA's UNIX computer servers need to be more secure and meet Federal and Agency security standards.	
• SBA remedies a number of security vulnerabilities identified in the audit of SBA's UNIX servers. These include password vulnerabilities, non-review of system audit logs and configuration files, and a lack of adequate system patching.	2

Significant Open Recommendations

All of the audit reports listed above include a number of specific recommendations aimed at implementing an agency-wide information systems security program. As described above under Action Taken, the Agency has taken a number of steps to improve its information systems security program. Because of the long-term nature of implementing a security program, completion of final action on some of the recommendations is not scheduled until the FY 2002 to FY 2004 time frame. The OIG will be performing further audit work to evaluate the Agency's ongoing efforts at establishing an information security program.

Actions to be Taken

- The CIO will complete a formalized management control process to act on risks identified from risk assessments including a schedule to correct identified deficiencies, dates for completion, and funding requirements by end of FY 2002.
- The CIO will develop a program to perform Security Test & Evaluation (ST&E) reviews on all of SBA's high-priority computer systems by end of FY 2002.

Challenge 4. Maximizing program performance requires that SBA fully develop and implement its human capital management strategies.

Summary - *The nature and scope of SBA's work has changed significantly, requiring a different set of skills in the Agency's workforce. SBA has begun to take the steps necessary to better manage its human capital activities, but needs to do more. The Agency must define what the future SBA will look like. The Office of Human Resources, in partnership with the program and district offices, should then develop a comprehensive human capital strategy that will identify SBA's current and future human capital needs, including the size of the workforce and skill gaps; its deployment across the organization; the knowledge, skills, and abilities needed for the Agency to pursue its missions; and an effective succession planning process.*

<table>
<tr><th rowspan="2">Actions Needed</th><th colspan="5">Progress</th></tr>
<tr><th>CA</th><th>ED</th><th>GC</th><th>MA</th><th>DA</th></tr>
<tr><td>Develop and implement a comprehensive human capital strategy that encompasses human capital policies, programs, and practices to guide the Agency and that</td><td colspan="5">3</td></tr>
<tr><td>is linked to SBA's strategic goals,</td><td colspan="5">3</td></tr>
<tr><td>includes major human capital objectives,</td><td colspan="5">3</td></tr>
<tr><td>identifies the milestones and resources needed to implement the strategy, and</td><td>3</td><td>3</td><td>3</td><td>3</td><td>3</td></tr>
<tr><td>establishes results-oriented performance measures for human capital objectives.</td><td colspan="5">3</td></tr>
<tr><td>The human capital strategy should include the following:</td><td colspan="5"></td></tr>
<tr><td>• Identification of the knowledge, skills, abilities, and other characteristics SBA employees will need to perform successfully in the new business environment.</td><td colspan="5">3</td></tr>
<tr><td>-- Management has analyzed the tasks that need to be performed by SBA today.</td><td>2</td><td>2</td><td>2</td><td>2</td><td>2</td></tr>
<tr><td>-- Management has analyzed the tasks that need to be performed for SBA's core competencies in the new business environment, completed a gap analysis, and linked the needed tasks to SBA's strategic plan.</td><td>3</td><td>3</td><td>3</td><td>3</td><td>3</td></tr>
<tr><td>-- Competency models or other means of identifying and defining specific tasks required for job positions have been established and implemented.</td><td>2</td><td>2</td><td>2</td><td>3</td><td>2</td></tr>
<tr><td>-- An evaluation process for regular assessments of Agency skills has been developed and implemented.</td><td colspan="5">3</td></tr>
<tr><td>• An estimate of the number of employees with the identified skills who will be needed in the new business environment.</td><td>3</td><td>3</td><td>3</td><td>3</td><td>*</td></tr>
<tr><td>• Adequate training for all employees to perform their jobs well.</td><td colspan="5">2</td></tr>
</table>

-- There are appropriate orientation and training programs to meet the needs, and minimize skills gaps/imbalances, of all employees–especially those in the core competencies.	2	2	3	3	2
-- An evaluation/control mechanism is established and implemented to ensure that all employees have received appropriate training and have the necessary skills.	3				
• A comprehensive succession planning process for the Agency, including forecasting SBA's future executive resource needs at both Headquarters and in the field.	2				
-- The human capital plan includes an analysis of attrition rates, retirement eligibility, and retirement rates for senior managers.	2				
-- The Agency has defined the types of leaders it wants through written descriptions of roles, responsibilities, attributes, and leadership competencies, has established broad performance expectations for them, and has implemented them.	2				
-- The district director development program is reestablished and continued with periodic evaluations of its impact and effectiveness.	2				
-- The Senior Executive Service Candidate Development Program is reinstated and periodic evaluations of its impact and effectiveness conducted.	3				
-- A recruitment, retention, and development plan for lower and middle levels which has explicit links to skill needs the Agency has identified is developed and implemented.	3				

* Because each disaster is unique, it is not possible to estimate the number of employees needed until the disaster occurs.

Significant Open Recommendations
No OIG formal audit or inspection recommendations have been made on this issue.

Actions to be Taken

- Develop and implement a comprehensive human capital strategy that encompasses human capital policies, programs, and practices to guide the Agency and that is linked to SBA's strategic goals, includes major human capital objectives, identifies the milestones and resources needed to implement the strategy, and establishes results-oriented performance measures for human capital objectives in FY 2002.
- Develop a comprehensive succession planning process and plan in FY 2002.
- Develop a recruitment, retention, and development plan for lower and middle levels which has explicit links to skill needs identified by the Agency in FY 2002.

Challenge 5. SBA needs better controls over the business loan purchase process.

Summary - OIG audits have shown that SBA field offices do not consistently follow Agency requirements when purchasing guarantees from lenders after loan defaults, resulting in purchases that may not be justified and unnecessary expenditures for the Agency. In response to this concern, SBA reports that it has instituted a guaranty purchase review (GPR) process, implemented a guaranty repair tracking system, established an early warning system, and is in the process of improving procedures and training. The Agency needs to ensure that the guaranty is denied or reduced when a lender fails to comply with SBA requirements by continuing to update and implement changes to improve the guaranty purchase process based on the results of the guaranty purchase reviews. Responsibility for taking actions to improve the purchase process is shared by the Office of Financial Assistance (OFA) and the Office of Field Operations (OFO) with the assistance of the Office of General Counsel.

Actions Needed	Progress
Top management provides a positive and supportive attitude toward the guarantee purchase process.	
• Management establishes an organizational culture where deny and repair actions are used when appropriate.	2
• Adequate training is provided.	3
SBA analyzes risks associated with loan guarantee purchases.	
• SBA periodically determines actual or potential risks of improper guaranty purchases.	2
• SBA determines level of improper payments for the entire loan portfolio.	3
Policies and procedures provide guidance to ensure consistency and accuracy in the purchase process.	
• SBA has clear guaranty purchase procedures, which provide for consistent interpretation.	2
• Current guidance describes adequate documentation needed to make purchase decisions.	3
• Lenders are informed of required documentation to submit with the guaranty purchase request.	2
• Goals are established for reducing improper guaranty purchases.	3
Information is recorded and communicated to those who need it to ensure proper guarantee purchase decisions.	
• SBA has a system for sharing information among field offices regarding the basis and justification for repairs, denials, and withdrawals of loan guarantees.	3
• Field offices track the number of guaranty repairs/denials/withdrawals and the information is readily available centrally.	1
• Information is captured on improper payments and is accurate.	2

The guarantee purchase process is properly monitored.	
• A quality assurance system provides appropriate feedback to improve the purchase process.	2
• Progress in achieving established goals for reducing improper purchases is monitored.	3
• Results of the GPRs, audits, and other reviews are provided to field offices timely and accurately.	2
• Problems identified by the audits and reviews are resolved timely.	2
• Information on all loans with identified guaranty purchase issues are flagged in the Delinquent Loan Collection System.	2

Significant Open Recommendations

Management has agreed to take action on all prior OIG audit recommendations, but has not completed the actions.

Actions to be Taken

- SBA is complying with OMB circular A-11, section 11. SBA has estimated the level of improper payments for the 7(a) loan portfolio and the SBIC program. SBA will develop estimates of improper payments for the 504 –loan program by the fall of FY 2002.
- SBA will establish goals for reducing improper guaranty purchases by the end of FY 2002.
- SBA will improve guidance and provide training for documentation needed to make purchase decisions by end of FY 2002 including developing a system for sharing information among field offices.

Challenge 6. SBA needs to continue improving lender oversight.

Summary *- An effective lender oversight program is critical for ensuring lender activities serve Agency objectives and comply with all rules and procedures. The Agency established an Office of Lender Oversight (OLO); completed the third-cycle Preferred Lender Program (PLP) reviews; started the fourth-cycle of PLP reviews, initiated reviews of selected non-PLP lenders; completed the third cycle of safety and soundness examinations of the non-depository Small Business Lending Companies (SBLC); and implemented a review process that ensures all lenders are reviewed periodically and consistently. Congress stopped additional funding and froze existing funds available for the development of a loan monitoring system because of significant changes in scope and dramatic cost increases in the systems modernization initiative. To have an effective oversight program, the Agency needs to develop and implement the loan monitoring system.*

Actions Needed	Progress		
	7(a)	SBIC	504
Top management provides a positive and supportive attitude toward lender oversight.			
• The Agency establishes OLO to implement and manage the oversight of lending partners.	1	1	1
• SBA has a plan for Lender Oversight.	1	2	3
• Training programs exist for implementing the participant oversight process.	2	3	3
• Senior management provides adequate resources for the lender oversight program.	2	2	3
SBA analyzes risks associated with achieving objectives.			
• A systematic process exists to estimate the level of financial risk on a per loan/investment and participant basis.	2	1	2
• A systematic process exists to estimate the level of compliance risk on a per loan/investment and participant basis.	1	2	2
• Overall program risk is independently reassessed on a recurring basis.	3	3	3
Policies and procedures provide guidance to ensure consistency among organizational components.			
• Policy and program guidance for lender reviews exists.	1	2	2
• SBA provides guidance and training for new participants and those who demonstrate an unacceptable level of compliance.	2	2	3
• Uniform policies and procedures have been established for periodic evaluations of participant performance and retention.	2	2	2
Information is recorded and communicated to management and others who need it to fulfill their oversight and stewardship.			
• SBA has an automated loan monitoring system to capture useful information and effectively monitor risk.	2	2	2
• There is effective communication among SBA's internal units.	3	1	3
Monitoring of performance occurs and findings of audits and other reviews are promptly resolved.			
• Standardized and periodic reviews of lending activities that address risk are performed.	1	1	2
• Systems tracking review results and recommendations are implemented.	2	1	3
• The status of each lending partner is periodically reevaluated based on the results of the estimates of financial and compliance risk.	2	2	2

Significant Unresolved Recommendations

After audit reports are issued, program officials are required to provide a formal management decision for each recommendation in the report. Recommendations for which a formal management decision either has not been received or is in disagreement with the recommendation are considered unresolved. Current unresolved recommendations from the PLP oversight report recommended that the Associate Administrators for Lender Oversight and Financial Assistance:

1-C. Require sample sizes to include at least one loan from recent approvals, one in liquidation status, and one in past-due or delinquent status, where applicable.

2-A. Request that all applicable sections of the annual review checklist be completed for each loan reviewed.

2-B. Review the annual review process scoring system to include an assessment of lender performance benchmarks.

Also, there are unresolved recommendations from the follow-up audit on SBLC examinations, which recommended that the Associate Deputy Administrator for Capital Access:

1-A. Develop and implement formal procedures for the SBLC examination follow-up process and ensure that appropriate corrective actions are taken in a timely manner.

1-B. Develop and promulgate internal control standards for the SBLC program similar to those for non-SBLC lenders subject to financial institution regulators. At a minimum this standard should address the following areas:

- Identifying problem loans,
- Classifying loans according to risk, and
- Establishing allowance accounts that reasonably reflect the potential for loan losses.

Actions to be Taken

- Update and revise OLO Strategic Plan incorporating specific provisions and related implementation plans for issues raised by the IG in the area of 7(a) and 504 lenders and SBICs. Among other things, the plan will address risk identification, communications, the control environment, policies and procedures, and monitoring. (September 30, 2002)
- Redesign, test and implement a lender review process for 7(a) and 504 lenders that considers operational, financial and compliance risk. (September 30, 2003.)
- Conduct studies of SBA's loan programs to identify drivers of performance and other risk characteristics. (Timing dependent upon implementation of lender oversight/risk management characteristics of LMS.)

Challenge 7. More participating companies need access to business development and contracts in the Section 8(a) Business Development program.

Summary *- The Agency needs to give greater emphasis to business development assistance and ensure a more equitable distribution of contracting opportunities to program participants. The bulk of the dollar value of Section 8(a) Business Development (BD) contracts goes to a relatively small number of companies in the program.*

Actions Needed	Progress
Refocus the Section 8(a) BD program to emphasize business development.	3
Develop criteria defining "business success."	3
Graduate participants once they reach those levels defined as "business success."	3
Develop a mechanism that ensures contracting opportunities are more equitably distributed to Section 8(a) BD program participants.	3

Significant Open Recommendations
SBA identified concentration of contracts as a material weakness in its FY 2000 Performance and Accountability Report. There are no open OIG recommendations relating to this challenge

Actions to be Taken

- Assign senior staff from the Offices of Business Development, Inspector General, General Counsel, and Advocacy to develop a plan to refocus the program by September 30, 2002
- The above plan will address criteria for "business success."
- The above plan will address program graduation criteria.
- The above plan will address the business development assistance provided to firms.

Challenge 8. SBA needs clearer standards to determine economic disadvantage.

Summary - New *standards for determining economic disadvantage should be established to effectively measure diminished capital and credit opportunities–the definition included in the law. The Agency should (1) redefine "economic disadvantage" using objective, quantitative, qualitative, and other criteria that effectively measure capital and credit opportunities; and (2) provide sufficient training to SBA staff responsible for evaluating companies.*

Actions Needed	Progress
Redefine "economic disadvantage" using objective, quantitative, qualitative, and other criteria that effectively measure capital and credit opportunities.	3
Provide sufficient financial and analytical training to business opportunity specialists to enable them to evaluate a company's business profile and competitive potential.	3

Significant Open Recommendations
The September 1994 audit report contained one outstanding recommendation to modify the criteria used for determining one aspect of economic disadvantage. While various recommendations have been made and implemented which address segments of economic disadvantage, SBA has not clarified the definition of economic disadvantage using objective, quantitative, qualitative, and other criteria that effectively measure capital and credit opportunities.

Actions to be Taken

- Senior staff from the Offices of Business Development, Inspector General, General Counsel, and Advocacy will develop a plan to address economic disadvantage to be completed by March 31, 2002.
- The above plan, which will address training, will be implemented by January 31, 2003.

Challenge 9. SBA needs to clarify its rules intended to deter Section 8(a) Business Development participants from passing through procurement activity to non-Section 8(a) Business Development firms.

Summary *- SBA's rules, while restricting the amount of a contract that a Section 8(a) Business Development (BD) firm may pass through to a non-Section 8(a) firm, allow many non-participating companies to receive substantial financial benefit. SBA intends to include value-added resellers as a legitimate industry under the North American Industry Classification System. SBA needs to tighten the definition of "manufacturing" to preclude the pass-through practice of making only minor modifications to the products of other manufacturers.*

Action Needed	Progress
Tighten the definition of "manufacturing" to preclude the practice of making only minor modifications to the products of other manufacturers.	3

Significant Open Recommendations

The 1998 report recommendation to provide specific guidance and definitions to evaluate manufacturing criteria has not been implemented.

