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Washington, DC 20548

Resources, Community, and
Economic Development Division

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June 30, 2000

The Honorable Fred Thompson
Chairman
The Honorable Joseph I. Lieberman
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

Subject: Observations on the Small Business Administration's Fiscal Year 1999
Performance Report and Fiscal Year 2001 Performance Plan

As you requested, we have reviewed the 24 Chief Financial Officers (CFO) Act agencies' fiscal year 1999 performance reports and fiscal year 2001 performance plans required by the Government Performance and Results Act of 1993 (GPRA). In essence, under GPRA, annual performance plans are to establish performance goals and measures covering a given fiscal year and provide the direct linkage between an agency's longer-term goals and day-to-day activities. Annual performance reports are to subsequently report on the degree to which those performance goals were met. This letter contains two enclosures responding your request concerning key program outcomes and major management challenges at the Small Business Administration (SBA). Enclosure I to this letter provides our observations on SBA's fiscal year 1999 actual and fiscal year 2001 planned performance for the key outcomes that you identified as important mission areas for the agency. These key outcomes are (1) small businesses become self-reliant and successful in the competitive marketplace; (2) businesses and families recovering from disasters receive timely assistance; and (3) more eligible minority small businesses participate in SBA programs and become successful. Enclosure II lists the major management challenges facing the agency that the SBA's Inspector General identified, how their fiscal year 1999 performance report discussed the progress the agency made in resolving these challenges, and the applicable goals and measures in the fiscal year 2001 performance plan.

Results in Brief

Overall, SBA's fiscal year 1999 performance report showed mixed results in meeting the agency's goals for the three key outcomes. SBA's fiscal year 2001 plan discusses the 10 management challenges facing SBA, but the plan does not include any performance goals and measures that directly relate to the management challenges.

Also, while certain of the weaknesses noted in SBA's fiscal year 2000 plan were improved in the fiscal year 2001 plan, others continue.

SBA's fiscal year 1999 performance report had four performance goals related to the first key outcome--small businesses become self-reliant and successful in the competitive marketplace. While the performance goals and measures in SBA's performance report are objective and measurable, they are generally output-oriented (e.g. that is, increase the number of 7(a) and export loans). Only one goal component that deals with increasing the number of jobs created by small businesses that receive SBA assistance is outcome-oriented and would help SBA to assess the impact of its assistance on small businesses. However, SBA's report did not contain any measures for assessing this component, and SBA points out in the report that it is difficult to show a causal relationship between the assistance SBA provides and jobs created. In its performance report, SBA did not articulate the extent to which it met its fiscal year 1999 goals, but data provided for each of the measures show that SBA did not fully achieve the four performance goals. SBA revised some of its performance goals in the fiscal year 2001 plan, however most of the measures remain the same as those in the fiscal year 2000 plan. In addition, SBA continues to focus its performance goals and measures on outputs instead of outcomes.

The second key outcome--businesses and families recovering from disasters receive timely assistance--had one performance goal in SBA's fiscal year 1999 performance report. How well SBA did in achieving this performance goal is unclear because the report did not address two major components of the goal--maintaining the quality of disaster loan underwriting and making electronic funds transfer available to all disaster loan borrowers. Furthermore, SBA's success in achieving other components of the goal was mixed. While SBA achieved its target of establishing a field presence within 3 days of a disaster, it achieved only 75 percent of the target it established for processing disaster loans with 21 days. SBA attributed its failure to "fiscal restraints" but did not articulate what these restraints were. In the fiscal year 2001 performance plan, SBA broadened its one performance goal to "providing quality and timely service" and added a new measure, to assess its compliance with disaster loan underwriting requirements. SBA's fiscal year 2001 performance plan provides a succinct goal and a clear statement of intended performance for each of the three measures. It also discusses the need for SBA to coordinate its disaster activities with the Federal Emergency Management Agency and state and local agencies. Given the importance of the activity, the plan would benefit from a discussion of the specific actions that SBA plans to carry out such coordination.

The one performance goal in SBA's fiscal year 1999 performance report for the third key outcome--more eligible minority small businesses participate in SBA programs and become successful--is measurable, objective, and output oriented, and is an indicator of progress. Only one of the report's five performance measures--the success rate of 8(a) firms--is outcome-oriented and would provide the type of data needed to assess minority business success. SBA's overall success in achieving its fiscal year 1999 performance goal was mixed. SBA achieved its performance measures of providing 6.5 percent of federal procurements to small disadvantaged

businesses and 5,500 federal contracts to 8(a) firms. SBA noted that its failure to achieve the two other measures--certifying 30,000 firms as small disadvantaged businesses and providing \$6.5 billion in 8(a) contracts--was due to several factors, including its overestimation of the potential number of firms eligible to be certified as small disadvantaged businesses and declining federal procurements. The report did not present data regarding the success of 8(a) firms because survey results had not yet been tabulated for fiscal year 1999. SBA revised the performance goals and measures in its fiscal year 2001 performance plan. For example, it added a performance goal to increase the success rate of 8(a) firms to 75 percent. However, the new performance measure SBA adopted to assess this goal--the number of firms that complete the 9 year program or graduate early and receive business development assistance--is a weaker measure of performance than the measure in SBA's fiscal year 2000 plan--the number of 8(a) firms that are independently owned and operated after leaving the program.

SBA's fiscal year 2001 performance plan does not contain performance goals and measures that directly relate to the major management challenges confronting SBA, but it does discuss its strategies for addressing the challenges. For two of the management challenges--concentration of 8(a) contract dollars among relatively few companies and fraud deterrence and detection require continued emphasis--the plan contains performance goals that indirectly relate to the challenges. One goal involves increasing the share of federal prime contract dollars awarded to small disadvantaged businesses (including 8(a) firms) to 7 percent and relates to the challenge of providing more contract opportunities to 8(a) firms. The other goal, which appears in the plan's discussion of SBA's corporate management strategies to become a leading-edge 21st century institution, involves conducting yearly management training on internal controls and relates to the challenge of emphasizing fraud deterrence and detection.

SBA's fiscal year 1999 performance report and its fiscal year 2001 plan show that SBA is making progress in addressing its management challenges. For example, regarding the challenge of improving its loan monitoring, SBA stated that it had implemented a Preferred Lender review system and would complete its second round of lender reviews by March 2000. SBA also stated that it is developing a Risk Management System that will be used to benchmark lenders' future performance. Regarding the challenge of fraud deterrence and detection, SBA stated that legislation has been proposed that will require criminal background checks for all loan applicants and loan agents, and that as part of its system modernization effort, it plans to establish a loan agent registration and monitoring system. SBA's efforts to meet the challenge of providing 8(a) contract dollars to more firms have included limiting the dollar amount of sole-source contracts a firm may receive while in the program to \$100 million, denying sole-source contracts to firms that fail to meet their business activity targets, negotiating agreements with federal agencies that allow the agencies to deal directly with 8(a) firms, and increasing the number of waivers of the thresholds that require 8(a) contracts to be awarded competitively. SBA's Inspector General eliminated one management challenge dealing with loan servicing and liquidation because of the progress SBA made in this area. The management

challenges relating to loan fraud and to SBA's 8(a) program essentially remain the same and cover the same major issues.

We noted that SBA's fiscal year 1999 performance report and its fiscal year 2001 plan did not always follow GPRA implementing guidance. For example, the performance report did not discuss data limitations that could affect the quality of data used by SBA to assess its performance. And, although the report generally discussed the reasons certain goals were not met, it did not include time frames or schedules for achieving the unmet goals. SBA's fiscal year 2001 plan includes a "cross-walk", or table, that allocates SBA's fiscal year 2001 budget among its program offices and the plan's strategic goals. However, the plan does not provide sufficient information to determine which performance goals in the plan correspond with which program activities in SBA's budget and whether all program activities in the budget are covered by performance goals. In addition, the fiscal year 2001 plan does not specifically describe how the strategies will help to achieve the planned performance. Unlike the fiscal year 2000 plan, SBA's fiscal year 2001 plan generally discusses the limitation of the data sources and SBA's efforts to address these limitations. At the same time, while the plan notes that data verification procedures are in place to ensure the accuracy of the data from these various sources, the plan frequently fails to describe the procedures. Finally, for two of the key outcomes--minority business and disaster assistance--the plan did not discuss the number or type of human capital resources needed to achieve SBA's planned performance.