Actions to be Taken

- The Office of GC/BD has developed and will propose for comment a rule to establish a size standard for Information Technology Value Added Resellers. This will be published in the Federal Register by September 30, 2002.

Challenge 10. Preventing loan fraud requires additional measures, including new regulations and funding.

Summary *– OIG studies have demonstrated that fraud in the business loan program could be reduced by obtaining criminal background information on prospective borrowers and on loan packagers and other for-fee agents. Specific statutory authority exists to perform background checks on prospective borrowers. OIG believes that the statutory framework already exists for SBA to require background checks of loan packagers and other for-fee agents.*

Actions Needed	Progress
Within Privacy Act constraints, SBA requires all loan agents to provide the Agency with the information necessary to conduct criminal background checks.	3
SBA informs loan agents that SBA will conduct criminal background checks on them and that they are subject to future OIG reviews.	3
SBA systematically identifies all loan agents and tracks their association with individual loans. This process would include maintaining identifying data and background information on loan agents.	3
SBA obtains sufficient funding to identify and track loan agents systematically.	3*
SBA changes its policy to advise all prospective borrowers that they may be subject to criminal background checks.	3*
SBA obtains sufficient funding to enable the Agency and OIG to perform criminal background checks on prospective borrowers and loan agents in a timely manner.	3

* "Action Needed" revised due to new developments

Significant Open Recommendations

Within current authority and Privacy Act constraints, SBA needs to require loan agents to provide sufficient information to conduct criminal background checks. This could take place through revised compensation agreements (the Form 159 referred to earlier) or statements of personal history. In some cases fingerprinting may be necessary. If additional authority is later desired, then a legislative initiative could be pursued.

Actions to be Taken

- SBA will implement tracking of loan agents within 6 months of receiving legally binding authority to collect Social Security Numbers on individual packagers and receipt of sufficient funds to cover computer system programming costs.

For the full text of the OIG Report No. 2-02, Agency Management Challenges please visit the SBA OIG web page at http://www.sba.gov/IG/.

For more SBA Success Stories, visit the CFO's web site at http://www.sba.gov/cfo/

Appendices

FY 2001 Initial Goals and Performance Indicators

The section documents how the goals, indicators and targets were changed from the initial to the final revised version from the FY 2001 Budget Request to Congress to the FY 2001 column in the FY 2002 Budget Request to Congress. This section also shows the actual FY 2001 values for the initial FY 2001 indicators.

OMB's circular A-11, section five states that if an agency prepares a revised final plan (and performance indicators) these revisions will primarily reflect Congressional action on the budget request and result in:

- A change of target levels;
- Introduce new goals or indicators or modify existing goal descriptions;
- Modify goals or indicators because unanticipated exigencies have occurred; or
- Adjust goals based on actual performance data contained in program performance report for the previous fiscal year.

SBA adds another reason for changing goals or indicators. During the year after the budget request is submitted to Congress, performance goals, indicators, and target levels are critiqued by GAO, Mercatus Institute and other organizations. Consequently, SBA seeks to improve the performance indicators used in the next budget request to Congress.

The initial performance plan had two external strategic goals with 16 indicators and an internal goal titled Modernization: Corporate Management Strategies. The final revised version has two external strategic goals and 23 indicators. Performance indicators and targets levels were changed between the initial and final versions. The two major reasons for adjusting target levels were to better reflect Congressional appropriations and actual performance.

The major reasons for excluding initial indicators were:

- Replacing an output indicator with an outcome indicator.
- Excluding simple intermediate output indicators.
- Excluding indicators with no target values or that are very difficult to measure.
- Moving credit program performance indicators under goal 1 to corporate management strategies.
- Excluding intermediate outputs with no clear linkage to outcomes such as accepting credit cards, firms registered in PRO-Net, cumulative number of SDB certified firms.

Finally, the Mercatus Institute suggested that SBA had too many performance indicators for an Agency its size and too few outcome measures.

Having reviewed the actual performance values for FY 2001, SBA believes that most of its FY 2002 final revised goals are realistic and need not be changed. However, the FY 2001 performance results indicate a need to adjust some of the agency's target values. These adjustments are set out below. The number of start-up firms financed by 7(a) or 504 was reduced due to the severity of the economic slow down and its impact on the start up of small businesses. The target level for customer satisfaction rates was reduced for the BIC program as it proved unrealistic given the survey methodology used and increased for the SBDC program. No target has been established for WBC and SCORE as the survey methodology will be changed from the ACSI study performed in FY 2001 to an in-house study. When one changes the survey methodology the baseline measure changes and it is difficult to set a target value.

Indicator	FY 2002 initial target	FY 2002 revised target
Number of start-up firms financed by 7(a) or 504	17,000	16,194
Customer satisfaction rates		
Women's Business Centers	80%	TBD
Business Information Centers	93%	90%
Small Business Development Centers	80%	85%
SCORE	80%	TBD

Goal 1: Help small businesses succeed Performance Indicator	***FY 2001 Initial Target***	***FY 2001 Final Revised Target***	Comment
Provide gap lending and investments, including 7(a), 504, export loans, microloans, SBIC and New Market Venture Capital investments	$18.3 B	$19.7B	Target level increased based on appropriation and performance levels.
Number of 7(a) and 504 loans : To Women-owned firms	18,439	10,000	Target level decreased due to performance.
To Minority-owned firms	13,384	12,300	Target level decreased due to performance.
To Veterans owned firms	8,100	5,300	Target level decreased due to performance.
Start-ups receiving 7(a) and 504 financing		16,700	Represents a new indicator. Past annual actual data provided.
Improve loan portfolio management: increase currency rate of 7(a)	91.0%	Not included	Removed as an indicator considered an internal performance goal and part of Corporate Management Strategies. FY 2001 actual value was 92.2%.
Increase currency rate of 504 to:	99.0%	Not included	Removed as indicator; considered an internal performance goal and part of Corporate Management Strategies. FY 2001 actual value was 99.6%.
Increase Disaster home loan currency rate to:	88.5%	Not included	Removed as indicator; considered an internal performance goal and part of Corporate Management Strategies. FY 2001 actual value was 90.7%.
Increase 7(a) Net Cash collected as percent of loans purchased	23.5 %	Not included	Removed as indicator because it is an internal process measure. FY 2001 actual value was 23.0%.
Increase export sales by SBA clients	$537M	$537M	Unchanged
Provide equity (SBIC) capital (dollar volume)	$4.5B	Not included	This measure is part of the first performance indicator in this table. No reason to have a separate measure for the volume of equity capital provided.
Provide equity financings	3,500	Not included	Removed as indicator; represents an output indicator.
Share of equity financings invested in 50% women-owned firms	6%	Not included	Removed as an indicator as it is not an outcome or output measure. FY 2001 actual value is 4%.
Share of equity financings invested in 50% minority-owned firms	17%	Not included	Removed as an indicator as it is not an outcome or output measure. FY 2001 actual value is 12%.
Surety bonds issued to contractors	10,000	Not included	Removed as indicator as it is an output measure. Actual number of surety bonds for FY 2001 was 6,320.
Jobs created by clients	N/A	542,000	Represents a new indicator.

Federal prime contract dollars awarded: To small businesses To small disadvantaged businesses (including8(a) firms) To women-owned small businesses To service disabled veteran-owned small businesses To HUBZone small businesses	 23% 7% 2% 3% 2%	 23% 5% 5% 3.0% 2.0%	 Unchanged 7% is the statutory goal, 5% is the annual goal set by SBA. Statutory goal increased 3% is the statutory goal, 2.9% is the annual goal set by SBA. Unchanged
Increase the ability of SDBs to successfully supply the Government with goods and services by providing them with: Federal contracts Business development assistance Mentoring	 63 % 25% 5%	Not included	Removed as indicators because these are intermediate process measures.
Reduce barriers to small firm participation in Federal procurement by: Mentoring Accepting credit cards Registered in PRO-Net	 5.6% 45% 210,000	Not included	Removed as indicators because are intermediate process measures.
Bundling cases resulting in positive outcome for Small businesses	80%	Not included	Removed as indicator because it is a process measure.
Number firms certified as SDB eligible (incl. 8(a))	15,000	Not included	Removed as an indicator; represents an output goal.
HUBZone certified firms	5,000	Not included	Removed as an indicator; represents an output goal.
8(a) firm success rate	75%	Goal changed 68%	Initial goal was defined as % of 8(a) firms that completed the 9-year term or graduated early and received business development assistance. Because this is an output goal, the final revised goal was changed to 8(a) program client viable and competitive 3 years after graduation, i.e. the firm is still independently owned and in operation.
Successful participation in SBIR Women-owned businesses Minority-owned businesses	 10% 16%	Not included	Represents an output measure. Replaced by SBIR commercialization rate where the target level is TBD.
Increase number of clients counseled and trained by Partners	1.357M	1.275M	The target was reduced based on actual performance.
Customer satisfaction rate: WBC BICs OSCSs SBDC SCORE		 80% 93% 80% 80% 80%	Represents new indicators.
Expand research, analysis, and publication of information from BITS database		Not included	Not a measurable goal.
Improve Federal Agency small business impact analyses of regulatory alternatives		Not included	Not a measurable goal.
National Ombudsman roundtable meetings	10	Not included	Removed as indicator; represents an output goal.
Regulatory cost savings to small businesses		TBD	Represents a new indicator. Historical actual cost savings provided.
Goal 2: Help Families and Businesses Recover from Disasters Performance Indicator	***FY 2001 Initial Target***	***FY 2001 Final Revised Target***	Comment
Field presence within three days of a disaster	98%	98%	Unchanged
Underwriting compliance rate (Disaster)	97%	Not included	Removed as indicator because it is a process measure.
Applications processed within 21 days (Disaster)	70%	80%	Target level increased.
Customer satisfaction rate (Disaster)		80%	Represents a new indicator.

Evaluations, Analyses and Survey

In FY 2000, a contract was awarded for the econometric demand model for the 7(a) loan program to: 1) carry out a literature survey of existing models and experience in estimating demand for loans; 2) suggest an approach to estimate demand; and 3) determine data availability for the suggested demand model. The contractor found that there was little literature and experience with estimating the demand for guaranteed loans, but that a step-wise approach using successively more sophisticated econometric models would provide insight into the demand for 7(a) loans.

HUBZone study. In FY 2001 SBA began a study of the potential economic development impact of the HUBZone Program in distressed urban and rural communities.

Customer Satisfaction Surveys. In September 2000, SBA contracted with the University of Michigan to conduct three surveys of clients from the One Stop Capital Shops, Service Corps of Retired Executives (SCORE), and Women's Business Centers. Using the American Customer Satisfaction Index (ACSI), the contractor conducted the interviews in February and March of 2001. The results are shown in the following table.

Program Clients	Customer Satisfaction index in FY 2001
One Stop Capital Shops	67
SCORE	68
Women's Business Centers	75
Federal gov't average score	69

Because government programs are designed to address diverse needs in different population groups, it is neither possible to compare customer satisfaction rates reliably with the private sector or even between different government programs. We can, however, measure customer satisfaction for each program client group over time.

Review of the SBDC program. Between December 2000 and July 2001, SBA conducted a program review of the SBDC network to: 1) describe SBDC inputs, outputs and outcomes; 2) identify management issues regarding the SBDC program; 3) highlight "best practices" in the network and suggest ways to emulate these "models" more widely; and 4) suggest ways to make the SBDC more responsive to client and community needs and use technology more effectively. The final report was published in September 2001. The review concluded that the SBDC program strongly addresses local needs; about half its clients are from women-owned firms, and a number of innovative practices exist within the network. The review recommended that the SBDC network 1) work more as a network rather than as separate state organizations, 2) increase the use of technology (Internet) in counseling, training, and answering FAQs, and 3) evaluate and disseminate "best practices."

Data Validation and Verification

Managing for results and producing an annual performance plan and performance report require valid, reliable, and high-quality performance measures and data. SBA faces many challenges in acquiring high-quality data on both outputs and outcomes. In addition to using output data internally from its own systems, SBA relies on data from resource partners (such as SBDCs, SCORE, WBCs) and other Federal and local governments to assess its accomplishments and effectiveness. Limitations such as the lack of relevant data for measures, the accuracy and currency of data, and the reporting capacity of quality data remain major issues for the Agency. Improving data quality will continue to be a high priority for SBA.

SBA vigorously pursues the following strategies to address the shortcomings of its data quality:

- **Ensuring the validity of performance measures and data.** SBA does this through assessing the relevancy of performance measures and data.

- **Fostering organizational commitment and capacity for data quality**. Achieving data quality through (1) *training* its managers to make sure they understand the need for quality data, how to develop valid performance measures and how to ensure data quality; and (2) managers *attesting* to the quality of the data under their management.

- **Assessing the quality of existing data**. Audits and reviews ensure the quality of its financial data systems. However, SBA must assess the quality of loan and program data provided by its resource partners and will include data verification in its lender and resource partner oversight. The OIG has carried out five performance measure reviews on the following programs -7(a), SBIC, Surety Bond Guarantee, 8(a), and the disaster program. As an example, an OIG report documented that SBDCs do not always use the same definitions for clients served, making it more difficult to get a valid picture of what has been done.

- **Responding to data limitations**. It is not enough to identify data quality problems. Where there are data limitations, SBA must improve quality. Managers will be asked to document how they intend to reduce these limitations.

- **Building quality into the development of performance data**. The design process for new IT systems will include the requirements for developing and maintaining performance data. The new systems and upgrades will make sure that only correct data is entered into the systems and that data is stored with stringent verification and change rules.

In FY 1999, SBA tracked its performance goals monthly and verified the accuracy of the data on an *ad hoc* basis. As part of this internal performance monitoring, the Agency tested the relevance of the indicators and identified problems of data completeness, timeliness, and accuracy.

In FY 2000, SBA began implementing a more formal quality process. This included program manager self-assessment of performance indicator quality, manager training in data quality control and improvement methods, development of data quality improvement plans, and feedback to program managers about data limitations determined through using the data. SBA completed the program manager self-assessment step in December 1999. As a result, program managers were asked to:

- define the measure;
- identify the data source;
- discuss the validity of the measure;
- list data limitations, particularly of resource partners, to include reporting cycles, incomplete source of data, double-counting, erroneous data, inconsistency in standards and definition of data, data that could not be collected (due to privacy or policy), and system capacity; and
- document steps being taken to improve data collection, verification of and reporting on data, and to reduce data limitations.

In FY 2001, SBA developed guidelines on developing program indicators and ensuring data quality. SBA also developed better outcomes and included them in the annual budget submissions.

For FY 2002, SBA will continue to train its managers to improve data quality and to ensure data quality through internal controls. Managers will be asked to provide data verification procedures and improvement plans, with milestones, after completion of the course. Feedback will be provided to managers regarding data limitations and data quality as part of SBA's use of the data; in analyzing Agency activities, outputs, and outcomes; and as part of the OIG's audits of data validity and verification.

The following provides, for each performance indicator, a definition, source, validity statement and discussion of limitations.