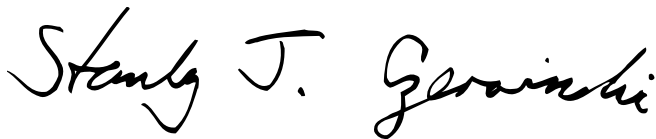
Objectives, Scope, and Methodology

Our objectives concerning selected key agency outcomes were to (1) identify and assess the quality of the performance goals and measures directly related to a key outcome, (2) assess the agency's actual performance in fiscal year 1999 for each outcome, and (3) assess the agency's planned performance for fiscal year 2001 for each outcome. Our objectives concerning major management challenges were to (1) assess how well the agency's fiscal year 1999 performance report discussed the progress it had made in resolving the major management challenges that the SBA's Inspector General had previously identified and (2) identify whether the agency's fiscal year 2001 performance plan had goals and measures applicable to the major management challenges. As agreed, in order to meet the Committee's tight reporting time frames, our observations were generally based on the requirements of GPRA, guidance to agencies from the Office of Management and Budget for developing performance plans and reports (OMB Circular A-11, Part 2), previous reports and evaluations by us and others, our knowledge of SBA's operations and programs, and our observations on SBA's other GPRA-related efforts. We did not independently verify the information contained in the performance report or plan. We conducted our review from April through May 2000 in accordance with generally accepted government auditing standards.

Agency Comments and Our Evaluation

We provided a draft of this report to SBA for its review and comment. SBA stated that the draft report clearly showed SBA's need to make more explicit its performance goals, specifically to include more outcomes in its plan, to comment more extensively on its final results, and to improve the reliability and validity of the data shown. However, SBA believed that our draft report did not acknowledge several key elements that SBA finds to be essential. For example, although SBA does not have performance goals and measures that directly related to the majority of its management challenges, it does discuss its strategies to address the management challenges. We modified the report to address this change. SBA's comments and our detailed responses are in enclosure III.

As agreed, unless you announce the contents of this report earlier, we plan no further distribution until 30 days from the date of this letter. At that time we will send copies of this report to the Honorable Aida Alvarez, Administrator of the Small Business Administration. Please call me on (202) 512-7631 if you or your staff have any questions. Key contributors to this letter were Carol Anderson-Guthrie, Stanley Ritchick, Pat Valentine and LaSonya Roberts.



Stanley J. Czerwinski
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Enclosures - 3

Observations on the Small Business Administration's Actual Performance and Fiscal Year 2001 Planned Performance Related to Key Outcomes

This enclosure contains our observations on the Small Business Administration's (SBA) fiscal year 1999 actual and fiscal year 2001 planned performance for key outcomes identified by the Senate Governmental Affairs Committee as important mission areas for the Agency. The key outcomes for SBA are: (1) small businesses become self-reliant and successful in the competitive marketplace; (2) businesses and families recovering from disasters receive timely assistance; and (3) more eligible minority small businesses participate in SBA programs and become successful. As requested we have identified the goals and measures directly related to a selected key outcome. Our observations are organized according to each selected key outcome and follow the goals and measures.

Key Agency Outcome: Small Businesses Become Self-Reliant and Successful in the Competitive Marketplace

Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Small Businesses Become Self-Reliant and Successful in the Competitive Marketplace

By the end of FY 2000, increase the aggregate number of 7(a) general business loans, Certified Development Company (CDC) loans, investment capital financing, export loans, Microloans, and surety bond guarantees and focus the distribution on new small business markets.

Number of 7(a) loans

- Fiscal year 1999 goal: 51,000
- Actual: 43,639 (**goal not met**)

Number of 504 (CDC) loans

- Fiscal year 1999 goal: 4,600
- Actual: 5,280 (**goal met**)

Number of Small Business Investment Company (SBIC) dollars invested

- Fiscal year 1999 goal: \$3.2 billion
- Actual: \$4.2 billion (**goal met**)

Number of export loans

- Fiscal year 1999 goal: 550
- Actual: 429 (**goal not met**)

Number of Microloans

- Fiscal year 1999 goal: 1,300
- Actual: 1,434 (**goal met**)

Number of bonds issued to contractors

- Fiscal year 1999 goal: 14,300
- Actual: 9,399 (**goal not met**)

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Number of loans to women-owned small businesses (7(a) and 504 loans)

- Fiscal year 1999 goal: 15,395
- Actual: 10,244 (**goal not met**)

Number of loans to veteran-owned small businesses

- Fiscal year 1999 goal: 7,395
- Actual: 5,477 (**goal not met**)

Number of new licensed SBICs

- Fiscal year 1999 goal: 65
- Actual: 53 (**goal not met**)

Amount of private capital licensed

- Fiscal year 1999 goal: \$800 million
- Actual: \$747.4 million (**goal not met**)

Number of small business financing

- Fiscal year 1999 goal: 3,400
- Actual: 3,096 (**goal not met**)

Percent of financing in 50 percent minority-owned firms

- Fiscal year 1999 goal: 28 percent
- Actual: 17 percent (**goal not met**)

Percent of financing in 50 percent women-owned firms

- Fiscal year 1999 goal: 7 percent
- Actual: 6 percent (**goal not met**)

By the end of FY 2000, increase the number of start-up businesses receiving SBA assistance and increase the number of jobs created by small businesses receiving SBA assistance.

Number of start-ups through 7(a) program

- Fiscal year 1999 goal: 17,191
- Actual: 13,969 (**goal not met**)

Dollar amounts of surety bonds written by Preferred Surety Bond companies

- Fiscal year 1999 goal: \$175 million
- Actual: \$170 million (**goal not met**)

Increase the share of federal procurement dollars awarded to small, women-owned, disadvantaged, and HUBZones small firms.

Percent of prime contracts for small businesses

- Fiscal year 1999 goal: 22.7 percent
- Actual: 22.4 percent (**goal not met**)

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Percent of subcontracts for small businesses

- Fiscal year 1999 goal: 43 percent
- Actual: data not available

Percent of procurement going to women

- Fiscal year 1999 goal: 2.5 percent
- Actual: 2.3 percent (**goal not met**)

Percent of procurement dollars to firms in HUBZones

- Fiscal year 1999 goal: 1 percent
- Actual: data not available

Increase counseling and training to small businesses in general (through BICs¹, SBDCs², SCORE³, WBCs⁴, OSCS⁵, USEACs⁶) and to New Markets in particular (women, Native Americans, veterans).

Export clients counseled (USEACs and SBDC)

- Fiscal year 1999 goal: 10,432
- Actual: 16,076 (**goal met**)

Export clients trained (USEACs and SBDC)

- Fiscal year 1999 goal: 10,432
- Actual: 16,076 (**goal met**)

Clients counseled by SCORE

- Fiscal year 1999 goal: 245,300
- Actual: 266,048 (**goal met**)

Clients trained by SCORE

- Fiscal year 1999 goal: 120,000
- Actual: 118,806 (**goal not met**)

Clients counseled by SBDC

- Fiscal year 1999 goal: 242,408
- Actual: 263,927 (**goal met**)

Clients trained by SBDC

- Fiscal year 1999 goal: 327,944
- Actual: 331,464 (**goal met**)

Women counseled by SBDCs

¹ Business Information Centers

² Small Business Development Centers

³ Service Corps of Retired Executives

⁴ Women Business Centers

⁵ One Stop Capital Shops

⁶ United States Export Assistance Centers

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- Fiscal year 1999 goal: 89,780
- Actual: 99,197 (**goal met**)

Women trained by SBDCs

- Fiscal year 1999 goal: 149,476
- Actual: 154,850 (**goal met**)

Clients served in BICs

- Fiscal year 1999 goal: 113,400
- Actual: 123,264 (**goal met**)

Clients served in TBICs⁷

- Fiscal year 1999 goal: 3,683
- Actual: 3,913 (**goal met**)

Clients contacted in WBCs

- Fiscal year 1999 goal: 10,000
- Actual: 30,577 (**goal met**)

Clients served in OCSs

- Fiscal year 1999 goal: 44,000
- Actual: 53,374 (**goal met**)

GAO Observations on SBA's Fiscal Year 1999 Actual Performance for the Key Agency Outcome of Small Businesses Become Self-Reliant and Successful in the Competitive Marketplace

According to an official in SBA's Office of Management and Administration, the performance goals and measures to which SBA held itself accountable in its fiscal year 1999 performance report were those contained in SBA's fiscal year 2000 performance plan. This official told us that SBA's fiscal year 1999 appropriation was not available at the time SBA developed its fiscal year 1999 plan, but was available when SBA developed its fiscal year 2000 performance plan. SBA opted to use its fiscal year 2000 plan rather than revise its fiscal year 1999 plan. However, SBA did not explain this situation in its fiscal year 1999 performance report.

SBA's fiscal year 1999 four performance goals for this outcome are measurable, quantifiable, and objective, but are not results-oriented. All of the 31 measures are outputs, and indicate progress in attaining its goals for increasing the numbers of loans made, increasing the number of startup businesses, increasing the small of procurement dollars to small businesses, and increasing the counseling and training to small businesses. One part of goal 2 that deals with the number of jobs created by small businesses that receive SBA assistance is outcome-oriented and would help SBA assess that impact of its assistance on small businesses. However, SBA's report did not contain any measures for assessing this

⁷ Tribal Business Information Centers

component, and SBA points out in the report that it is difficult to show a causal relationship between the assistance SBA provides and jobs created. In its discussion of outcomes, the agency states that SBA's programs contribute to increases in the overall number of small businesses, firms with employees, net new jobs, and new market firms, but SBA cannot claim a direct relationship between its program and the growth of small businesses. SBA has used studies and data from its programs, (microloans, CDC, and SBIC) to estimate the number of jobs created by SBA clients. In fiscal year 2001 SBA plans to conduct an evaluation of the outcome of the SBA Low-Doc and SBAExpress loans and the Microloan program.

The agency met 3 of the 13 performance measures for the first goal related to increasing the number of loans, such as CDC loans, SBIC dollars invested and microloans. Although SBA did not reach its goals for increasing the number of startup businesses receiving SBA assistance, it did reach 81 percent of the goal for increasing the number of startups through the 7(a) loan program. The agency did not meet its target for increasing the share of federal procurement dollars awarded to small women-owned, disadvantaged, and HUBZone small firms. Also, it did not have the data available to determine whether performance measures were met concerning the subcontracts and procurement dollars to firms in HUBZones. The agency met all but 1 of the 12 performance measures related to the goal of increasing counseling and training to small businesses.

Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Small Businesses Become Self-Reliant and Successful in the Competitive Marketplace

By the end of fiscal year 2000, increase the aggregate number of 7(a) general business loans, Certified Development Company (CDC) loans, investment capital financing, export loans, Microloans, and surety bond guarantees and focus the distribution on new small business markets.

Number of 7(a) loans

Number of export loans

Number of bonds issued to contractors

Number of loans to women-owned small businesses (7(a) and 504 loans)

Number of loans to veteran-owned small businesses

Number of new licensed SBICs

Amount of private capital licensed

Number of small business financing

Percent of financing in 50 percent minority-owned firms

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Percent of financing in 50 percent women-owned firms

By the end of fiscal year 2000, increase the number of start-up businesses receiving SBA assistance and increase the number of jobs created by small businesses receiving SBA assistance.

Number of start-ups through 7(a) program

Dollar amounts of surety bonds written by Preferred Surety Bond companies

Increase the share of federal procurement dollars awarded to small, women-owned, disadvantaged, and HUBZones small firms.

Percent of prime contracts for small businesses

Percent of subcontracts for small businesses

Percent of procurement going to women

Percent of procurement dollars to firms in HUBZones

Increase counseling and training to small businesses in general (through BICs, SBDCs, SCORE, WBC, OSCS, USEACs) and to New Markets in particular (women, Native Americans, veterans).

Clients trained by SCORE

GAO Observations on SBA's Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Small Businesses Become Self-Reliant and Successful in the Competitive Marketplace

The agency provided explanations for not achieving the following goals. Some of the explanations include strategies for achieving the target next year. None of the explanations discuss time frames for achieving its targets.

Export Loans: SBA cited a number of external factors for why this goal was not met: the strong domestic economy, which reduced incentives to export; a strong U.S. dollar made exports less competitive overseas; overseas markets had financial difficulties that reduced their demand for imports and inadequate access to trade finance due to the lack of familiarity and reluctance of most lenders to finance export. To reach the target for fiscal year 2000, the agency will expand the marketing and outreach responsibilities of the U.S. Export Assistance Centers (USEACs), increase the ways lenders can use export working capital loans to assist small business exporters, educate small business lenders about the opportunities in export financing, continue to work with the Private Export Finance Corporation to develop a secondary market program for export loans, and to strengthen web applications designed to increase export sales. The agency states that small businesses account for 52 percent of employment, but only about 20 to 30 percent of U.S. exports. The agency believes the nation's overall export performance could improve if more small companies participate more in the export markets.

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Bonds issued to contractors: Program volume has decreased as a result of a continued strong economy. Contractors can obtain bonding without the need to pay extra fees for a government guarantee. In the current economic climate, sureties are willing to bond riskier contractors without SBA's guarantee. The target for fiscal year 2000 is 9,500. To achieve the fiscal year 2000 target SBA is looking for ways to reduce cost and increase outreach efforts to ensure that all businesses that need surety bond guarantees are aware of SBA's program. In the agency's fiscal year 2001 legislative package, SBA is proposing a reduction in the contract fee charges and an increase in the maximum eligible contract amount to help make the Surety Bond Guaranty program more competitive in the surety industry.

Loans to women-owned small business: The agency states that because many loans to women are for startups, and are small, the agency believes its small loan proposal should help expand loans in this area. SBA's small loan incentives are to raise the guaranty for 7(a) loans that are \$150,000 and under from 75 percent to 90 percent and to simplify the guaranty fee structure for all loans. In addition, SBA continues to its outreach to women through its Women's Business Centers.

Number of start-ups through 7(a) program: The agency is focusing on filling the gap in the marketplace for smaller loans. SBA proposed small loan incentives for fiscal year 2000 that were not enacted by Congress. These incentives would have helped expand lending to startups, which typically involve smaller loans. SBA proposed the small loan incentives again in fiscal year 2001. The small loan incentives are to raise the guaranty for 7(a) loans that are \$150,000 and under from 75 percent to 90 percent and to simplify the guaranty fee structure for all loans.

Increase the share of federal procurement dollars awarded to small, women-owned, disadvantaged, and HUBZones small firms: The accomplishments for the percent of prime contracts for small businesses and the percent of procurement going to women are based on preliminary fiscal year 1999 data. The final fiscal year 1999 data were available April 2000. The agency expects to meet its target. The agency did not have the data available to determine if it met its performance goal of increasing the percent of subcontract for small businesses. The HUBZone Program was officially launched on March 22, 1999 6 months into the fiscal year. Although the agency is aware of HUBZone program contract awards in fiscal year 1999, SBA is unable to determine whether federal agencies were successful in achieving the fiscal year 1999 goal of 1 percent because the Federal Procurement Data System (FPDS) did not have a mechanism in place to identify HUBZone contract awards. The FPDS now has that capability, and within the next few weeks, SBA expects to receive its first report, which will show fiscal year 2000 first quarter contracting activity.

The agency did not provide explanations for not meeting the following performance measures:

Increasing the number of 7(a) loans

Increase the number of loans to veteran-owned businesses

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Increase the number of new licensed SBICs

Amount of private capital licensed

Number of small business financing

Percent of financing in 50 percent minority-owned firms

Percent of financing in 50 percent women-owned firms

Increase the dollar amounts of surety bonds written by Preferred Surety Bond companies. The agency stated that this performance indicator shows only a small insignificant deviation since it is within 3 percent of the target.