Measure	**Regulatory cost savings to small businesses**
Definition	Cost savings to Small Businesses because of changes to proposed regulations as a consequence of Office of Advocacy actions.
Source	Regulatory cost savings are based on changes to final regulations or the delay in the implementation of final regulations that result in decreased costs or increased revenue for small entities as a result of intervention by Advocacy, small entities (businesses, communities, and not for profits), and SBREFA panels. The source for the estimated savings is usually the regulatory analysis of the agency but it may also be based on an estimate provided by the industry.
Validation	Estimates of regulatory cost savings are difficult to make and require a number of assumptions. The Office of Advocacy believes their estimates to be valid.
Limitations	Estimates made using information gathered from various sources including agency data, Congressional Budget Office estimates, trade association and industry data.
Remedies for Limitations	Cross check against other regulatory savings estimates.
Verification	SBA has not independently verified this data.
Measure	**Jobs created by clients**
Definition	Estimates of jobs created by SBA programs.
Source	Disbursed loans for 7(a) and 504 estimate from Loan Accounting data-

	base. SBIC dollar financings from program database. 7(a): Based on SBDC's annual economic impact report to SBA. It includes data on loan dollars obtained for clients and jobs created. Job coefficient is $32,382 that is an average of job coefficient numbers for 1999 and 2000 for SBDC clients that were assisted in getting loans. 504: Based on SBA's 504 program data on loan application of expected number of jobs created from disbursed loan funds. Job creation constant is $33,366 for loans made 1998-2000. In addition to jobs created; the 504 program contributes to jobs retained. SBIC: Based on the Arizona Venture Capital Impact Study made by the Zermatt Group (1999). Study estimates a job creation constant of one job for $35,000 invested in 1999.
Validation	Capital infusion in a firm will most often lead to growth in jobs, sales and revenue. This measure focuses on the number of jobs created. By multiplying the dollar volume of loans by the job coefficient an estimate of jobs created is made.
Limitations	The 7(a) job coefficient is based on a study done in the early 1990's. The Bureau of Labor Statistics at the Department of Labor has recently used their data to estimate the job coefficient for SBA loans made in 1998. This estimate uses the number of jobs created divided by the change in jobs between 1997 and 2000 to estimate the job coefficient. For 7(a) this estimate varied with the size of the loan. The average number of disbursed dollars per job created for SBA's 7(a) loans made in 1998 was $ 53,895. This estimate is a lot higher than the previous method and points to the need for further analysis.
Remedies for Limitations	A project is under way with Bureau of Labor Statistics to obtain estimates of job creation by SBA loan recipients for firms that have EIN numbers.
Verification	See limitations.

Measure	**Provide gap lending and investment financing**
Definition	Dollar volume of approved loans (gross) for 7(a) and 504 program and dollar financings provided by the SBIC program.
Source	Loan accounting database for 7(a) and 504. SBIC program database for SBIC financing data.
Validation	External auditors audit the data.
Limitations	The dollar volume is based on approved loans. SBA's OIG has recommended that SBA use disbursed dollar loan amounts for 7(a) and 504. The measure is an output measure.
Remedies for Limitations	Use disbursed amounts for 7(a) and 504.
Verification	Through audits and independent reviews.

Measure	**Loans to women-owned businesses**
Definition	Number of 7(a) and 504 Loans to firms 51 % owned by women.
Source	Loan accounting database.
Validation	The measure provides the share of approved loans to 51% women-owned firms.
Limitations	Census uses the 51% women-owned definition. However, SBA also collects data on the number of loans to firms with 50.0% to 50.99% women ownership.

Remedies for Limitations	Provide data on loans to 50% women-owned firms in addition to 51% women-owned firms.
Verification	Consistency checks.

Measure	**Loans to minority-owned businesses**
Definition	Number of 7(a) and 504 Loans to firms 51 % owned by minorities.
Source	Loan accounting database.
Validation	The measure provides the share of approved loans to 51% minority-owned firms.
Limitations	Census uses the 51% minority-owned definition, but it would be useful to know what impact a 50% definition would have.
Remedies for Limitations	Provide data on loans to 50% minority-owned firms in addition to 51% minority-owned firms.
Verification	Through audits and independent reviews.

Measure	**Loans to veteran-owned businesses**
Definition	7(a) and 504 Loans to firms 51 % owned by veterans.
Source	Loan accounting database.
Validation	The measure provides the share of approved loans to 51% veteran-owned firms.
Limitations	Census uses the 51% veteran-owned definition. But it would be useful to know what impact a 50% definition would have.
Remedies for Limitations	Provide data on loans to 50% veteran-owned firms in addition to 51% veteran-owned firms.
Verification	Provide data on loans to 50% veteran-owned firms in addition to 51% veteran-owned firms.

Measure	**Number of Start-up Firms Financed by 7(a) & 504**
Definition	Number of 7(a) & 504 approved loans to start-up firms. Start-up firms are 0-24 months old. The definition is the one used by Census.
Source	SBA Loan Approval Database (TTS001).
Validation	This indicator is a valid as it measures the degree to which SBA is providing access to capital for an important market segment.
Limitations	The measure would be slightly improved if disbursed loans were used instead of approved loans.
Remedies for Limitations	See above.
Verification	No independent verification carried out.

Measure	**Export sales assisted by SBA loans**
Definition	The total dollar volume of sales supported by export loans.
Source	SBA's Office of International Trade records.
Validation	Export sales represent an economic stimulus to firms. The measure summarizes the increase in export sales achieved by SBA clients getting exporting assistance.
Limitations	Export loans are often for revolving lines of credit. It is difficult to track all sales made through revolving credit. Consequently the measure may underestimate the sales volume generated by the line of credit.
Remedies for Limitations	Improve reporting process to ensure that most export sales achieved by SBA export assistance clients are captured.

Verification	A check is performed in Headquarters to ensure the identification and summation of export sale numbers are correct. SBA has not yet independently verified this data.

Measure	**Federal Procurement Prime Contract Dollars to small firms, to small disadvantaged businesses including 8(a), to women-owned, minority-owned, service disabled veteran-owned firms, and HUBZones-certified firms.**
Definition	This indicator measures the extent to which these different categories of small business ownership receive Federal Prime Contract dollars.
Source	The Federal Procurement Data System (FPDS) which is the official source for data on Federal procurements.
Validation	Congress establishes targets for the share of Federal procurement dollars that should reach the small business sector as well as specified subpopulations. The Office of Federal Procurement Policy (OFPP) in its policy letter 99-1 supports SBA's use of FPDS data to measure Federal contract dollars received by small businesses, women-owned, minority-owned, service disabled veteran-owned and HUBZone certified firms, rather then requiring agencies to provide this information on separate reports.
Limitations	Prime data are reported to the FPDS on a quarterly basis. FPDS has been determined to be the most accurate and verifiable reporting system of contract awards under the procurement preference goal program; however, there are some minor problems with data that are entered incorrectly into FPDS through the SF-279 and SF-281. The final FPDS data are available about a year after the end of the fiscal year. The FPDS was not programmed to identify HUBZone awards during FY 1999.
Remedies for Limitations	Through the electronic commerce committee PEC, GSA is re-engineering the FPDS to improve the accuracy and timeliness of information.
Verification	SBA does not separately verify the data obtained from FPDS system. The General Services Administration is responsible for working with the Agencies on the accuracy of the FPDS database.

Measure	**8(a) client success rates 3 years after graduation**
Definition	The percentage of 8(a) firms three years after graduation that are independently operated – that is have not been sold or gone out of business.
Source	SBA surveys of all graduated firms and uses Dun and Bradstreet data on individual firm status.
Validation	Survey results provide an estimate of the share of viable graduated firms.
Limitation	The success rate is based on survey results, which depend on response rates. The response rate varies from year to year.
Remedies for Limitations	Ensure a high response rate and seek to use other sources such as the Bureau of Labor Statistics data on number of employees.
Verification	The determination of independently operated firms is checked against the Dun and Bradstreet database to ensure accuracy.

Measure	**Customer satisfaction rate for WBC, BICs, OSCS, SBDC and SCORE**
Definition	Surveys are used to measure the share of SBA clients in the WBC, BIC, OSCS, SBDC and SCORE programs.
Source	The WBC, OSCS and SCORE surveys were done by ACSI at the University of Michigan. The SBDC study is done by SBDC Chrisman study, and the BIC was done in house.
Validation	The ACSI surveys were based on random samples for a total of 200 interviews per survey.
Limitations	The three different surveys (ACSI, BIC and SBDC) use different methods and are therefore not comparable with each other. The surveys measure satisfaction and there is not necessarily a correlation between customer satisfaction and subsequent customer business success.
Remedies for Limitations	Use same survey instrument for all surveys. Expand the scope of the surveys to include attribution measures.
Verification	The surveys have not been verified. As surveys are done in the same way over time, consistency checks can be applied.

Measure	**Field presence within 3 days of a disaster declaration**
Definition	Percentage of Disasters where effective field presence is provided within 3 days of a physical disaster declaration. Field presence is defined as SBA disaster office personnel on site to coordinate the provision of disaster assistance with appropriate Federal, state and local officials.
Source	Closeout reports prepared by the disaster area office after each disaster.
Validation	This indicator is a valid measure of SBA's assistance to disaster victims because timely assistance is critical to re-establishing lives and communities in the aftermath of a disaster.
Limitation	Currently, this information is not received for approximately 6 months after a disaster is declared and there is some inconsistency in what is meant by "effective field presence" among the area offices.
Remedies for Limitation	SBA will consider options for obtaining this information much sooner after the disaster has been declared including, but not limited to, making a revision to the automated loan control system so that this information can be inputted as soon as it is accomplished. SBA will also provide further guidance to the area offices to define "effective field presence" and its scope.
Verification	Audits.

Measure	**Loan applications processed within 21 days**
Definition	Share of applications where the disaster office has provided applicants with a decision within 21 days of receiving a complete disaster loan application.
Source	Disaster automated loan control system.
Validation	This indication is a valid measure of SBA's assistance to disaster victims because timely assistance is critical to re-establishing lives and communities in the aftermath of a disaster.
Limitation	It measures the processing time when the application has been completed, not when the application process begins.

Verification	Audits.

Measure	**Customer satisfaction rate (Disaster)**
Definition	Satisfaction rate determined through SBA surveys to disaster victims who have received loans.
Source	SBA surveys.
Validation	It is important that recipients of government assistance feel that they have received fair, courteous and helpful assistance. Determining how satisfied the clients were with the service received can in part capture this.
Limitation	The survey measures those who received disaster loans but does not include those who did not receive loans.
Remedies for Limitations	The survey will be expanded to include all applicants.
Verification	No verification is done.

Defining FY 2001 Performance Indicator Cost Estimates

The SBA utilizes "activity based costing" in its managerial cost accounting. Surveys of employees are conducted to determine the personnel costs (compensation and benefits) related to the SBA's program activities. Other operations costs are added and overhead is allocated to obtain the costs of the SBA's credit and other program services.

The SBA's performance costs are designed to be consistent with the Agency's FY 2001 financial statements. It must be understood that these costs are therefore different from the "obligations" used in the SBA's budget execution. Also, the performance costs are different from budgetary costs as they include activities across organizational boundaries and overhead in order to provide the total cost of Agency program services.

The table defines what elements of administrative cost as defined in the cost allocation model have been used to determine the costs for activities relevant for producing the performance indicator. A special difficulty is what resources are relevant for performance indicators such as customer satisfaction rates. We have defined it as the program costs for producing goods and services measured by the customer satisfaction survey. Using only the cost for the satisfaction survey is not an appropriate cost measure.

Description	**Cost and Methodology**
Strategic Goal #1: Helping Small Businesses Succeed	
Program Area #1: Advocacy and Outreach	
1. Regulatory cost savings to small businesses	$1.1M - Advocacy "Ensure SB participation----"
Program Area #2: Increase Access to Capital and Credit	
2. Jobs created by 7(a), 504 and SBIC clients	$122.3M - LM 7(a), 504, SBIC
3. Gap financing through 7(a), 504, Microloans and SBIC	$122.3M - LM 7(a), 504, SBIC
Number of 7(a) and 504 loans	
4. to 51 percent women-owned firms	$14.6M - LM (% of WO to total loans)
5. to 51 percent minority-owned firms	$17.6M - LM (% of MO to total loans)
6. to veteran-owned firms	$7.5M - LM (% of VO to total loans)
7. Start-ups receiving 7(a) and 504 financing	$20.9M - LM (% startup loans to total loans)
8. Export sales through SBA assistance	$5.9M - LM IT + USEAC
Program Area #3: Increase Access to Procurement Opportunities	
Federal prime contract dollars:	
9. To small businesses	$8.0M - Prime Contract Program
10. To small disadvantaged-owned businesses (including 8(a) firms)	$4.9M - % of SDB to total SB procurement + SDB
11. To women-owned businesses	$0.9M - % of WO to total SB procurement
12. To service disabled veteran-owned businesses	$0.08M - % of VO to total SB procurement
13. To HUBZone small businesses	$0.3M - % of HUBZone to total SB procurement
14. 8(a) client success rate 3 years after graduation	$28.7M - 8(a) Program
Program Area #4: Develop Entrepreneurs Through Technical Assistance	
15. Number of clients receiving training and counseling by partners:	$145.2M - SBDC, SCORE, OSCS, BIC, WBC, Drug Free Workplace
Customer satisfaction rates for:	
16. WBC	$10.3M - WBC Grants + WBO "Mge & Mtn WBC"
17. BICs	$11.6M – BICs
18. OSCSs	$7.3M – OSCSs
19. Small Business Development Centers	$93.2M – SBDCs
20. SCORE	$8.8M – SCORE
Strategic Goal #2: Help Families and Businesses Recover from Disasters	
21. SBA field presence within 3 days	$15.8M - Disaster Closeout Report (Included in #23)
22. Loan applications processed within 21 days	$95.9M - Disaster Report (Included in #23)
23. Disaster customer satisfaction	$111.7M – DLM

Impact of Subsidy Rate Calculations

The Federal Credit Reform Act (FCRA) of 1990 requires that all agencies budget for the "cost" of credit programs by measuring the net present value of cash flows to and from the Government. Loans approved during the same fiscal year in the same appropriation fund are assigned to a "cohort", which is funded by appropriations for that year. Loans may be obligated or guaranteed only to the extent Congress appropriates funds and these funds are deposited in SBA accounts at the U.S. Treasury. These funds are used as a reserve for any losses from the programs. This reserve is also reported in the preparation of SBA's annual financial statements as required by rules promulgated by the Federal Accounting Standards Advisory Board.

Prior to the beginning of the Government fiscal year (and before any loans or guarantees are issued), SBA produces an estimate of the cost, called a "subsidy rate," for each program by developing models that forecast annual cash flows from SBA's programs. Extensive amounts of historical transactional loan data and accounting data are used to develop this initial subsidy rate. Upon the passage of SBA's appropriation and authorization bills, this becomes the original subsidy rate. Once the fiscal year has been completed, and annually thereafter, the Agency produces a re-estimate which adjusts its initial estimate based on the most recent information available. Based on the re-estimate, funds are either remitted to or appropriated from the U.S. Treasury for SBA's use without the need for Congressional action. SBA produces re-estimates for all of its major programs annually. Due to timing considerations, these are normally produced using information ending in June of the previous fiscal year. On other programs that are not financially material, SBA produced the re-estimates on a different schedule based on more practical considerations.

SBA currently develops subsidy rates for the following programs on an annual basis: 7(a), 504, Small Business Investment Company (SBIC) Debentures and Participating Securities, and disaster loans for home and business. Re-estimates for direct and guaranteed Microloans and other smaller programs are normally produced every two years.

The following table shows the latest re-estimate of subsidy rates for the 7(a) program for all cohorts originated under the requirements of the FCRA. The total subsidy cost is the sum of the components for the interest subsidy costs, default costs (net of recoveries), fees and other collections, and other costs. The SBA has prepared these estimates for loan guarantees in the current year's budget for the current and past years' cohorts. Each subsidy rate represents the cost, as a percentage of the direct or guaranteed loans obligated in the cohort. Tables showing the latest re-estimate of subsidy rates for other programs can be found in footnote 7Q to the Principal Financial Statements.

Cohort	Original Subsidy Rate	2001 Re-Estimate	Subsidy Rate Re-Estimate Components		
Year	**Total**	**Total**	**Interest**	**Default**	**Fee**
1992	4.85	1.64	0.00	3.17	-1.53
1993	5.47	0.76	0.00	2.47	-1.71
1994	2.15	0.74	0.00	2.65	-1.91
1995	2.74	1.52	0.00	3.52	-2.00
1996	2.74	0.20	0.00	3.38	-3.18
1997	1.93	-0.36	0.00	3.17	-3.53
1998	2.14	0.24	0.00	3.43	-3.19
1999	1.39	0.59	0.00	3.93	-3.34
2000	1.16	1.18	0.00	4.44	-3.26
2001	1.16	0.71	0.00	4.59	-3.88

As with any estimate, the accuracy of subsidy rates can be affected by many variables including those having to do with the economy, such as economic expansion, interest rates, or the availability of credit. Subsidy rate variations can also occur due to changes in loan origination and servicing practices and loan mix. SBA's models assume that these underlying items will cause its loans to perform similar to the historical cycle experienced over the last 15 years. Thus, any variations from that experience will cause deviations in the subsidy rate and cost.

Fee income has increased as a result of changes in the statutory fee rates. The SBA's subsidy account is entitled to two principal fees from loan guarantees: an up-front "guarantee fee" and an annual servicing fee. Fee income is affected by many items, including the rate of prepayments, defaults, and the mix in loan volumes.

During 2001, default costs were lower than previously estimated. The SBA management has attributed these lower costs to the continued national economic growth cycle as well as to improved underwriting and servicing practices. Early re-estimates were less accurate due to a lack of data. The modeling function continues to represent an estimate based primarily on the most recent 15 years of performance. As such, any differences in current variables from those historical averages will continue to cause differences between its initial cost projections and actual costs.

Fees and Charges

The SBA annually or biennially assesses user fees and other program charges in accordance with the Chief Financial Officer (CFO) Act, 31 U.S.C.§902(a)(8). Annually, the SBA estimates program revenues and charges (or costs) and these are included as part of the President's Budget. Certain fees and charges are also included in the program subsidy calculations for the President's Budget.

The SBA evaluates the sources and amounts of actual and anticipated revenues and expenses in order to calculate the subsidy rate for each program. Changes to fees and other charges can be made legislatively as part of the budget process. Each year, SBA evaluates legislative changes and other possible factors affecting revenues and expenses, and recalculates the subsidy rates.

The chart depicts fees the SBA charges for its programs with a description of each fee.

Program	**SBA Fee Type**	**Fee Description**
Financial Assistance	7(a) and 504	Loan servicing and guarantee fees.
SBIC	Leverage Fee	Nonrefundable fee payable upon commitment or draw down.
	Annual Fee	Annual fee paid to SBA on outstanding leverage issued on or after October 1996.
	Licensing Fee	Fees collected to process SBIC license applications.
	Examination Fee	Fees collected to perform SBIC examinations.
Surety Bond Guarantee		Contractor and surety fees.
Small Business Publications	Publications for Sale	Amounts collected with publication orders.

Managerial Cost Accounting Model

SBA has provided Managerial Cost Accounting (MCA) information as part of its budget and financial reporting since FY 1997. The SBA utilizes off-the-shelf software from ABC Technologies to provide agency-wide MCA, allowing for the development of the annual Statement of Net Costs, the tying of cost information with performance measures and budget submissions, and of the management of the Agency's administrative resources.

The SBA first developed an MCA model using OROS software developed by ABC Technologies with the assistance of Strategic Partners International Incorporated (SPI). The SBA initially developed its MCA model in response to the Federal Credit Reform Act (FCRA) requirement that appropriations for administrative expenses in support of credit programs must be requested within the credit program's appropriation account. This requirement allowed the SBA to provide a better estimate of credit program administrative costs to include in the SBA's budget submission to Congress. The initial MCA model relied upon a sampling of employee responses regarding their usage of time against credit versus non-credit programs and activities.

Beginning with the FY 1998 reporting and budget processes, the SBA developed an extract from its core accounting system to ensure a direct linkage between reported activities and traditional organizational accounting. This provided an audit trail between its MCA information and its financial reporting.

For FY 1999, the Office of Management and Budget's (OMB's) Circular 97-01 required the development of a new financial report, "Statement of Net Costs." Combined with the increased attention to Statement of Federal Financial Standard (SFFAS) #4 "Managerial Cost Accounting Concepts and Standards for the Federal Government," the SBA saw a need to expand its collection of information to include all employees and to expand its reporting to include all Agency activities. For MCA modeling and reporting in FY 1999, SBA collected responses from 100 percent of its employees and identified unique cost objects for all major programs and activities.

Due to the large workload associated with the collection and accumulation of this data for FY 2000, the SBA developed a web-based survey employing the Intranet to capture employee responses and developed an automated interface with its core accounting system. This increased the timeliness of reporting and enhanced the accuracy of the information.

Further improvements were introduced in FY 2001 by including a unique employee identifier to capture background accounting data, increasing the survey's accuracy and relieving the employee of re-entering information. In addition, we began conducting the survey twice yearly, once at the mid-point of the fiscal year and again at year-end. The second survey presented the data from the first survey response and merely required updates as appropriate.

The SBA still considers itself to be in the implementation stage of managerial cost accounting and continues to make improvements each year. We have already seen several areas where this additional information has proven useful. These include the following:

1. Producing annual budget estimates for FCRA. As mentioned above, FCRA requires that the cost of administrative expenses be estimated and appropriated separately from the normal Salaries and Expenses (S&E) appropriation. The SBA's cost model provides this supplemental information to support budget estimates.
2. Producing the annual "Statement of Net Costs." Since FY 1999, we have produced this financial statement that requires non-traditional Federal accounting.
3. Meeting SFFAS #4 requirements. This requirement is part of its annual financial statement audit and is necessary to maintain its unqualified "clean" audit opinions. The SBA has received six consecutive unqualified opinions since FY 1996.
4. Providing a crosswalk to Agency performance measures for the Government Performance and Results Act (GPRA) of 1993. In order to comply with GPRA provisions and make performance information meaningful, costs of program outputs and outcomes associated with Agency strategic goals and objectives are provided annually in its Performance and Accountability Report.
5. Providing a crosswalk to Agency budget estimates. The SBA's budget request ties resources requested to goals, objectives, outputs and outcomes. This allows more informed decisions regarding the allocation of resources toward key Agency programs and activities rather than toward organizational structures.
6. Providing increased managerial information on the cost of activities. Management traditionally views Agency costs according to traditional organizational components. Arraying costs according to cost objectives and activities provides a more informed view of the allocation of resources toward meeting objectives and toward providing program outputs and outcomes. This view results in more informed decisions made regarding resource allocation during times of limited administrative resources.
7. Providing costs of reimbursable program activities. The SBA administers a government-wide reimbursable certification program for the small disadvantaged businesses program. The MCA provides the basis for annual changes to participating agencies under the Economy Act of 1932 (31 U.S. Code) agreements.

These are examples of the benefits that the SBA has derived from its implementation of MCA over the past 5 years. In addition, the GAO has recognized the SBA's achievements in implementation over this time, and is using the SBA as a case study for the development of an executive guide to be used by Federal agencies in efforts to implement cost accounting. For more information on Activity Based Costing or Activity Based Budgeting visit www.sba.gov/cfo.

New Automated Financial System

The SBA is modernizing its budget, accounting and financial reporting through a Joint Accounting and Administrative Management System called JA^2MS.

Beginning in FY 2002, SBA completed Phase I of its integrated financial management vision with the implementation of Oracle's Public Sector Federal Financials, (Oracle). The Oracle financial program includes modules for Accounts Payable, Accounts Receivable, General Ledger/Budget and Purchasing and is a part of the Oracle Enterprise Resource Plan (ERP) platform.

The SBA initiated a benchmark study of its financial, information technology, human resources and procurement functions and compared those benchmarks against comparable processes performed by other Federal agencies and world class companies. The Hackett/Answerthink Consulting (Hackett) group prepared this study. Hackett summarized its findings as follows:

- The SBA focused heavily on supporting daily activities, rather than value-added activities;
- The SBA had a lacked system integration impacting its ability to get critical information; and
- The SBA staff was under-utilized and dedicated to administrative activities.

Hackett's findings supported the SBA's initiative for an integrated Custom-Off-The-Shelf (COTS) solution. It highlighted the need to leverage on best practices and maximize efficiencies through the use of an updated technology infrastructure. An ERP solution was planned to be implemented through the JA^2MS project. Planned as a multi-year phased-in implementation, the JA^2MS vision proposed the following:

- Phase 1.0 – the replacement of the Federal Financial System (FFS) (run by the U.S. Treasury) for administrative accounting only, not loan accounting.
- Phase 2.0 – the implementation of the new human resources, travel and procurement system. (The SBA has temporarily placed JA^2MS 2.0 on hold pending funding.)
- Phase 3.0 – the implementation of a data warehouse. (The SBA has also temporarily placed JA^2MS 3.0 on hold pending funding.)

Major milestones in JA^2MS include the following:

- <u>Product Evaluation</u>: The SBA completed a formal analysis of the requirements for the integrated system. The requirements formed the backbone for the extensive product evaluation conducted by an integrated team from various program offices.
- <u>Business Case</u>: The JA^2MS business case included a comprehensive cost benefit analysis of various alternatives using the COTS solution. The recommendation to purchase Oracle was adopted in the summer of 2000.
- <u>JA^2MS 1.0 Implementation</u>: Together, the Office of the Chief Financial Officer and the Office of the Chief Information Officer worked on the replacement of the FFS, which proved to be a large undertaking. The CFO committed a team of about 30 individuals, many of whom also continued with their regular OCFO responsibilities, for over a year to this effort.

A number of other offices in the SBA also contributed to the success of the JA^2MS implementation including field offices, the Office of Human Resources, the Office of Disaster Assistance and the Office of Administration.

With the Oracle technology, financial information is immediately available on the desktop for decision making. This technology has greatly enhanced the SBA's ability to be compliant with the Government Paperwork Elimination Act and the new technology infrastructure will enable the SBA to further integrate with its other systems. This and other measures are steps towards the transformation of the SBA's financial management systems into a modern system capable of supporting its current and long-term goals. For more information about JA^2MS go to www.sba.gov/cfo/jaams.html.

Asset Sales

The SBA began a series of sales designed to sell its owned loan portfolio in August of 1999. These loans are sold through an open and competitive process, resulting in the best value for the Government. The SBA established its Asset Sale program to sell the "owned portfolio" of loans and other assets. The total SBA portfolio of direct loans and collateral assets was originally valued at approximately $10 billion including 7(a), 504, disaster home and disaster business loans. As a result of four successful asset sales (August 1999, August 2000, December 2000 and August 2001), the SBA has sold about 80,000 loans valued at almost $3.8 billion in loans to private investors. (Almost 50,000 were sold in FY 2001 alone.)

The SBA is committed to an Asset Sale program that maintains the public policy objectives central to the Agency's core mission while maintaining the Agency's financial interests by returning the best value to the U.S. Treasury from these loans. Asset sales will continue to be an important portfolio management tool for use in the SBA's future.

As a side benefit to the Asset Sales program, the SBA has had more than 9,000 loans paid in full valued over $366 million, almost 700 compromises for $105 million, and reduced the portfolio by almost 7,300 loans for $613 million through charge-offs.

Other Debt Management Activities

Erroneous Payments Discussion as required by OMB circular A-11, section 57

1. Section 7(a) Loans

The SBA's section 7(a) loan program guarantees up to approximately 85 percent on about $9-$10 billion in loans annually. If a borrower defaults, the participating lender may request SBA to honor its guarantee. The SBA conducts a review of the purchase request, including reviewing the loan origination, use of proceeds, and diligence by the participating lender in servicing and liquidating the loan. If SBA determines that there has been a breach in any of the terms of the loan, the guaranty agreement, or SBA regulations by the participating lender, the SBA may modify the purchase request through a "repair" (that is a payment less than the full guaranteed amount), or may deny the purchase request in full.

The measurement of erroneous payments in this program logically rests with the guaranty purchase process, since the Government makes "payments" only through this process.

A January 3, 2000 Office of Inspector General (OIG) report provided the results of an audit of the 7(a) loan program conducted to determine whether loans were processed, disbursed, and used in accordance with SBA requirements. OIG concluded that 7(a) loans were not always made in accordance with established requirements. Based on a statistical projection of the limited sample results, OIG estimated that out of a portfolio valued at $32 billion, loans valued at $405 million may have deficiencies that could result in some erroneous payments if the SBA were to honor its guarantee on the loans.

As a result of the audit, OIG initially recommended that SBA centralize the guarantee purchase process for all loans. However, based on an agreement among OIG, the Office of Field Operations, the Office of General Counsel and the Office of Financial Assistance, program-wide centralization did not occur. Instead, the SBA took two separate actions designed to meet the spirit of the OIG recommendation. First, it centralized purchasing for loans made under the SBA Express program, which currently accounts for 28 percent of the number of 7(a) loans approved so far for FY 2002. Second, with the OIG's concurrence as to methodology, the SBA established a process by which it centrally reviews a random sample of about 300 loan purchase decisions annually.

The SBA guarantee purchase review program was initiated to further strengthen the Agency's quality control and oversight of the 7(a) loan program. The initial findings from the review process indicated a possible error rate in recent guarantee purchases of 10.9 percent. This is a preliminary estimate based upon the early results of a small sample. The Agency needs additional data from future reviews to validate this finding since records related to the level of errors in purchase disbursements did not exist prior to the newly initiated review process. In the absence of other specific data, we propose that an estimated error rate of 10.9 percent be established as SBA's baseline rate for FY 2001 without referencing FY 1999 and FY 2000.

We further propose the following target rates for erroneous payments for FY 2002-FY 2003, based on its definition supplied above.

FY 2001 Baseline error rate	10.9%	$44.1 million
FY 2002 Target error rate	10.0%	$40.5 million
FY 2003 Target error rate	9.0%	$36.4 million

Assessment and Action Plan:
The SBA will continue this review process to determine if there is a reduction in the error rate. The review process includes examination of a random sample of purchase decisions made by SBA field offices by teams of financial and legal staff. The goal of the reviews is to identify problem areas in policy and procedures that may require clarification, revision or development of training in order to achieve consistency in purchase decisions and the reduction of possible erroneous disbursements. The SBA plans to review approximately 300 guarantee purchases each year. The first recommendations from this review process will be issued during FY 2002. Part of this process includes recovery of funds that are identified having been paid erroneously.

In addition, through the conduct of regular reviews of lenders participating in loan programs, the Agency ensures and measures compliance with laws, regulations, and agency procedures. Lenders who fail to appropriately follow these requirements will not be allowed to participate in the 7(a) program. Problems identified are factored into the Agency's future lender approval and review processes.