Increase the number of clients trained by SCORE. The agency met 99 percent of this performance measure.

Fiscal Year 2000 Performance Goals and Measures for the Key Agency Outcome of Small Businesses Become Self-Reliant and Successful in the Competitive Marketplace

There were no variations in performance goals or measures from fiscal year 1999 to fiscal year 2000.

GAO Observations on SBA's Fiscal Year 2000 Planned Performance for the Key Agency Outcome of Small Businesses Become Self-Reliant and Successful in the Competitive Marketplace

The fiscal year 1999 performance goals and measures to which SBA held itself accountable were those specified in the fiscal year 2000 performance plan. SBA's fiscal year 1999 performance report did not evaluate SBA's fiscal year 2000 performance in light of the performance reported in the fiscal year 1999 report, nor did the report revise any of the fiscal year 2000 performance levels based on the fiscal year 1999 performance described in the report.

Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of Small Businesses Become Self-Reliant and Successful in the Competitive Marketplace

Overall Goal: Help Small Businesses Succeed
Provide gap lending and investments of approximately \$18.3 billion. **(Revised)**

Increase number of loans to 18,439 for women-owned businesses, 13,384 for minority-owned firms, and 8,020 for veteran-owned firms. **(Revised)**

Increase export sales by SBA clients to \$537 million. **(Added)**

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Provide \$4.5 billion in equity capital for 3,500 financing.

Issue 10,000 surety bonds.

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

Revised or New Performance Measures:

Percentage share of federal contract dollars to service disabled veterans. **(Added)**

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

Increase the value added of PRO-Net as an e-procurement tool. **(Added)**

Increase the successful participation in the SBIR program of women to 10 percent and minority businesses to 16 percent.

Increase the number of clients to 1.4 million including online training and counseling with breakdown by delivery system as follows: SCORE, Small Business Development Centers, One Stop Capital Shops, Business Information Centers, Tribal Business Information Centers, Women's Business Centers, SCORE: Email counseling. **(Revised)**

Revised or New Performance Measures:

Clients trained and/or counseled by SCORE Email counseling. **(Added)**

- Fiscal year 2001 goal: 91,900

GAO Observations on SBA's Fiscal Year 2001 Planned Performance for the Key Agency Outcome of Small Businesses Become Self-Reliant and Successful in the Competitive Marketplace

The fiscal year 2001 plan has two goals: (1) help small businesses succeed and (2) help businesses and families recover from disasters. The goal for helping small businesses succeed has three strategies related to the outcome of "small businesses become self-reliant and successful in the competitive marketplace." The three strategies have performance goals and measures that are primarily output measures of increasing the number of loans, contract dollars, capital, bonds, training/counseling made to different groups. As with the fiscal year 2000 plan, the fiscal year 2001 plan also focuses on outputs instead of outcomes.

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The agency revised some of its goals in the fiscal year 2001 plan, but most of the performance measures are the same from the fiscal year 2000 plan. For example, in the fiscal year 2000 plan, the agency's goal for increasing access to capital and credit was to "increase the aggregate number of 7(a) general business loans, Certified Development Company (CDC) loans, investment capital financing, export loans, Microloans, and surety bond guarantees and focus the distribution on new small business markets". In the fiscal year 2001 plan, this goal is broken into two goals - - to "provide gap lending and investments of approximately \$18.3 billion" and "Increase number of loans to 18,439 for women-owned businesses, 13,384 for minority-owned firms, and 8,020 for veteran-owned firms."

The agency added a performance goal to increase export sales by SBA clients to \$537 million. SBA believes that the nation's overall export performance could improve as more small companies participate in the export markets. To achieve the goal the agency is developing new lending partners who specialize in financing international transactions and creating a risk analysis tool to help increase the amount of export capital for small businesses and partnering with other federal and state and local agencies to provide export information and education.

The agency added a performance goal to include increasing the share of federal prime contract dollars awarded to service-disabled veterans (up to 3 percent). The agency did not provide an explanation for this additional performance goal.

The agency also combined some performance measures listed in the fiscal year 2000 plan into fewer performance measures in the fiscal year 2001 plan. For example, under the goal of increasing counseling and training to small businesses in the fiscal year 2000 plan, the performance measures are "number of clients trained" and "number of clients counseled" by SBA's various partners. In the fiscal year 2001 plan the performance measure is the number of clients "trained and/or counseled" by SBA's various partners.

The agency discusses its working relationship with various associations, such as the National Association of Government Guaranteed Lenders (NAGGL) and other federal agencies, such as the Department of Commerce; planned evaluations; and external factors for each of the three strategies. As with the fiscal year 2000 plan, the fiscal year 2001 plan continues to focus on outputs rather than outcomes to assess SBA's performance.

Unlike the fiscal year 2000 performance plan, SBA's fiscal year 2001 plan contains detailed discussions of the limitations and verification and validation efforts associated with each data source used to assess performance. Although some of the measures state that no verification procedures exist to ensure that the data are accurate, the other measures simply state that verification procedures are in place, without explaining the procedures. Unlike the fiscal year 2000 plan, the fiscal year 2001 plan discusses the number and type of staff needed to achieve its planned performance.

An overall observation on the fiscal year 2001 plan: SBA's fiscal year 2001 plan includes a "cross-walk" or table, that allocates SBA's fiscal year 2001 budget among its program offices and the plans strategic goals. However, the plan does not provide sufficient information to

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determine which performance goals in the plan cover which program activities in SBA's budget and whether all program activities in the budget are covered by performance goals.

Key Agency Outcome: Businesses and Families Recovering From Disasters Receive Timely Assistance

Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Businesses and Families Recovering From Disasters Receive Timely Assistance

In fiscal year 1999, SBA will continue to provide an expedited response to disasters to help businesses and families recover, maintain the quality of disaster loan underwriting, and make electronic fund transfer available to all disaster borrowers.

Field presence within 3 days of a disaster.

- Fiscal year 1999 goal: 98 percent
- Actual: 100 percent (**goal met**)

Disaster home loans: Currency Rate

- Fiscal year 1999 goal: 95 percent
- Actual: 95.2 percent (**goal met**)

Disaster home loans: Delinquency Rate

- Fiscal year 1999 goal: 2 percent
- Actual: No performance data

Loans processed within 21 days.

- Fiscal year 1999 goal: 80 percent
- Actual: 60 percent (**goal not met**)

GAO Observations on SBA's Fiscal Year 1999 Actual Performance for the Key Agency Outcome of Businesses and Families Recovering From Disasters Receive Timely Assistance

As noted above in the section discussing the small business outcome, SBA did not issue a revised final fiscal year 1999 performance plan. The fiscal year 1999 performance goal and measures to which SBA held itself accountable in its fiscal year 1999 performance report were those contained in SBA's fiscal year 2000 performance plan. An official in SBA's Office of the Associate Deputy Administrator for Management and Administration told us that SBA adopted this approach because it did not have its fiscal year 1999 appropriation available at the time it developed the fiscal year 1999 plan but had the appropriation when it developed the fiscal year 2000 performance plan. However, SBA did not explain this situation in its fiscal year 1999 performance report.

SBA's fiscal year 1999 performance goal and measures are objective, outcome-oriented, measurable, quantifiable, and indicators of progress.

SBA's fiscal year 1999 performance report did not assess SBA's overall progress in achieving its performance goal and SBA did not address the following major elements of the

performance goal--maintaining the quality of disaster loan underwriting and making electronic funds transfer available to all disaster loan borrowers.

Of the three performance measures, SBA met the measure of establishing a field presence within 3 days and the portion of the second dealing with the currency rate of disaster loans. SBA did not meet the third performance measure of processing loans within 21 days. SBA did not provide any data regarding its performance in attaining a 2-percent delinquency rate on disaster home loans, and did not explain why it did not provide such data.

The performance report contained a general discussion of SBA's efforts to improve the quality of data from its own sources and those outside the agency that it uses to assess its performance. However, SBA did not discuss the quality limitations that may exist for the data sources used to assess the performance for these specific goals and measures.

Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of Businesses and Families Recovering From Disasters Receive Timely Assistance

In fiscal year 1999, SBA will continue to provide an expedited response to disasters to help businesses and families recover, maintain the quality of disaster loan underwriting, and make electronic fund transfer available to all disaster borrowers.

Loans processed within 21 days

GAO Observations on SBA's Unmet Fiscal Year 1999 Performance Goal for the Key Agency Outcome of Businesses and Families Recovering From Disasters Receive Timely Assistance

SBA's performance report stated that "fiscal restraints" prevented SBA from processing disaster loans within 21 days, but SBA did not explain what the fiscal restraints specifically were or how they affected SBA's ability to achieve the desired level of performance. SBA did not include a schedule for attaining the fiscal year 1999 performance. Also, it is unclear how SBA may have changed its strategies to achieve its fiscal year 2000 planned performance because, in both the fiscal year 1999 report and the fiscal year 2000 plan, SBA stated that its strategy is to staff up, train, and deploy sufficient levels of staff to be able to process disaster loan applications within 7 to 21 days.

Fiscal Year 2000 Performance Goals and Measures for the Key Agency Outcome of Businesses and Families Recovering From Disasters Receive Timely Assistance

There were no variations in performance goals or measures from fiscal year 1999 to fiscal year 2000.

GAO Observations on SBA's Fiscal Year 2000 Planned Performance for the Key Agency Outcome of Businesses and Families Recovering From Disasters Receive Timely Assistance

The revised fiscal year 1999 performance goals and measures to which SBA held itself accountable were those specified in the fiscal year 2000 performance plan. SBA did not assess the effects of its fiscal year 1999 performance on its estimated performance for fiscal

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year 2000, and the report did not revise any of the fiscal year 2000 performance levels based on the fiscal year 1999 performance described in the report.

Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of Businesses and Families Recovering From Disasters Receive Timely Assistance

Provide quality and timely service

Disaster home loans:

- Currency Rate
- Delinquency Rate (**measure discontinued**)

Underwriting compliance rate

- Fiscal year 2001 goal: 97 percent

GAO Observations on SBA's Fiscal Year 2001 Planned Performance for the Key Agency Outcome of Businesses and Families Recovering From Disasters Receive Timely Assistance

SBA revised its fiscal year 2001 annual performance goal to “provide quality and timely service” from its fiscal year 2000 goal of “SBA will continue to provide an expedited response to disasters to help businesses and families recover, maintain the quality of disaster loan underwriting, and make electronic fund transfer available to all disaster borrowers.” SBA dropped the first measure from its fiscal year 2001 performance plan and added the second one, but did not explain why.

SBA's fiscal year 2001 performance plan provides a succinct goal and a clear statement of intended performance for each of the three measures.

SBA's fiscal year 2001 plan discusses various initiatives (strategies) and business reengineering and reinvention efforts in conjunction with its fiscal year 2001 performance goal. However, as with its fiscal year 2000 plan, SBA does not specifically describe how the strategies and reinvention efforts will help SBA to achieve its performance goal of providing timely and quality service to businesses and families during disasters. For example, it is unclear how continuing the pre-disaster Mitigation Pilot Loan Program for small businesses will help SBA to achieve its goal of providing timely and quality services to help families recover from disasters.

As with SBA's fiscal year 2000 plan, the fiscal year 2001 plan also discusses the cross-cutting issues and the need for SBA to coordinate closely with FEMA and state and local disaster agencies. However, given the importance that SBA places on this coordination, SBA's fiscal year 2001 plan would benefit from a discussion of the specific actions that SBA plans to carry out such coordination.

Unlike the fiscal year 2000 plan, SBA's fiscal year 2001 plan discusses the limitations of the various data sources that SBA will use to assess its planned performance and SBA's efforts to address these limitations. For example, the plan notes that information SBA will use to assess whether it establishes an effective presence within 3 days of a disaster is not received for approximately 6 months after a disaster is declared and that there is inconsistency as to

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what is meant by “effective field presence” among the area offices. SBA’s efforts to address these limitations include making a revision to its automated loan control system so that information can be entered into the system as soon as it is accomplished and providing guidance to the area offices to define the term “effective field presence.” However, at the same time, the plan notes that there are no verification procedures to ensure that the data SBA will use to assess its planned performance are accurate.

In the fiscal year 2001 plan, SBA discusses the human capital and budget resources associated with this performance goal. While SBA identifies the number of personnel that it required in fiscal year 1999, it does not discuss the number or type of human capital resources that could required in fiscal year 2001 to achieve its planned performance.

Key Agency Outcome: More Eligible Minority Small Businesses Participate in SBA Programs and Become Successful

Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of More Eligible Minority Small Businesses Participate in SBA Programs and Become Successful

Expanding small business procurement opportunities

Percent of procurements going to Small Disadvantaged Businesses (SDB) including 8(a)

- Fiscal year 1999 goal: 6.5
- Fiscal year 1999 goal: 6.6 **(goal met)**

Number of federal contracts through 8(a) firms

- Fiscal year 1999 goal: 5,500
- Actual: 5,630 **(goal met)**

Number of firms certified as SDB-eligible

- Fiscal year 1999 goal: 30,000
- Actual: 7,475 **(goal not met)**

8(a) firm success rate

- Fiscal year 1999 goal: 50 percent
- Actual: No performance data provided

Dollar value of 8(a) contracts

- Fiscal year 1999 goal: \$6.5 billion
- Actual: \$6.1 billion **(goal not met)**

GAO Observations on SBA's Fiscal Year 1999 Actual Performance for the Key Agency Outcome of More Eligible Minority Small Businesses Participate in SBA Programs and Become Successful

As noted above in the section discussing the small business outcome, SBA did not issue a revised final fiscal year 1999 performance plan. The fiscal year 1999 performance goal and measures to which SBA held itself accountable in its fiscal year 1999 performance report were those contained in SBA's fiscal year 2000 performance plan. An official in SBA's Office of the Associate Deputy Administrator for Management and Administration told us that SBA adopted this approach because it did not have its fiscal year 1999 appropriation available at the time it developed the fiscal year 1999 plan but had the appropriation when it developed the fiscal year 2000 performance plan. However, SBA did not explain this situation in its fiscal year 1999 performance report.

SBA's fiscal year 2000 performance plan contained the following two performance goals:

- Increase the share of federal procurement dollars awarded to small, women-owned, disadvantaged, and HUBzone small firms.

- Increase the number and dollar volume of Federal contracts going to the 8(a) program and the success rate of businesses participating in the program.

Although SBA's fiscal year 1999 performance report combined all of the performance measures under a single goal of "expanding small business procurement opportunities," SBA's fiscal year 1999 performance report did assess SBA's performance for each of the two goals. In the fiscal year 1999 performance plan, "expanding small business procurement opportunities" appeared as an "objective."

SBA's fiscal year 1999 performance goal is measurable, objective, output-oriented, and an indicator of progress. The performance measures, with the exception of the success rate of 8(a) firms, are also output- rather than outcome-oriented.

SBA's overall success in achieving its fiscal year 1999 performance goal was mixed. SBA met the measures regarding the percent of procurement dollars going to small disadvantaged businesses and the number of federal contracts through 8(a) firms. SBA did not achieve the measure for the number of firms certified as small disadvantaged businesses or the dollar value of 8(a) contract awards. The report noted that SBA did not provide performance data for the final measure--the success rate of 8(a) firms--because survey results had not yet been tabulated for fiscal year 1999. The fiscal year 1999 performance report contained a general discussion of SBA's efforts to improve the quality of data from its own sources and those outside the agency that it uses to assess its performance. However, SBA did not discuss the quality limitations that may exist for the data sources used to assess the performance for these specific goals and measures.

Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of More Eligible Minority Small Businesses Participate in SBA Programs and Become Successful

Expanding small business procurement opportunities

Number of firms certified as SDB-eligible

Dollar value of 8(a) contracts

GAO Observations on SBA's Unmet Fiscal Year 1999 Performance Goals and Measures for the Key Agency Outcome of More Eligible Minority Small Businesses Participate in SBA Programs and Become Successful

SBA's fiscal year 1999 performance report explained why SBA did not meet the performance levels for these two measures. SBA noted that it did not achieve the SDB measure because (1) it had overestimated the potential number of subcontractors that are eligible to be certified as SDBs; (2) legislation prevented the Department of Defense--which provides 60 percent of federal contracting dollars--from offering price credits for contracts to SDBs; (3) the deadline allowing firms to self-certify as SDBs had been extended; and (4) the program allowing civilian agencies to offer contract price credits to SDBs is a new concept to the

agencies. SBA stated that reasons for it not meeting the 8(a) contract dollar measure included the decline of federal procurement contracts, the “bundling” of federal contracts into single contracts that are too large for 8(a) firms to perform, and federal agencies’ use of streamlined contracting practices, such as government purchase cards, that cannot be counted toward the agencies’ 8(a) goals. SBA’s report did not include a schedule for attaining the fiscal year 1999 performance levels.

Fiscal Year 2000 Performance Goals and Measures for the Key Agency Outcome of More Eligible Minority Small Businesses Participate in SBA Programs and Become Successful

Increase the share of federal procurement dollars awarded to small, women-owned, disadvantaged, and HUBzone small firms. (goal revised)

Contracts achieved through PRO-Net **(Dropped)**

Contracts achieved through PRO-Net **(dropped)**

Number of registrations through PRO-Net **(dropped)**

Small Business Innovation Research (SBIR) dollars awarded to women-owned firms **(added)**

- Fiscal year 2000 goal: 7.9 percent

SBIR dollars awarded to minority-owned firms **(added)**

- Fiscal year 2000 goal: 10.7 percent

Increase the number and dollar volume of federal contracts going to the 8(a) program and the success rate of businesses participating in the program. (goal revised)

Number of firms in 8(a) program **(dropped)**

GAO Observations on SBA’s Fiscal Year 2000 Planned Performance for the Key Agency Outcome of More Eligible Minority Small Businesses Participate in SBA Programs and Become Successful

The first goal was revised and expanded to include women-owned, disadvantaged, and HUBzone small firms. In the fiscal year 1999 plan, the goal was limited to small businesses. The second goal was revised and the reference to “increasing the number of firms participating in the 8(a) program” was deleted from the fiscal year 2000 goal. SBA did not explain the reasons for revising the two performance goals or for dropping three of the fiscal year 1999 performance measures and adding two new performance measures.

On the basis of its fiscal year 1999 performance, SBA reduced its fiscal year 2000 target for the number of firms to be certified as small disadvantaged businesses to 12,000 firms. To achieve this target, SBA stated it would take the following actions: conduct outreach seminars in 37 cities during fiscal year 2000; adopt elements of the Department of Transportation’s definition of small disadvantaged business; develop a revised and simplified small disadvantaged business application that incorporates the 8(a) application;

and contact Department of Defense technical centers to highlight how centers can market the small disadvantaged business program more effectively.

Fiscal Year 2001 Performance Goals and Measures for the Key Agency Outcome of More Eligible Minority Small Businesses Participate in SBA Programs and Become Successful

Increase the share of federal prime contract dollars awarded to small businesses to 23 percent, small disadvantaged businesses (including 8(a) firms) to 7 percent, women-owned small businesses to 3 percent, HUBzone small businesses to 2 percent, and a service-disabled veterans up to 3 percent. (revised)

Percent of federal contracts to service-disabled veterans

- Fiscal year 2000 goal: 75 percent

Increase the ability of small and disadvantaged businesses to successfully supply the government with goods and services by providing them increased contracts and business development assistance. (revised)

Increase value added of the PRO-Net as an e-mail procurement tool. (added)

Increase the success rate of 8(a) firms to 75 percent. (added)

Percent of 8(a) firms that completed the 9-year term or graduated early and received business development assistance.

- Fiscal year 2000 goal: 75 percent

Increase the successful participation in the SBIR program of women to 10 percent and minority businesses to 16 percent. (revised)

GAO Observations on SBA's Fiscal Year 2001 Planned Performance for the Key Agency Outcome of More Eligible Minority Small Businesses Participate in SBA Programs and Become Successful

SBA revised the first performance goal to include specific percentages of federal procurement dollars for each category and added the category "disabled veterans" to the goal. SBA broadened the focus of the second goal to small disadvantaged business in general, including 8(a) firms. SBA did not explain why it expanded these performance goals from two to five. The fourth and fifth goals were previously expressed as performance measures in SBA's fiscal year 2000 plan. The first, fourth, and fifth goals provide a clear picture of SBA's intended performance regarding minority firms in fiscal year 2001.

As with the fiscal year 2000 plan, the fiscal year 2001 plan does not link the plan's initiatives or (strategies) to the goals and measures or specifically describe how the specific actions or efforts described in the plan will help SBA to achieve its planned levels of performance.

Also, the fiscal year 2001 plan continues to focus on outputs rather than outcomes to assess SBA's performance. SBA added a performance goal of increasing the success rate of 8(a)

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firms to 75 percent during fiscal year 2001. However, the measure adopted by SBA to assess its success in achieving this goal--the number of firms that complete the 9-year program term or graduate early and receive business development assistance--is an output and a weaker measure of performance than the outcome measure--the number of 8(a) firms that are independently owned and operated 3 years after leaving the program--SBA adopted in its fiscal year 2000 plan.

Unlike the fiscal year 2000 performance plan, SBA's fiscal year 2001 plan contains detailed discussion of the limitations and verification and validation efforts associated with each data source used to assess performance. For example, SBA notes that data used to assess SBIR awards to small businesses are not received from the participating agencies until 6 months after the close of the previous fiscal year, with the result that there is a time lag in reporting the data to the Congress. Also, while SBA notes that data verification procedures are in place to ensure the accuracy of the data that it will use to assess its performance, SBA does not describe these verification procedures.

As with its fiscal year 2000 plan, SBA's fiscal year 2001 plan does not discuss the human capital resources that SBA will require to achieve its planned fiscal year 2001 performance. SBA notes that approximately 273 persons are assigned to its government contracting and minority enterprise development areas and describe the responsibilities of these individuals. However, SBA does not discuss whether such personnel are adequate to achieve its planned fiscal year 2001 performance.

**Observations on the Small Business Administration's Efforts
to Address Its Major Management Challenges**

The following table identifies the major management challenges confronting the Small Business Administration (SBA). The first column lists the management challenges identified by the SBA Inspector General (IG). The second column discusses what progress, as discussed in its fiscal year 1999 performance report, the SBA made in resolving its major management challenges. The third column discusses the extent to which the SBA's fiscal year 2001 performance plan includes performance goals and measures to address the management challenges that the SBA IG identified.

Major management challenge	Progress in resolving major management challenge as discussed in the fiscal year 1999 performance report	Applicable goals and measures in the fiscal year 2001 performance plan
<p>1. Loan programs: Lenders are not held accountable for errors in loan processing and servicing.</p>	<p>SBA's fiscal year 1999 performance report does not specifically address this management challenge. However, the report discusses a management issue--district offices do not consistently apply loan guarantee purchase requirement--that covers the same major issue. Actions cited by SBA to address this management issue include partially centralizing its loan guarantee purchase review process and establishing a staff position to review 10 percent of all loan purchase requests, including all loans identified by SBA's IG, by lender or loan reviews, or otherwise as potentially problematic. SBA also noted that it would track the loan guarantee repairs by field offices to identify loans having shortcomings.</p>	<p>None. However, the plan's section on management challenges states that SBA is in the process of developing procedures to improve the guarantee purchase of 7(a) loans; will contract for the independent review of 10 percent of all loan purchase requests processed by field offices; and will track loan purchases, by field office, to identify any offices with shortcomings in processing guarantee purchase requests and initiate action to correct the situation.</p>