2. Certified Development Company Program (504)

This asset based debenture program guaranteed approximately $2.2 billion in loans in FY 2001. The participating Certified Development Company (CDC) issues debentures to private investors to finance the transaction with the small business borrower. SBA's guarantee covers no more than 40 percent of the project costs, with the primary lender covering a minimum of 50 percent of the project costs and retaining a first lien position on any real estate and collateral. Borrowers must contribute a minimum of 10 percent, however this contribution increases to 15-20 percent for start-up businesses and single purpose buildings. Upon default by the borrower, the SBA must honor its guarantee to the investor. This is done through a single Central Servicing Agent (CSA) under a tightly controlled procedure. Upon payment to the investor, the Agency attempts to collect via a workout with the borrower or through the liquidation of collateral.

The majority of 504 loans are reviewed by SBA loan specialists as part of the approval process. Under the legislatively mandated 504 program structure, CDCs have no liability for any 504 loan failure except for loans processed through the Premier Certified Lenders Program (PCLP). However, the SBA counsel reviews 504 loans after closing and the Agency provides necessary training to a CDC to overcome any identified flaws in it's loan practices. Consequently, the potential for erroneous payments is likely to be lower.

The measurement of erroneous payments in this program will be based on a review of defaults. Defaults amount to about $60-70 million annually. During FY 2002, the Agency will set up a procedure for measuring the amount of erroneous payments for 504 loans, subject to the availability of funds. This procedure will be similar to that used for the 7(a) program in which a group of Headquarters and field personnel will review a sample of purchases made during FY 2002. The review will include an examination of the loan file and discussions with the loan officer handling the purchase if there are any discrepancies. Because the process is centralized in the loan servicing centers, we would anticipate that the performance is similar or slightly better than the 7(a) experience. Based on this, SBA estimates that erroneous payments are no higher than 10 percent or $7 million annually.

The goal for FY 2002 is to establish the baseline performance level. Once this is established, the SBA will develop a plan for improving performance.

3. Small Business Investment Company (SBIC) Program

SBICs are privately owned and managed venture capital firms. The SBA guarantees approximately $2.5 billion in debentures and participation certificates (leverage) under this program annually. The participating SBIC issues debentures and/or participation certificates to private investors to supplement the private capital raised by the fund. These funds are then used to finance investments in small businesses. The private capital is always at risk ahead of SBA. Upon default on payments by the SBIC for a debenture or participation certificate, the SBA must honor its guarantee to the investor and attempt collection through negotiations with the SBIC and the small business financed by the SBIC for a workout or through ultimate liquidation of collateral.

Unlike the 7(a) and 504 programs, the SBIC program has a very rigorous licensing process prior to issuance of any form of SBA leverage. Also, annual reviews of all leveraged SBIC participants are conducted to assure full compliance with all applicable laws, regulations and agency procedures. When a potential for default is identified, the SBIC is placed on a watch list and monitored close by SBA personnel. If a default does occur, the SBIC is reclassified into SBA's specific SBIC liquidation unit where a comprehensive review and analysis is undertaken to mitigate any loss to the Government.

The SBA does not believe erroneous payments have been made to an SBIC. The actual disbursement to an SBIC requires the cooperation of two offices within the Investment Division and another independent party plus the disbursing agent prior to a payment being made.

However, SBICs may make investments in portfolio concerns that are in violation of the regulations governing their investments. SBICs are routinely examined (approximately once per year for leveraged SBICs) and potentially improper investments are reported by the examiners. These investments are oftentimes later found to be appropriate but the raw number is included below.

In the examination report, the potential violations are referred to as "findings." The findings are resolved in a number of ways: after review, it is sometimes determined that no violation occurred; the terms and conditions of the investment may be amended to conform to the regulations; the terms may be approved by the Investment Division post investment; or alternatively, the SBIC may divest.

Although the findings may, in fact, not be a violation, they can serve as a proxy for potential erroneous payments as the term is described in OMB instructions. We have attempted to isolate those findings that potentially represent investments that should not have been made due to eligibility requirements or where funds were improperly disbursed, and not findings relating to purely structuring issues that are fairly easily corrected. The specific findings are identified below (all references are to 13 CFR):

- Prohibited Conflicts of Interest (107.730 and 107.885)
- Relending, Foreign, Passive or Other Prohibited Investments, Including Prohibited Real Estate Financings (107.720)
- Inappropriate Distributions, Including Improper Dividends and Excessive Expenditures (107.520; 107.585; 107.1520-1580; 107.50)

The reported number of findings on this basis, the percentage of total investments, and the estimated potential dollar amounts are as follows:

Fiscal Year	# of Investments	Percent of Total Investments	Potential $ Amounts
FY 99	32	1.03%	$19,200,000
FY 00	35	0.75%	$21,000,000
FY 01	28	0.65%	$16,800,000

SBA's objective is to have these potential violations not exceed 1.0 percent of the total investments made by the SBICs. It is estimated that the dollar amounts related to these investments do not exceed $600,000 on average. The average may vary depending upon the average size of investments made by SBICs.

Debt Management Activity

The SBA has an extensive debt management program. This includes extensive debt servicing and modern collection practices, the Treasury Offset Program (TOP), loss reporting, and loan sales. In addition, the SBA maintains a strong lender oversight program.

Debt servicing and collection practices are used to ensure maximum recovery of dollars. Borrowers are required to indicate on loan applications whether they are delinquent on a Government debt and credit reports are used to identify delinquent Federal obligors. Delinquent Federal debtors are subsequently barred from obtaining SBA-guaranteed loans.

On a monthly basis, the SBA reports delinquent debt identified by Social Security Number and Employee Identification Number to the Credit Alert Interactive Voice Response System (CAIVRS) maintained by the Department of Housing and Urban Development (HUD). The report includes disaster home loans and business loans, along with guarantors and co-obligors on any type of loan that field offices enter into the SBA’s system. Though available Agency-wide, the system is not used by the SBA on a systematic basis. However, some offices do use CAIVRS at loan origination.

The SBA is completing final regulations to implement Administrative Wage Garnishment (AWG) to assist in debt collection. Those regulations will be published in the Federal Register during the second quarter of FY 2002. Once these regulations are published, the SBA will issue Standard Operating Procedures (SOPs) for field office use.

Debt servicing and collection procedures include the acquisition and sale of collateral through liquidation processes. Only after the Agency has exhausted these collection methods does the SBA classify a loan as charged-off. For guaranteed loans, the loan must first be purchased from the participating lender before this classification can be made. Assignment of charge-off status does not preclude the Agency from further collection remedies.

Some of the loan program expenses are considered non-recoverable and are absorbed by the Agency in its administrative expenses. These expenses are typically small in nature and are classified as non-recoverable when they are not added to the borrower's indebtedness. Examples include fees for title searches, UCC refiling charges and other miscellaneous expenses incurred in the loan application process, or other situations, when these expenses are not added to the borrower's indebtedness.

The Treasury Offset Program (TOP) accounts for a large portion of the recoveries on the SBA charged-off loans. The SBA's TOP division is attached to the Birmingham Home Loan Disaster Servicing Center. All loans more than 180 days delinquent and all charged-off loans are referred to TOP. The program began in 1985 as a trial to determine how feasible and effective it would be to work in conjunction with the Internal Revenue Service (IRS) to "offset" Federal tax refunds due delinquent SBA borrowers. Today, every Federal agency has its own "offset" program in place. The offset program includes the offset of Federal tax refunds, Federal salary, Federal retirement pay, Federal vouchers and includes any Federal income benefits paid to a delinquent borrower. In 1996, the offset function was transferred from IRS to the U.S. Treasury. The SBA TOP division now works as the Agency's liaison with the Financial Management Service division of Treasury to ensure maximum collections of all the Agency's charged-off loans through both direct collection and the offset process.

The program has resulted in cumulative collections by the SBA TOP division of $50 million for the SBA on its charged-off portfolio. Referrals are made to TOP on a monthly basis. Over 9,600 loans have been collected in full, and over 25,000 charged-off loans have either made arrangements to pay monthly or have paid in full during the tenure of the program. FY 2001 was a record year for the TOP division, more than $7.6 million was collected from approximately 8,000 charged-off (mostly disaster home) loans in the TOP portfolio. Of those 8,000 loans, 914 were collected in full and there were eight compromises totaling $59,000. The TOP division ended FY 2001 with 8,098 loans in the portfolio, with a total outstanding balance of approximately $69 million. Currently, the SBA is participating with the U.S. Treasury on a pilot program to implement a new web-based credit alert system that will use the TOP database of delinquent debtors.

Each year, the SBA provides a Loss Report to Agency management for its various loan programs. The Loss Report focuses on the actual losses as a percentage of disbursements made to date. The report allows the user to review historical and current year data for each of the Agency's primary lending programs. The Loss Report for FY 2001 will be completed by the end of March 2002.

The SBA uses loss data as part of its process to compute the subsidy rate for its loan programs. The loss rates developed in the Loss Report are not equivalent to the SBA's subsidy rates, because subsidy rates include other factors. Some of these factors are loan fees, the present value of cash flows and interest rate considerations. Readers should not try to compare the loss rates to the subsidy rates on the SBA's loan programs.

Loss data also includes losses and gains from the sale of collateral (real estate and other property) acquired on defaulted loans. In addition, it includes other "costs of doing business" to service and liquidate defaulted loans that have been added to the loan principal balance. Before a loan sale, the portfolio to be sold is reviewed to write down overvalued loans. The results of the write down are also included in SBA's loss data.

BUSINESS LOANS
(Dollars in Thousands)

All Business Loans	Direct	Guaranteed	Program Total
Disbursements			
Balance as of 2000	7,104,538	107,860,434	114,964,972
FY 2001	24,983	8,899,483	8,924,466
Cumulative Disbursements	7,129,521	116,759,917	123,889,438
***Charged Off Loans**			
Balance as of 2000	1,515,305	6,537,723	8,053,029
2001 Loan Principal	3,806	298,974	302,780
2001 Judgment Principal	9,340	4,789	14,128
2001 Other Receivables	4,031	5,084	9,115
Cumulative Charged Off Loans	1,532,482	6,846,570	8,379,052
Recoveries			
Balance as of 2000	82,135	308,804	390,939
FY 2001	1,865	10,830	12,695
Cumulative Recoveries	84,000	319,634	403,634
Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	1,448,482	6,526,936	7,975,418
Actual Loss Rate	20.32%	5.59%	6.44%

*Asset sale data is also included

DISASTER LOANS

(Dollars in Thousands)

Disaster Loans	Direct	Guaranteed	Program Total
Disbursements			
Balance as of 2000	22,839,629	39,818	22,879,447
FY 2001	585,774	-	585,774
Cumulative Disbursements	23,425,403	39,818	23,465,221
***Charged Off Loans**			
Balance as of 2000	2,324,475	1,937	2,326,412
2001 Loan Principal	200,038	-	200,038
2001 Judgment Principal	1,255	-	1,255
2001 Other Receivables	882	141	1,023
Cumulative Charged Off Loans	2,526,651	2,077	2,528,728
Recoveries			
Balance as of 2000	179,309	9	179,318
FY 2001	14,540	2	14,542
Cumulative Recoveries	193,849	11	193,860
Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	2,332,802	2,066	2,334,868
Actual Loss Rate	9.96%	5.19%	9.95%

*Asset sale data is also included

The Asset Sales program is an important part of SBA's debt management. In FY 2001, the SBA sold over 49,000 loans with unpaid principal balance totaling $2.291 billion for two sales. The total sale price was $1.535 billion before expenses. As a result of these two sales, the SBA recognized a $676 million accounting loss. This represented the difference between the "adjusted" book value and the sales proceeds from the loan purchasers.

Lender oversight is a key component of the SBA's debt and credit program management methodology. The SBA must maintain the financial safety and soundness of its $53 billion loan portfolio. Risk management issues have become more critical as its business model has changed to include partnering with banks, outsourcing core processes and selling loans. In FY 2000, the SBA placed greater reliance on the credit decisions of its lending partners to originate approximately 75 percent of all business loans. SBA is testing the feasibility of contracting with the private sector for the servicing of 30 percent of its disaster home loans through the end of FY 2002.

The following table provides a 5-year history of the performance of SBA's credit portfolio. Generally, actual credit portfolio results have improved during this period due to programmatic and economic factors.

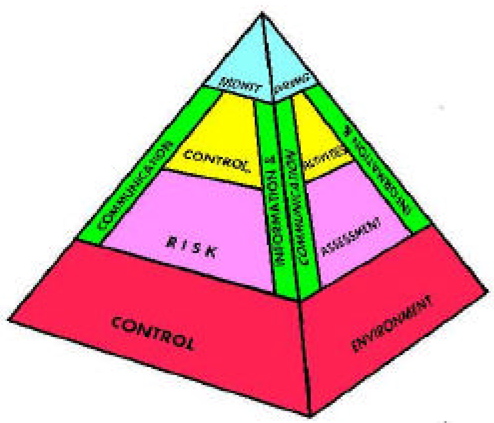
	FY 1997 Actual	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Estimate*
Currency Rate[1]					
7(a)	76.1%	89.4%	89.8%	90.4%	92.2%
504	97.5%	98.0%	98.0%	98.4%	99.6%
Disaster Home Loans	89.7%	90.8%	90.6%	89.6%	89.6%
Disaster Bus. Loans	80.9%	82.9%	85.0%	85.1%	85.2%
Default Rate[2]					
Disaster Home Loans	7.0%	5.9%	6.5%	7.4%	7.2%
Disaster Bus. Loans	14.7%	14.3%	12.1%	11.5%	11.5%
Purchase Rate[3]					
7(a)	17.3%	16.0%	15.1%	14.4%	14.3%
504	18.8%	15.8%	13.3%	11.9%	11.1%
Recovery Rate[4]					
7(a)	51%	51.7%	61.0%	60.5%	60.7%
504	44%	34.3%	31.1%	24.9%	31.3%
Disaster Home Loans	4.6%	4.6%	4.6%	4.6%	5.0%
Disaster Bus. Loans	11.9%	11.8%	11.8%	11.8%	19.4%

* FY 2001 rates will be published in the Loss Report, which is expected in March 2002.
1. The proportion of each year's disbursed dollars with on-time payments.
2. The proportion of each year's disbursed dollars over 60 days delinquent.
3. The proportion of each year's disbursed dollars purchased from lenders due to borrower default.
4. The proportion of each year's purchased dollars recovered by SBA or lenders, net of expenses.

Management Integrity Controls

The Administrator’s assurance statement is supported by the following processes: awareness efforts: including newsletters, an Intranet page, a video and computer-based training; assessment efforts: including reviews, reports, audits, facilitated workshops, risk assessments and field office reviews; and validation efforts, including action plans.

Sound internal controls are an integral component of the Agency’s administration and are necessary to support the SBA’s strategic goals. The SBA’s internal control effort is led by the Office of the Chief Financial Officer (OCFO).

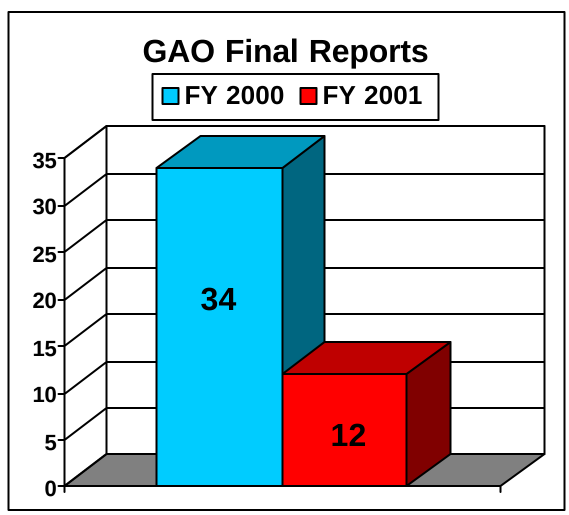


The Internal Control Pyramid

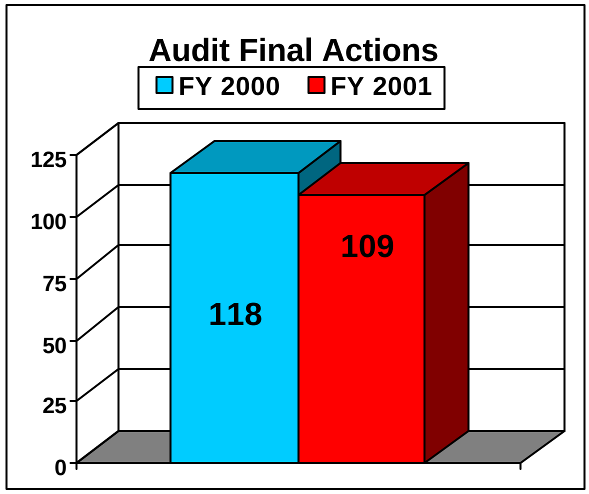
The Agency closely adheres to the General Accounting Office’s (GAO) *Standards of Internal Control in the Federal Government*, the requirements of the Federal Managers Financial Integrity Act (FMFIA) and the Office of Management and Budget (OMB) Circular A-123. The Agency takes an integrated approach to its internal controls, focusing on the five interrelated components of internal control as outlined in GAO’s *standards*: The components are control environment, risk assessment, control activities, information and communication and monitoring. Each individual manager in the SBA is responsible for the internal controls in his or her area.

The SBA Administrator's assurance statement is based on an internal control approach that includes Assertion Letters, provided to the CFO by each SBA program manager. These letters are completed using tools developed through the SBA’s internal control efforts. These tools include checklists, risk or control assessment models, and facilitated workshops.

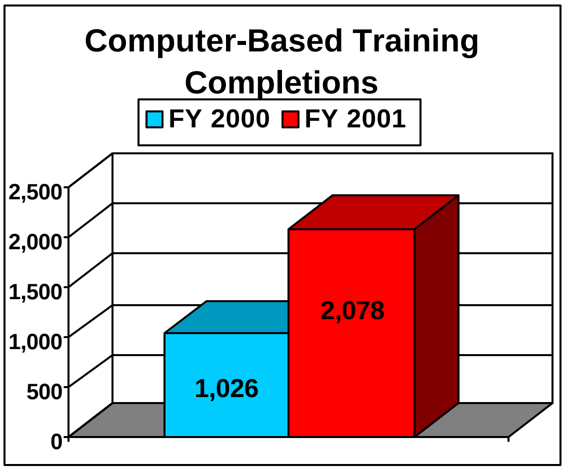
The SBA’s strategy is to implement the internal control plan as part of the on-going responsibilities of the Agency's program managers. An OCFO Internal Control Project Team helps SBA program managers and promotes internal controls throughout the Agency. The SBA has a variety of monitoring and review activities that support the internal controls. These include lender oversight, Quality Service Reviews (QSRs) of the District offices, follow-up of OIG and GAO audits, and other management oversight and review activities.



The GAO conducts audits and reviews of Agency programs and operations. Some of the reports contain specific recommendations for improving Agency program delivery and operations, and may contain descriptions of internal control weakness identified during the review and recommendations to remedy those weaknesses. All GAO audits are scheduled through the OCFO, which tracks replies to the GAO and Congress.



The SBA's Office of the Inspector General (OIG) conducts audits and inspections of the Agency's operations and its financial reports. The OCFO works closely with SBA management and the OIG to complete actions necessary to respond to recommendations in final audit reports issued by the OIG. Managers receive and analyze audit reports and provide timely responses to the OIG and the OCFO, taking corrective action when appropriate. The OCFO tracks the completion of these audit recommendations.

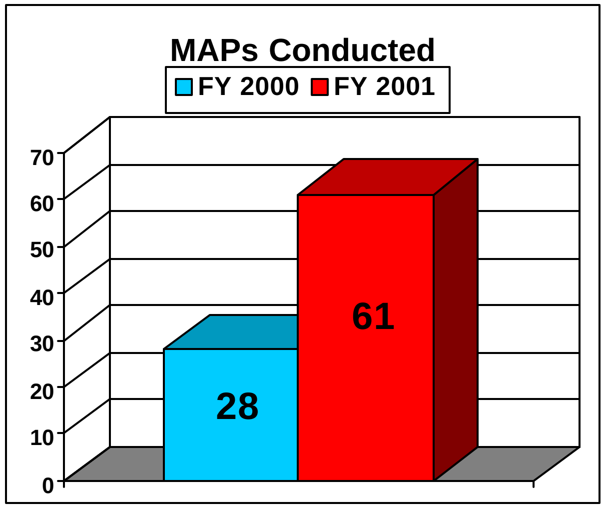


The OCFO created a three-phase approach to the internal control program: **Awareness** (create staff buy-in), **Assessment** (provide tools to managers) and **Validation** (assist managers).

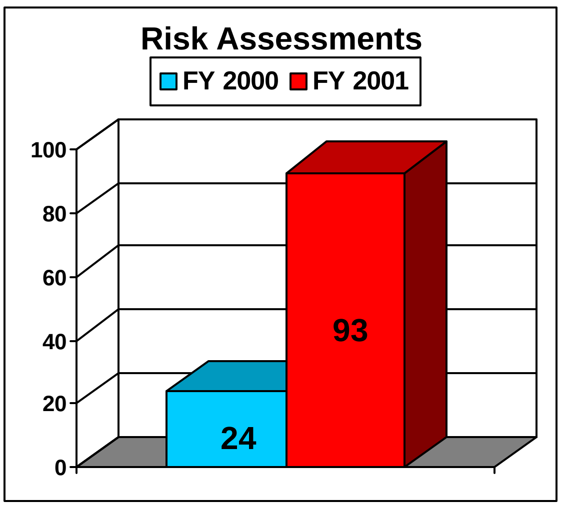
Awareness. In 1999, the SBA began with an agency-wide awareness campaign that now includes a website, computer-based training, newsletters, brochures, posters and a management training video complete with open captioning for the hearing impaired. In FY 2000, computer-based training (CBT) was fully activated as part of the campaign. More than 3,000 employees or more than 70 percent of the SBA workforce has completed the CBT.

In 2001, the OCFO created its first Internet web page. The new web page covers some of the processes under the responsibility of the OCFO. The web page is on the SBA Internet web site and is available to everyone. Readers can access the new page by going to www.sba.gov then selecting "Offices and Services." Within the box labeled SBA Programs, choose the title "Chief Financial Officer" and press "submit." Readers may go directly to the page by selecting this link www.sba.gov/cfo/

Assessment. The assessment phase began in FY 1999 with control self-assessment workshops known as Management's Assessment Process (MAP) workshops for managers and employees. A MAP workshop focuses on an entity's control environment, or on the objectives, risks, controls and issues concerning a particular organization, program, or process.

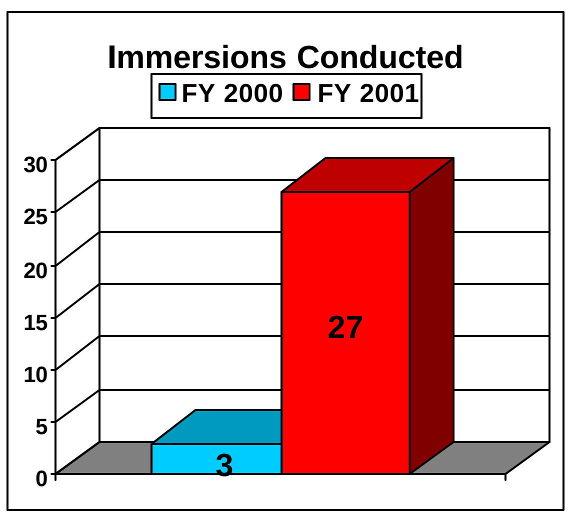


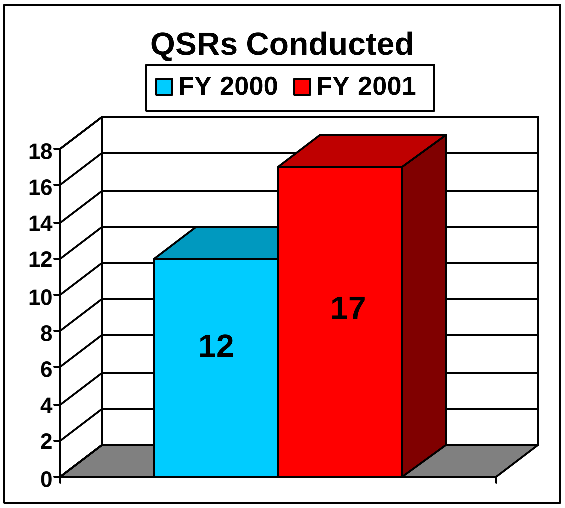
The MAPs are formal, documented, self-assessment workshops. Participants systematically identify the risks inherent in business activities, analyze existing policies and performance measures used to control those risks, establish ongoing monitoring of control performance, identify gaps or weaknesses in controls, and develop action plans to improve the group's processes and controls.



In FY 2000, the assessment process was further enhanced to include a risk-assessment tool that conforms to the particular function, program, unit, or office that is under review. Risks and controls are identified. Statements concerning the risks and controls are formatted as a survey sent to managers and employees in the unit. Survey results are plotted on a graph and provided to the manager along with instructions on how to analyze ("gap" analysis) and act on the results. The manager must then develop an action plan based on this analysis.

In FY 2000, the OCFO created an intensive internal control review known as an "Immersion," which is conducted in a selected area or at a manager's request. Immersions consist of training, MAPs, and risk assessments, all conducted within a very short time. In FY 2001, Immersions were conducted in six Headquarters offices and 21 field offices.

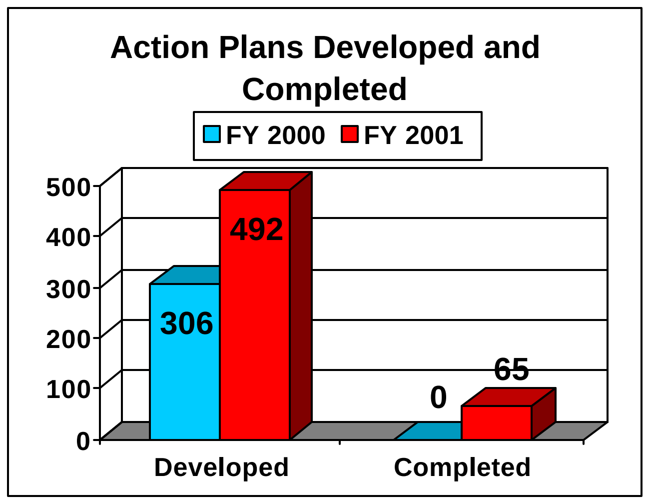




The SBA's Office of Field Operations conducts on-site Quality Service Reviews (QSRs) in district offices. Teams of experts throughout the SBA gather together to conduct a peer review of another office and provide a written report on their findings. Recommendations for improvements are made, and best practices are noted and shared with other offices.

Validation. In 2000, to validate the progress of the internal control project, the Agency's CFO contracted with PricewaterhouseCoopers to assess the internal control efforts. The contractor analyzed the actions implemented to date and provided a report that concluded: "*SBA is the leading edge Federal agency in this area*."

In the validation phase, SBA began in 2001 the regular testing of the controls through self-validation methods. These validation tools will allow the manager and staff to self-assess the risks, controls and action plans developed during the assessment phase. These tools assist the manager in determining if the risks remain constant, what controls are adequate and effective, and where changes need to be made. Overall, action plans are created in MAPs, risk assessments and immersions. The completion of action plans is tracked by the OCFO.



Strong internal controls promote sound stewardship through more effective working relationships with SBA's resource partners. The internal control program also provides both internal and external parties assurance that SBA programs and activities are administered soundly and taxpayer funds are used responsibly.

OIG Performance Report

OFFICE OF INSPECTOR GENERAL
SMALL BUSINESS ADMINISTRATION

CONTEXT OF FY 2001 PERFORMANCE REPORT

In FY 2000, OIG adopted a new FY 2001-2006 Strategic Plan, that focused its efforts toward SBA's financial management systems, information systems and computer security, lender oversight, other selected high risk issues, and new initiatives.

OIG's FY 2001 Performance Report contains streamlined strategic goals and improved measures. We are still in the process of stabilizing its measures, data collection, and reporting processes.

PERFORMANCE MEASUREMENT LIMITATIONS

OIG has developed a mix of output, intermediate outcome, and outcome measures to assess the effectiveness, quality, relevance, and timeliness of its work. While we selected the measures that address the primary direction of its efforts, about 75 percent of its work is in response to referrals of suspected fraud, complaints, and requests for auditing and inspection services. Therefore, during a specific year, actual accomplishments may vary substantially. Also, the ultimate authority in implementing OIG recommendations rests with the Agency and we have little control over judicial or administrative proceedings.

DATA COLLECTION AND VALIDATION

As appropriate, quantitative data is collected and stored in OIG's Management Information System (MIS). Much of the quantitative data proposed has been collected for several years. Baselines still need to be established for some of the measures. Monetary results are reported at the time of management decision. SBA's Office of the Chief Financial Officer (OCFO) tracks actual collections.

OIG has used SBA's color code criterion to grade the percentage of goals achieved.

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

SBA OIG FY 2001 Performance Scorecard

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

Objective 1.1 Conduct reviews of major program activities, with emphasis on high risk and high priority areas, and assess whether SBA can be reasonably assured that its programs are meeting their goals in an economical, efficient, and effective manner.

	FY 1999 Actual	FY 2000 Actual	FY 2001 Target	FY 2001 Actual	% Goals Achieved
Output Performance Goals					
Percentage of all recommendations on major program activities accepted by management or otherwise resolved within 6 months of report issuance.	86%	88%	90%	85.4%	94.9%
Intermediate Outcome					
Percentage of recommendations from reviews of major program activities implemented or corrective actions taken by management within the timeframe agreed to by OIG and management.	N/A	52%	60%	92.6%	154%

OIG performs audits and inspections to determine how well SBA operations are being carried out. Reports on the results frequently contain recommendations for improvement. Its measures are indicative of the impact we have on SBA operations. The first measure identifies the percent of recommendations accepted by SBA managers within 6 months of issuance of the report. The second measure identifies the percent of recommendations implemented within the timeframes agreed to between the OIG and management.

We met 95 percent of its FY2001 target for recommendations accepted by management or otherwise resolved within 6 months of report issuance. We would have exceeded its target if two audit reports containing 6 recommendations had been accepted 6 days earlier.

We achieved 154 percent of its intermediate outcome target. Its audit managers have been more involved in follow-up activities, which helped significantly with recommendation implementation. We are assessing whether to increase its targets for subsequent years.

Objective 1.2 Audit contracts, grants, surety claims, and defaulted loans to determine whether the costs claimed are allowable.