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<p>2. Loan programs: Borrowers are not held accountable for misuse of funds.</p>	<p>SBA's fiscal year 1999 performance report does not specifically address this management challenge. However, the report discusses a management issue--SBA needs to improve loan monitoring--that covers the same major issue. The report notes that SBA has implemented a Preferred Lender review system that will review all preferred lenders on a 3-year cycle and rate their compliance with established performance factors, including loan processing error identification. SBA completed the first round of reviews of preferred lenders in March 1999 and will conclude the second round of reviews by March 2000. In addition, SBA is developing a Risk Management System that will be used to benchmarks lenders' future performance.</p>	<p>None. However, the plan noted that, among other actions, SBA had initiated a new Quality Service Review of all SBA district office functions to ensure that critical program areas are reviewed and to inform management of any problem or issues; is taking steps to establish an oversight office that will be responsible for the oversight functions of all lenders; and has taken steps to develop and implement a loan monitoring and oversight system to evaluate lender performance.</p>
<p>3. Fraud deterrence and detection require continued emphasis.</p>	<p>SBA's fiscal year 1999 performance report does not specifically address this management challenge. However, the report discusses two management issues--preventing loan agent fraud and requiring borrowers in SBA's business loan program to have criminal history background checks for borrowers--which cover the same major issues. The report notes that as part of its system modernization efforts, SBA plans to establish a loan agent registration and monitoring system. The report also stated that the SBA IG had drafted legislative language that will require background checks for all loan applicants and loan agents. The proposed legislation was delivered to the Congress at the end of December 1999 and is pending consideration.</p>	<p>None. However, SBA's fiscal year 2001 plan contains a separate discussion of SBA's corporate management strategies to become a leading edge, 21st century institution and to improve internal management. One of the performance goals in this section is to conduct yearly management training on internal controls and to evaluate and assess all existing and new initiatives. The plan noted that SBA's activities to achieve this goal include (1) centralizing SBA's reviews of preferred lenders; (2) partnering with the Farm Credit Administration to audit non-bank institutions that provide SBA loans; (3) implementing bank safety and soundness reviews; and (4) improving loan compliance audits by providing more resources, training, and standard operating procedures.</p>
<p>4. Minority Enterprise Development: Contract dollars are concentrated among relatively few companies in SBA's 8(a) minority business development program whose owners remain in the program after amassing substantial wealth.</p>	<p>SBA's fiscal year 1999 performance report does not specifically address this management challenge. However, the report discusses a management issue--more participating companies need to obtain contracting opportunities in the section 8(a) program--that covers the same major issue of providing contract opportunities to more 8(a) firms. The plan notes that</p>	<p>None. However, one of the performance goals in the fiscal year 2001 plan is to increase the share of federal prime contract dollars awarded to small businesses to 23 percent, small disadvantaged businesses (including 8(a) firms) to 7 percent, women-owned small businesses to 3 percent HUDZone small businesses to 2 percent, and service-disabled veterans up to 3 percent. Another performance goal is to increase the success rate of</p>

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	<ul style="list-style-type: none"> • SBA's efforts to reduce the concentration of dollars among a few companies include limiting the dollar amount of sole-source contracts awarded to 8(a) firms to \$100 million and denying sole-source contracts to firms not meeting their business activity targets. • SBA's efforts to increase the number of firms that receive contracts and purchase orders under \$100,000 include (1) increasing the number of waivers of the thresholds that require 8(a) contracts to be awarded competitively and (2) negotiating agreements with 28 federal agencies to allow the agencies to contract directly with 8(a) firms. • SBA's efforts to track firms' and owners' financial progress as they advance through the program include proposing regulations that will require owners of 8(a) firms to submit audited personal financial statements if the firms' revenues exceed \$5 million. • SBA's efforts to actively seek to graduate firms once they have met their financial goals, or to have firms that no longer need the program to withdraw from the program include placing a higher priority on processing early graduations and withdrawals from the program and developing, by June 2000, procedures for monitoring and graduating firms that have met the goals in their business plans. <p>In addition, SBA's report notes that SBA's efforts to address the issue of 8(a) participants who become wealthy but are allowed to remain in the program include increasing SBA's emphasis on the annual review of 8(a) firms, developing a scoring system that will provide additional objectivity to SBA's determinations of 8(a) firms' access to capital and credit, and defining what constitutes the excessive withdrawal of funds from 8(a) firms and limiting such withdrawals.</p>	<p>8(a) firms to 75 percent. According to SBA, success occurs when a firm completes its 9-year term or graduates early from the program and has received business development assistance (that is, technical, management and federal contract assistance).</p>
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<p>5. Minority Enterprise Development: SBA does not enforce its own rules precluding excessive subcontracting.</p>	<p>SBA's performance report specifically addresses this management challenge. It stated that among other actions to address this challenge, SBA plans to add language to its memorandums of understanding with the 28 federal agencies that direct the agencies' procuring activities to review all 8(a) contracts for compliance with the subcontracting provisions, both at the time of contract award and annually during contract administration. The report also noted that SBA agreed with the SBA IG's recommendation that it tighten the definition of manufacturing to preclude the practice of making only minor modifications to the products of other manufacturers and expects to issue procedures by June 30, 2000, that address these concerns.</p>	<p>None. However, the fiscal year 2001 plan points out that SBA plans to pursue the changes noted in the FY99 performance report, including adding language to the 28 memoranda of understanding that directs the procuring activities in the federal agencies to review all 8(a) contracts for compliance with the subcontracting provisions, both at the time of contract award and annually during contract administration.</p>
<p>6. Minority Enterprise Development: SBA's monitoring of companies in its 8(a) minority business development program is mismanaged.</p>	<p>SBA's fiscal year 1999 performance report does not specifically address this management challenge. However, the report discusses a management issue--8(a) participants who become wealthy are allowed to remain in the program and be considered economically disadvantaged—that covers the same major issue. The report notes that SBA has addressed this challenge by (1) increasing its emphasis on annual reviews of 8(a) firms (in fiscal year 1999 SBA performed annual reviews on almost 100 percent of its 5,200 firms); (2) developing a scoring system that will provide additional objectivity to SBA's determinations of 8(a) firms' access to capital and credit, and (3) defining what constitutes the excessive withdrawal of funds from 8(a) firms and limiting such withdrawals.</p>	<p>None. However, the plan states that SBA has addressed these deficiencies by (1) increasing its annual reviews of 8(a) firms (nearly 100 percent in fiscal year 1999); (2) developing a scoring system that will provide additional objectivity to SBA's determinations of 8(a) firms' access to capital and credit, and (3) defining and limiting excessive withdrawal of funds from 8(a) firms. In addition, the plan notes that SBA has established a committee that will develop recommendations to define the term "economic disadvantage." The recommendations are due by June 30, 2000.</p>
<p>7. SBA needs to develop and implement a program-based cost accounting system.</p>	<p>SBA's fiscal year 1999 performance report specifically addresses this management challenge. It states that in fiscal year 1999, SBA purchased the OROS Activity Based Costing System to maintain cost data for the agency and developed a process to download cost data for fiscal years 98 and 99 from SBA's administrative accounting system. The report also stated that SBA would begin to implement activity-based budgeting in fiscal year 2001 and a Joint Accounting and Administrative</p>	<p>None. However, the plan specifically addresses this management challenge and reiterates SBA's use of the OROS Activity Based Costing System and its plans to implement an integrated financial management system, including a refined cost accounting system, as part of the agency's systems modernization initiative. The plan states that SBA will continue to refine the cost accounting system with the implementation of new systems through October 2002 through September 2004.</p>

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	Management System in fiscal year 2002.	
8. Information system controls need improvement.	SBA's fiscal year 1999 performance report specifically addressed this management challenge. It stated that SBA has established an Information System Control Committee, which includes the Chief Information Officer, the Chief Financial Officer, and the Associate Administrator for Disaster Assistance, to address the issue of information system security. The report also discussed steps by SBA to implement a comprehensive entitywide security program and to improve (1) system access controls, (2) application development and change control, (3) service continuity, (4) data authorization, (5) completeness and accuracy, and (6) segregation of duties.	None. However, the plan states that improving SBA's management oversight and control of the computer security program is a key initiative of the agency. It reiterates the fact that SBA has established an Information Systems Control Committee to address the issue of information system security.
9. Loan programs: Recoveries in servicing and liquidation are not maximized.	No longer deemed a major management challenge by the IG.	No longer deemed a major management challenge by the IG.
10. The Paperwork Reduction Act and the Privacy Act need to be rationalized with Government Performance and Results Act to permit effective measurement of performance outcomes.	No longer deemed a major management challenge by the IG.	No longer deemed a major management challenge by the IG.