	FY 1999 Actual	FY 2000 Actual	FY 2001 Target	FY 2001 Actual	% Goals Achieved
Output Performance Goals					
Percentage of all recommendations in audits of contracts, grants, surety claims, and defaulted loans accepted by management or otherwise resolved within 6 months of report issuance.	95%	96%	95%	92%	96.8%
Percentage of dollars in questioned costs, funds to be put to better use, settlement recoveries, and cost corrective measures in audits of contracts, grants, surety claims, and defaulted loans accepted by management or otherwise resolved within 6 months of report issuance.	97%	44%	60%	81.9%	136%
Intermediate Outcome					
Percentage of all recommendations in audits of contracts, grants, surety claims, and defaulted loans implemented by management within the timeframe agreed by to OIG and management.	N/A	44%	60%	66.7%	111.7%

We achieved 96.8 percent of its target for recommendations accepted by management within 6 months. Those recommendations, which were not accepted within the 180-day timeframe, have been subsequently accepted by management. We achieved over 135 percent of its dollar target and 111 percent of its implementation target. As explained above, its audit managers have been more involved in follow-up activities and we will assess its targets for future years.

Outcome for Goal 1: Identification and implementation of corrective actions taken by the Agency of the major management and operating problems in SBA; OIG activities that improve the economy, efficiency, and effectiveness of SBA programs.

OIG issued 21 audit reports and 9 advisory memoranda that identified over $11 million in recommended funds for better use and recommended 146 improvements in SBA programs and operations. Areas reviewed included implementation of GPRA, oversight of the Preferred Lender's Program, computer security, ineligible borrowers, defaulted loans, critical infrastructure, financial operations, and special request work involving sensitive payments and use of hired car services.

SBA managers implemented 117 recommendations, which included actions to recover $3,501,175 of disallowed costs and an estimated $12,879,124 in funds for better use.

Since FY 1997, the OIG has identified the major management challenges facing the Agency. This process focuses the Agency on the actions needed to improve the administration of SBA's programs and is one measure of OIG impact. In FY 2001, SBA's progress in obtaining improvements was mixed. Substantial progress was made on one challenge, some progress on five other challenges, and little or no progress was made on the remaining four. Some decisions on actions, however, awaited decisions from the new administration. The new administration has been fully briefed on the challenges and is very supportive of efforts to overcome the identified management challenges.

We also issued an advisory memorandum on the results of SBA Management Challenge Discussion Groups. OIG staff held meetings with selected groups of senior officials from SBA Headquarters, regional, and district offices on potential management challenges facing SBA. We found that the rapid changes the Agency has experienced have resulted in a number of concerns among some senior officials and that senior level communications needed improvement. OIG suggested a number of actions that if taken could improve the flow of information. The Agency has taken several of these actions.

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

Objective 2.1 Detect/identify waste, fraud, abuse, and integrity problems in SBA programs and operations and take appropriate action.

	FY 1999 Actual	FY 2000 Actual	FY 2001 Target	FY 2001 Actual	% Goals Achieved
Output Performance Goals					
Percentage of criminal cases referred that are accepted by the U.S. Attorneys	N/A	N/A	40%	26%	65%
Percentage of Affirmative Civil Enforcement (ACE) cases referred that are accepted by U.S. Attorneys	N/A	N/A	N/A	17%	N/A
Intermediate Outcome					
Ratio of monetary recoveries to losses	20%	17%	20%	22.4%	112%
Percentage of closed cases resulting in criminal, civil or administrative actions	32%	23%	25%	32.9%	131.6%

OIG's Investigations Division refers evidence of criminal and civil violations to U.S. Attorney's and local prosecutive offices. While we concentrate its efforts on those matters that prosecutors are likely to "accept" (agree to pursue), there are many uncontrollable, and even unpredictable, factors that may cause the prosecutor to decline to pursue matters. Despite this caveat, we believe that data on referrals accepted by prosecutors can provide the basis for trend analyses regarding its relative effectiveness. The above statistics are based upon acceptances and declinations recorded in its Investigations Division management information system. We are reviewing its data collection methods to improve its ability to track and report on this information in the future.

Regarding the percentage of monetary recoveries to losses, at the initiation of each OIG investigation, we estimate the actual (or potential, as appropriate) SBA-related dollar loss associated with the case. Many successfully prosecuted cases generate court-ordered restitution, civil penalties, and other financial recoveries. The typical lengthy process of investigating and prosecuting complex white-collar schemes, and its experience with defendants who claim an inability to repay, has caused us to estimate the recovery/loss ratio realistically at 20 percent. We believe, however, that data such as the ratio of recoveries as a result of its investigations to the amount of loss at initiation of those same investigations can provide the basis for trend analyses regarding its relative effectiveness in maximizing reduction of SBA-related losses from fraud. In FY 2001, the Investigations Division's cases produced "settlements and court-ordered restitution and fines" totaling $11,630,313 (154 percent of its results last year and 112 percent of its target). This represents 22.4 percent of the $52.0 million originally estimated as losses from those cases.

We track the percentage of closed cases resulting in criminal, civil, or administrative actions. Typically, the primary factor in OIG's decision to initiate an investigation is its informed prediction that, if the allegations are substantiated, the case will result in criminal, civil, and/or administrative actions. While sometimes an investigation succeeds by disproving false allegations, we believe data such as the percentage of closed cases that resulted in criminal, civil, and/or administrative actions can provide the basis for identifying, both at the beginning and subsequently, those investigations that are likely to have substantive results. Of the 73 cases closed by the Investigations Division in FY 2001, 24 (or 32.9 percent) resulted in criminal, civil, or administrative actions. Therefore, we achieved 132 percent of its target.

Objective 2.2 Prevent and deter fraud and abuse, and other misconduct through studies and education programs for employees and participants.

	FY 1999 Actual	FY 2000 Actual	FY 2001 Target	FY 2001 Actual	% Goals Achieved
Output Performance Goals					
Number of SBA employees attending integrity briefings	499	222	120	107	89.2%
Number of private sector partners attending integrity briefings	150	282	491	556	113.2%

For many years, OIG has made presentations to groups of SBA employees, offering its unique perspective on how to recognize matters and how to deal with attempts to corrupt SBA employees. As SBA has delegated to its private-sector partners (particularly in business loan programs) many of the "front line" responsibilities traditionally shouldered by SBA employees, OIG has begun to refocus its integrity briefings to include those partners and the comparable situations they face. Because the business loan program consistently represents the bulk of its investigative work, we have focused its external briefing coverage on that program. In FY 2001, more than 80 percent of the outside-SBA persons we briefed were associated with the business loan program. The business loan program represented the majority of its FY 2001 indictments (74 percent) and convictions (88 percent) and the second-largest category (44 percent, just short of Section 8(a)BD's 47 percent) of its financial accomplishments.

We achieved 108 percent of its overall targets by presenting integrity briefings to 663 individuals, but fell short of its target for SBA employees. We briefed 107 SBA employees and 556 private-sector partners; 450 of the latter were participating in the business loan program. We also made presentations to a total of 106 attendees at disaster-fraud awareness meetings in California and Georgia.

We had planned to track the percentage of the target population reached by integrity briefings. Because the bulk of its targeted audience does not work for SBA, we do not have sufficiently quantifiable information to produce accurate and meaningful percentages. This goal is being reevaluated and may be changed or deleted in the future.

Objective 2.3 Preclude persons not of good character from participating in SBA programs and employment.

Output Performance Goals
Narrative assessment of the work of the Office of Security Operations in conducting criminal background checks of SBA program partners and participants, and administering SBA applicant/employee/contractor background investigations.

OIG's Office of Security Operations (OSO) conducted 2,230 criminal background checks on SBA's program partners and participants. As a result of these checks, 106 program partners/participants were denied assistance by the following programs: 88 for Section 7(a) business loans, 8 for disaster loans, 9 for Section 8(a) certifications, and 1 for a surety bond guaranty. This resulted in more than $25.6 million in loans not being made to applicants who were ineligible because of criminal background issues. OSO initiated a total of 110 background investigations on new SBA employees and 40 background investigations on SBA contractor personnel.

Outcome/Impact for Goal 2: SBA internal policies, procedures, and controls are strengthened and provide a deterrence for future wrongdoing. OIG activities lead to changes in SBA practices that effectively reduce fraud and abuse, and promote the integrity of SBA programs and operations.

During FY 2001, OIG investigations resulted in 50 indictments and 42 convictions for criminal violations. Potential recoveries and fines as a result of OIG investigations exceeded $11.6 million; and loans and contracts not approved as a result of the name check program and investigations exceeded $25.7 million.

OIG issued a report, entitled Applicant Character Verification in SBA's Business Loan Program, summarizing the findings of Operation Cleansweep III. This proactive investigation disclosed borrowers who fail to disclose criminal histories have higher rates of default on SBA loans than those who either disclose their records or have no criminal histories. To address this problem and reduce the loss to the Government, OIG plans to perform periodic criminal background checks on a sample of borrowers and, based on the results, will determine whether a wider effort is warranted. OIG has also identified specific risks with loan agents who perpetrate multiple frauds involving SBA loans. We will pursue options on a process to perform background checks on agents in FY2002.

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

Objective 3.1 Provide the tools, services, and supportive work environment necessary to improve employee productivity.

	FY 1999 Actual	FY 2000 Actual	FY 2001 Target	FY 2001 Actual	% Goals Achieved
Output Performance Goals					
Percentage of staff that received the training established by OIG for their career needs	N/A	84%	100%	100%	100%
Percentage of employees provided the IT products necessary to do their jobs, as established by OIG	N/A	100%	100%	100%	100%
Intermediate Outcome					
Percentage of employees satisfied or very satisfied with their jobs in annual employee surveys	N/A	62%	65%	N/A	N/A
Achievement of unqualified opinions on audit's quality controls by external peer reviews (*)	N/A	0%	0%	100%	100%

(*) Peer reviews are conducted every 3 years. The reviewing organization was unable to schedule the peer review for completion during FY 2000. It was completed in FY 2001.

We met or exceeded its targets except we did not administer an employee survey. Instead, we devoted efforts towards needed actions identified in a past survey. We plan to administer an employee survey in FY 2002.

Objective 3.2 Communicate and foster cooperation with all stakeholders, customers, and interested parties.

Output Performance Goals
Narrative assessment that may include anecdotal results of ongoing contacts with customers and stakeholders, OIG work on PCIE and interagency projects, and/or customer satisfaction surveys.

OIG published two Semiannual Reports to the Congress and issued Monthly Activity Updates that we distribute to Members of Congress, media contacts, and other private and public interested parties. We processed 90 Freedom of Information or Privacy Act requests making information available to the public. We also made many reports and other documents available electronically on the OIG website, as well as updated current information about the office and its mission. We briefed congressional staff on many significant work products issued or in progress, including OIG's FY 2001 – 2006 Strategic Plan and FY 2001 Annual Performance Plan, Agency GPRA issues, SDB audits and investigations, Small Business Lending Company exams, and SBA information systems and security. Much of the work done in FY 2001 was a result of OIG stakeholder requests.

During FY 2001, OIG personnel participated in:

- A President's Council on Integrity and Efficiency (PCIE) interagency audit, under Presidential Decision Directive (PDD) 63, which focused on the security of SBA's physical infrastructure.
- An OMB coordinated interagency effort to review Agency's implementation of the Government Information Security Reform Act.
- The Federal Dispute Resolution Conference on the mission and operation of Federal Inspectors General.
- The Association of Inspectors General on the subject of improving liaison with United States Attorneys.
- The PCIE's OIG GPRA interest group and the National Academy of Public Administration's Consortium.
- An FBI-led Terrorism Task Force in New York City working on investigative leads and other law enforcement duties associated with the terrorist attacks of September 11.

Objective 3.3 Develop and maintain a planning process that will provide for effective monitoring of operations and identify opportunities for improvement.

Output Performance Goal/Intermediate Outcome
Narrative assessment of the results of the OIG planning process.

In FY 2001, OIG continued with its normal planning process and began to re-examine its Strategic Planning.

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

OIG has a well-trained staff that has the tools, support services and direction to be efficient and effective and to focus on the needs of its customers, stakeholders, and employees.

Activities Statistics

Office-Wide Activities Overall Summary Results	FY 1999	FY 2000	FY 2001
Potential Investigative Recoveries and Fines	$10,419,102	$7,555.827	$11,630,313
Management Avoidances As a Result of Investigations and Name Checks	$28,382,286	$28,741,121	$25,716,960
Disallowed Costs Agreed to by Management	$2,322,780	$1,153,535	$3,622,085
Recommendations That Funds Be Put to Better Use Agreed to by Management	$8,929,983	$9,762,700	$5,984,419
Goal 1			
Reports Issued	28	33	30
Number of Recommendations Made	103	126	157
Disallowed Costs Agreed to by Management	$2,322,780	$1,153,535	$3,622,085
Recommendations That Funds Be Put to Better Use Agreed to by Management	$8,929,983	$9,762,700	$5,984,419
Number of Reviews of Proposed Legislation, Regulations, Standard Operating Procedures, and Other SBA Issuances	241	323	221
Goal 2			
Cases Closed	138	132	73
Indictments	44	73	50
Convictions	53	38	42
Potential Investigative Recoveries and Fines	$10,419,102	$7,555,827	$11,630,313
Loans not Approved as a Result of:	$28,382,286	$28,741,121	$25,716,960
1) Investigations	$0	$1,404,529	$115,347
2) Name Check Program	$28,382,286	$27,336,592	$25,601,613
Number of Integrity Briefings	12	15	14
Goal 3			
Number of FOIA Responses and Other Disclosures	26	43	90
Number of Subpoenas Issued	86	135	80
Number of External Reports Issued	19	14	14
Number of Employees Trained	114	94	110

Glossary of Acronyms and Programs

Acronyms

504 - 504 Loan Program
7(a) - Section 7(a) Loan Guaranty, SBA's Primary Loan Program
8(a) - Section 8(a) Business Loan Program
ABB - Activity Based Budgeting
ABC - Activity Based Cost Accounting
AICPA - Council of American Institute of Certified Public Accountants
BATF – Business Assistance Trust Fund
BD - Business Development
BIC - Business Information Centers
BLIF - Business Loan and Investment Fund
CA - Office of Capital Access
CDC - Certified Development Company
CEAR - Certificate of Excellence in Accountability Reporting
CFO - Chief Financial Officer
CFR - Code of Federal Regulations
CIO - Chief Information Officer
COSO - Committee of Sponsoring Organizations of the Treadway Commission
COTS - Commercial Off-The-Shelf
CSRS - Civil Service Retirement System
DA - Office of Disaster Assistance
DLF - Disaster Loan Fund
DSO - Designated Security Officer
ED - Office of Entrepreneurial Development
EFT - Electronic Funds Transfer
ERP - Enterprise Resource Plan
EWCP - Export Working Capital Program
FACA - Federal Advisory Committee Act
FACTS - Federal Agencies Centralized Trial-Balance System
FASAB - Federal Accounting Standards Advisory Board
FASB - Financial Accounting Standards Board
FBI - Federal Bureau of Investigation
FCRA - Federal Credit Reform Act
FECA - Federal Employees' Compensation Act
FEDSIM – Federal Systems Integration and Management Center
FEGLI - Federal Employees Group Life Insurance
FEHB - Federal Employees Health Benefit
FEMA - Federal Emergency Management Agency
FERS - Federal Employees' Retirement System
FFB - Federal Financing Bank
FFS - Federal Financial System
FICA - Federal Insurance Contribution Act
FMFIA - Federal Managers Financial Integrity Act
FY - Fiscal Year
GAAP - Generally Accepted Accounting Principals
GAO - General Accounting Office
GC or GC/BD - Office of Government Contracting/Business Development
GISRA - Government Information Security Reform Act
GPR - Guaranty Purchase Review
GPRA - Government Performance and Results Act
GRTS - Guaranty Repair Tracking System
HUBZone - Historically Underutilized Business-Zone (HUBZone) Empowerment Contracting Program
IRM - Information Resource Manager
IT - Information Technology
ITL - International Trade Loan
JAAMS or JA^{2}MS - Joint Accounting and Administrative Management System
LAMP - Lender Analysis and Management Program
LINC - Learning, Information, Networking, Collaboration
LMS - Loan Monitoring System
LowDoc - Low Documentation Loan
MA - Office of Management and Administration

MAP - Management's Assessment Process
MD&A - Management's Discussion and Analysis
MRF - Master Reserve Fund
NCIC - National Crime Information Center
OCFO - Office of the Chief Financial Officer
OCIO - Office of the Chief Information Officer
ODA - Office of Disaster Assistance
OFA - Office of Financial Assistance
OFO - Office of Field Operations
OGC - Office of General Counsel
OIG - Office of Inspector General
OLO - Office of Lender Oversight
OMB - Office of Management and Budget
OPM - Office of Personnel Management
ORB - Other Retirement Benefits
OSCS - One Stop Capital Shop
PCECGF – Pollution Control Equipment Contract Guarantees Fund
PCLP - Premier Certified Lenders Program
PDD - Presidential Decision Directive
PIMS - Partner Information Management System
PLP - Preferred Lender Program
PMI - Presidential Management Interns
QSR - Quality Service Review
RFA - Regulatory Flexibility Act
SE or S&E - Salaries and Expenses
SAS - Statement on Auditing Standards
SBA - Small Business Administration
SBDC - Small Business Development Center
SBG - Surety Bond Guarantee
SBGRF – Surety Bond Guarantees Revolving Fund
SBIC - Small Business Investment Company
SBIR - Small Business Innovation and Research
SBLC - Small Business Lending Companies
SBREFA - Small Business Regulatory Enforcement Fairness Act
SCORE - Service Corps of Retired Executives
SDB - Small Disadvantaged Business
SDM - Systems Development Methodology
SESCDP - Senior Executive Service Candidate Development Program
SFFAS - Statement of Federal Financial Standard
SOP - Standard Operating Procedure
SSBIC - Specialized Small Business Investment Company
ST&E - Security Test & Evaluation
TBIC - Tribal Business Information Center
TOP - Treasury Offset Program
TSP - Thrift Savings Plan
USEAC - U.S. Export Assistance Center
WBC - Women's Business Center Program

SBA Programs and Offices

7(a) Loan Guaranty	Serves as SBA's primary loan program. It provides short-and long-term loans to eligible, creditworthy, start-up and existing small businesses that cannot obtain financing on reasonable terms through normal lending channels. The SBA provides financial assistance through its participating lenders in the form of loan guarantees not direct loans. The Agency does not provide grants for business start-up or expansion. The SBA Office of Capital Access administers the 7(a) Loan Guaranty Program. Loans are available for most business purposes, including the purchase of real estate, machinery, equipment and inventory, or for working capital. The loans cannot be used for speculative purposes. The SBA generally can guarantee a maximum of $1 million under this loan program. The guaranty rate is generally 80 percent for loans of $100,000 or less, 75 percent for loans greater than $100,000. The guaranty rate is 90 percent for loans under the Export Working Capital Program. Generally, the interest rate cannot exceed 2.85 percent over the prime rate in effect on the day the SBA receives the application. This rate is printed in *The Wall Street Journal* on the next business day. For loans under $50,000, the rates may be slightly higher. Loan maturity is up to 10 years for working capital and up to 25 years for fixed assets.
8(a) Business Development	Uses the SBA's statutory authority to provide business development and Federal contract support to small disadvantaged firms.
Business Information Center (BIC)	Provides hardware, software and telecommunications at multiple locations to help small businesses start and grow. BIC counseling and training are provided by the Service Corps of Retired Executives (SCORE) and other SBA partners and community organizations.
Certified and Preferred Lenders	Certified lenders have SBA's delegation of authority to approve loans. Preferred lenders receive full delegation of lending authority. Only the most active and expert SBA participating lenders are designated as certified or preferred. SBA district offices have listings of participating lenders.
Certified Development Company (CDC), a 504 Loan Program	Provides long-term, fixed-rate financing to small businesses to acquire real estate, machinery or equipment for expansion or modernization. Typically, a 504 project includes a loan secured with a senior lien from a private-sector lender, a loan secured with a junior lien from a CDC (a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the total cost and a contribution of at least 10 percent equity from the borrower. The maximum SBA debenture is $1 million.
District Office and Branch Office	Serves as the point of delivery for most SBA programs and services. District and branch offices work to accomplish the SBA mission by providing quality service to the small business community. District and branch offices work with SBA partners, community groups and intermediaries.

Export Working Capital (EWCP)	Enables the SBA to guarantee up to 90 percent of a secured loan, or $1 million, whichever is less. Loan maturity may be for up to 3 years with annual renewals. Loans can be for single or multiple export sales, and can be extended for pre-shipment working capital, post-shipment exposure coverage or a combination of the two. Proceeds can be used only to finance export transactions.
HUBZone Empowerment Contracting	Encourages economic development in historically underutilized business zones (HUBZones) through the establishment of Federal contract award preferences for small businesses located in such areas. After determining eligibility, the SBA lists qualified businesses in its PRO-Net® database.
International Trade Loan (ITL)	Offers long-term financing to small companies engaged in or preparing to engage in international trade, as well as to small businesses adversely affected by import competition. The SBA can guarantee up to $1.25 million for a combination of fixed-asset financing and working capital. The working-capital portion cannot exceed $750,000.
Loan Prequalification	Enables the SBA to prequalify an applicant for a 7(a) loan guaranty on a loan application of $250,000 or less before the applicant goes to a bank. The program focuses on the applicant's character, credit, experience and reliability, rather than assets. A SBA-designated intermediary works with the business owner to review and strengthen the loan application. The review is based on key financial ratios, credit, business history and the loan-request terms. The program is administered by the SBA's Office of Field Operations.
Low Documentation Loan (LowDoc)	Reduces the paperwork involved in loan requests of $150,000 or less. The Agency uses a one-page application that relies on the strength of the applicant's character and credit history. Once an applicant satisfies all of the lender's requirements, the lender may request a LowDoc guaranty from the SBA.
Microloan, Section 7(m) Loan Program	Provides short-term loans of up to $35,000 to small businesses for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery and/or equipment. Proceeds cannot be used to pay existing debts or to purchase real estate. SBA-approved nonprofit groups make the loans, and provide management and technical assistance. The SBA does not guarantee the loans. The Microloan Program is available in selected locations in most states.
Office of Administration	Plans, directs and executes all administrative management functions within SBA Headquarters and monitors administrative programs in field offices. The Office of Administration develops policies and procedures for the procurement of supplies, equipment and non-personnel services. This office also implements and manages approved grants and cooperative agreements.
Office of Economic Research (Advocacy)	Produces the annual report to Congress, (The State of Small Business: A Report of the President); oversees research on small business issues, banking and the economy; and compiles and interprets statistics on small businesses according to size, industry and geographic distribution.

Office of Field Operations	Represents SBA field offices at Headquarters. This office— • Provides policy guidance and oversight to regional administrators and district directors in implementing Agency goals and objectives, and in solving problems in specific operational areas; • Establishes and monitors performance goals for district offices; • Provides Associate Deputy Administrators, Associate Administrators and General Counsel with a vehicle for overseeing field office program and policy implementation; • Provides feedback to Headquarters management regarding the performance of their programs; • Ensures that field offices have adequate input into all policy formation and participate in policy deliberations at Headquarters; • Organizes reviews of field offices; and • Informs the SBA Administrator of field activity.
Office of General Counsel	Provides advice for senior management, as well as legal support for all of the Agency's programs, initiatives and administrative responsibilities. The Office of General Counsel conducts litigation necessary to resolve legal issues, collect sums due and defend the Agency.
Office of Human Resources	Provides personnel program leadership and advisory services to SBA program offices. Personnel program responsibilities include recruitment, employment, training, position classification, payroll, labor relations, performance management, adverse/disciplinary actions, benefits, awards and incentives. The Office of Human Resources develops agency-wide personnel management policies and procedures, and conducts personnel management program evaluations.
Office of Inspector General	Conducts and supervises audits, inspections and investigations relating to SBA programs and operations. As an independent office within the SBA, the Inspector General also recommends policies designed to deter and prevent waste, fraud and abuse, and promotes economy, efficiency and effectiveness in the administration of SBA programs and operations. The office keeps the Administrator and Congress informed of any problems and deficiencies, and recommends corrective actions, monitors progress and submits semiannual reports to Congress.
Office of Public Information (Advocacy)	Publicizes and disseminates information on small business issues, statistics, research and advocacy, prepares reports for the Office of Advocacy-sponsored economic research, policy and conferences, and provides outreach to small businesses, trade associations, the legal community and others interested in small business policy.
Office of the Chief Financial Officer	Provides guidance to the Administrator and SBA management on all financial management activities. The Chief Financial Officer works with CLA to represent the SBA before Congressional appropriations and authorizing committees, the Office of Management and Budget, the General Accounting Office, the U.S. Treasury and other Federal agencies and financial entities on financial management, budgetary, accounting and general fiscal matters.

Office of the Chief Information Officer	Supports and provides guidance for the SBA's nationwide computer automation and information technology efforts. This office helps SBA field and Headquarters program offices identify the ways automation and technology can improve service delivery, acquire new technology and develop new systems. It also administers the SBA's home page (www.sba.gov).
One Stop Capital Shop (OSCS)	The program provided centralized access to the full range of a community's small business resources, including entrepreneurial development, access to capital and Federal procurement.
Online Women's Business Center	Serves as an interactive, state-of-the-art website offering the information an entrepreneur needs to start and build a successful business. The numerous features of the Online include training, mentoring, topic forums and newsgroups. Information is available in several languages.
Personal Property Loan (Disaster)	Provides qualified homeowners and renters who have sustained uninsured losses up to $40,000 with funds to repair or replace personal property such as clothing, furniture, cars, etc. This loan is not intended to replace extraordinarily expensive or irreplaceable items such as antiques, pleasure craft, recreational vehicles, fur coats, etc.
Physical Disaster Business Loan	Provides qualified businesses of any size that have sustained uninsured losses up to $1.5 million with funds to repair or replace business property to pre-disaster conditions. Loans may be used to replace or repair equipment, fixtures and inventory, and to make leasehold improvements.
Prime Contracting	Increases small business opportunities in the Federal acquisition process. This is accomplished through initiating small business set-asides, identifying new small business sources, counseling small businesses on doing business with the Federal Government and assessing compliance with the Small Business Act through surveillance reviews.
Procurement Marketing & Access Network (PRO-Net®)	Serves as an Internet-based search engine for contracting officers, a marketing tool for small firms and a link to procurement opportunities and information. PRO-Net® contains business information on thousands of small firms. It also provides links to the online Commerce Business Daily, Federal agencies' home pages and other sources of procurement opportunities. Administered by the SBA's Office of Government Contracting, PRO-Net® registration is free.
SBAExpress	Encourages lenders to make more small loans to small businesses. Participating banks use their own documentation and procedures to approve, service and liquidate loans of up to $150,000. In return, the SBA guarantees up to 50 percent of each loan.
Secondary Market	Gives lenders holding SBA-guaranteed loans an opportunity to improve their liquidity by selling both the guaranteed and unguaranteed portion of the loans to investors. Frequent secondary market buyers include banks, savings and loan companies, credit unions, pension funds and insurance companies.
Service Corps of Retired Executives (SCORE)	Offers counseling and training for small business owners who are starting, building or growing their businesses. Sponsored by the SBA, SCORE's counseling services are free of charge.

Small Business Development Center (SBDC)	Provides management and technical assistance, and counseling and training to current and prospective small business owners through SBDCs. Administered by the SBA, the program is a cooperative effort of the private sector, the educational community and Federal, state and local governments.
Small Business Innovation Research (SBIR)	Provides a vehicle for small businesses to propose innovative ideas in competition for Phase I and Phase II awards, which represent specific research and R&D needs of the participating Federal agencies. These awards may result in commercialization of the effort at the Phase III level and are administered by the SBA's Office of Technology.
Small Business Investment Company (SBIC)	Provides equity capital, long-term loans, debt-equity investments and management assistance to small businesses, particularly during their growth stages. The SBA licenses SBICs and supplements their capital with U.S. Government-guaranteed debentures or participating securities. SBICs are privately owned and managed, profit-motivated companies, investing with the prospect of sharing in the success of the funded small businesses as they grow and prosper.
Small Business Ombudsman	Receives comments from small businesses about the regulatory enforcement and compliance activities of Federal agencies and refers comments to the appropriate agency's inspector general on a confidential basis. Coordinates the efforts of the small business regulatory fairness boards and reports annually to the SBA Administrator and to the Heads of the affected agencies on the boards' activities, findings and recommendations.
Small Business Research	Measures and reports the amount of Federal funding for research and R&D (excluding the amounts for SBIR and STTR) awarded to small businesses each year by the major research and R&D Federal agencies. The program is administered by the SBA's Office of Technology.
Small Business Technology Transfer (STTR)	Requires each small business competing for a Federal R&D project to collaborate with a nonprofit research institution. This program is a joint venture from the initial proposal to project completion. The program is administered by the SBA's Office of Technology.
Small Disadvantaged Business (SDB) Certification	Ensures that small businesses owned and controlled by individuals claiming to be socially and economically disadvantaged meet the eligibility criteria. Once certified, the businesses are eligible to receive price evaluation credits when bidding on Federal contracts.
Subcontracting Goals	Ensures that small businesses receive the maximum practical opportunity to participate in Federal contracts as subcontractors and suppliers.
Surety Bond Guarantee	Guarantees bid, performance and payment bonds for contracts up to $1.25 million for eligible small businesses that cannot obtain surety bonds through regular commercial channels. By law, prime contractors to the Federal Government must post surety bonds on Federal construction projects valued at $100,000 or more. In addition, many states, counties, municipalities and private-sector projects and subcontracts also require surety bonds. Contractors must apply through a surety bonding agent, since the SBA's guaranty goes to the surety company.

Tribal Business Information Center (TBIC)	Provides access to computer software technology, individualized business counseling services and business management workshops at multiple locations. TBICs serve Native American reservation communities in the states of Montana, North Dakota, South Dakota, California, Minnesota, North Carolina and the Navajo Nation.
U.S. Export Assistance Center (USEAC)	Combines the trade-promotion and export-finance resources of the SBA, the U.S. Department of Commerce, and the Export-Import Bank and, in some locations, the Agency for International Development. Designed to improve delivery of services to small and medium-sized businesses, USEACs work closely with other Federal, state and trade partners in local communities.
Veterans Business Outreach Center (VBOC)	Provides entrepreneurial training, business development assistance, counseling and management assistance through VBOCs to eligible veterans who own and control small businesses.
Women's Business Center (WBC)	Provides long-term training and counseling in all aspects of owning or managing a business, including financial, management, marketing and technical assistance, and procurement through WBCs.
Women-Owned Business Procurement	Uses a multifaceted outreach and educational program to teach women business owners how to market to the Federal Government.