Comments From the Small Business Administration

Comments From the Small Business Administration

Note: GAO comments supplementing those in the report text appear at the end of this enclosure.



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

June 20, 2000

Mr. Stanley J. Czerwinski
Associate Director, Housing and Community
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Czerwinski:

Thank you for your draft report, "Observations on the Small Business Administration's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan." I appreciate the opportunity to share some of my concerns with you.

As Donald Kettl of the Brookings Institution recently wrote of performance management, "The process is, in part, managerial. It requires devising new ways for thinking about what government agencies are trying to do, how to do it better, and how to know whether the innovations work. It is, more broadly, political. It requires Congress to consider carefully what it seeks to accomplish—and how it needs to behave if government is to work better. It requires the President and the executive establishment to focus on results. It requires the media to develop stronger capacity for understanding the linkages between bold policy announcements, which create the big headlines, and policy results, which is what people care most about."

Your report clearly shows our need to make more explicit our performance goals, specifically to include more outcomes in our plan, to comment more extensively on our final results, and to improve the reliability and validity of data shown. However, I believe the General Accounting Office (GAO) has not fully appreciated the Small Business Administration's (SBA) plan as it relates to several key areas. I would like to cite several examples:

Our FY 2001 Plan takes our FY 1999 Goal: "Transform the SBA into a 21st century leading edge institution," and includes it under "Corporate Management Strategies." (See chart below.) Those FY 2001 strategies include improved internal control and oversight, systems modernization, electronic commerce, and workforce transition or transformation.

FY 1999 Goals and Objectives	FY 2001 Goals and Strategies
Goal 1: Increase Opportunities for Success <ul style="list-style-type: none"> • Objective 1: Increasing Access to Capital and Credit • Objective 2: Expanding Procurement Opportunities • Objective 3: Enhancing Entrepreneurial Development Assistance 	Goal 1: Help Small Businesses Succeed <ul style="list-style-type: none"> • Strategy 1: Access to Capital and Credit • Strategy 2: Access to Procurement Opportunities • Strategy 3: Access to Business Development • Strategy 4: Serve as a Voice for Small Business
Goal 2: 21st Century leading edge institution	Corporate Management Strategies: Modernization
Goal 3: Disaster Assistance	Goal 2: Disaster Assistance
Goal 4: Participation in Welfare-to-work	(No longer included as goal in FY 2001)
Goal 5: Serve as a Voice for Small Business	(Included in Goal 1 as strategy 4)

In addition, SBA finds essential in its 2000 performance report several key elements that GAO did not acknowledge in its draft report:

- See comment 1. > **Three identified outcome goals for SBA.** With regard to the GAO’s third goal, “More eligible minority small businesses participate in SBA programs” this arguably could be listed as an output goal. SBA believes their success, similar to the success of non-minority businesses, is the true outcome.
- See comment 2. > **“SBA did not articulate the extent to which it met its fiscal year 1999 performance goals.”** On page 33 and again prominently on the back cover “At a Glance...” SBA stated that “we achieved 90 percent success or better on 40 of the 59 performance indicators.”
- See comment 3. > **“The second key outcome- businesses and families recovering from disasters receive timely assistance – only had one performance goal in SBA’s fiscal year 1999 Performance Report.”** Page 44 of the 1999 Performance Report contains four performance goals, two of which are process oriented.
 - Field presence within 3 days of disaster declaration
 - Disaster Home Loan Currency Rate
 - Disaster Home Loan Delinquency Rate
 - Loans processed within 21 days

Page 30 of the performance report contains another outcome measure -- i.e., the number of jobs retained as a consequence of disaster business loans.
- See comment 4. > **“However, the new performance measure SBA adopted to assess this goal – the number of firms that complete the 9 year program or graduate early and receive business development assistance – is a weaker measure of performance than the measure in SBA’s fiscal year 2000 plan...”** SBA is actually providing two measures: (1) percentage of 8(a) participants who graduate from the program and (2) the subsequent success of these graduates. The survival rate of small firms for a period of 10.5 years is 34 percent. This would seem to indicate that the 8(a) program is very successful in terms of survival. (See page 40 for this discussion).
- See comment 5. > **“SBA’s fiscal year 2001 performance plan does not contain performance goals and measures that directly relate to the major management challenges...”**
SBA has chosen to use the format that was suggested by Senator Thompson in his call for agency progress on addressing management issues, namely:
 - does SBA agree/disagree with OIG’s finding and recommendation?
 - what specific steps including milestones will SBA/has SBA taken to address the issue?

As you know, this is also the format used in the status reports provided to SBA's Office of Inspector General. SBA believes that this should be sufficient for responding to management issues in the performance report.

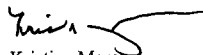
- See comment 6. > **"....the plan does not provide sufficient information to determine which performance goals in the plan cover which program activities in SBA's budget and whether all program activities in the budget are covered by performance goals."** This is not a GPRA requirement. For example, we do not believe the Results Act requires discussion of 100 percent of administrative management activities that an agency expends to implement programs.
- See comment 7. > **"SBA did not issue a revised final FY99 performance plan."** This is correct, but SBA is not required to issue a revised plan, only revised numbers, which are incorporated in the 1999 column in the FY 2000 Performance Plan.

Overall, we believe that SBA has made substantial progress that was not recognized. Many of these achievements were listed in the front section of the FY 1999 Performance Report, including:

- > Saved \$5.3 savings in costs to small business by working with regulatory agencies;
- > Helped 16,144 entrepreneurs *start* a business by providing needed access to capital and credit;
- > Helped create 2.7 million of the 20 million new jobs reportedly created since 1992;
- > Returned \$180 million to the Treasury from profits garnered in the participating securities program of the SBICs and assisted eight of the 100 Fastest Growing Firms in 1999 as cited by *Fortune* magazine;
- > Helped save more than 35,000 jobs by offering disaster victims nearly \$1 billion in loans;
- > Helped small firms receive their "fair share" of the procurement "pie" by receiving 22.4 percent of the \$200 billion in Federal contracts.

Like other Federal agencies, we have struggled to improve our performance management and to think about what we are trying to do. And have learned much in the process. We believe the recent report compiled by the Mercatus Center recognizes this progress, and we hope your report does as well. We know that GAO and SBA share the same overall goal of making the Government work better for the Nation. I look forward to working together with GAO in the near future.

Sincerely,


Kristine Marcy
Chief Operating Officer

Enclosure III

The following are GAO's comments on the Small Business Administration's letter dated June 20, 2000.

1. The three outcomes were selected by the Senate Committee on Governmental Affairs as key outcomes that are important mission areas. Our assessment of SBA's fiscal year 1999 report and fiscal year 2001 performance plan was based on these three outcomes: (1) small businesses become self-reliant and successful in the competitive marketplace; (2) businesses and families recovering from disasters receive timely assistance; and (3) more eligible minority small businesses participate in SBA programs and become successful.
2. SBA did not agree with our statement that SBA's performance report did not assess SBA's overall progress in achieving its performance goals. According to SBA, its report states that SBA achieved 90 percent success or better on 40 of the 59 performance indicators. While SBA's performance report discusses how well SBA did in achieving individual performance measures and indicators, our review of the report showed that SBA did not provide an overall assessment of how well it did in achieving the annual performance goals it established for fiscal year 1999. The Government Performance and Results Act states that each report shall review the success of achieving the performance goals of the fiscal year.
3. In our assessment of SBA's report and plan as it relates to the outcome businesses and families recovering from disasters receive timely assistance, we determined that SBA's goal of help business and families recover from disasters would address this outcome. SBA's fiscal year 1999 report refers to this goal as a strategic goal and refers to the measures as performance goals and indicators. SBA disagrees with us on what is a goal and what is an indicator or measure. SBA states that what we have identified as measures are goals. GPRA defines performance goals as the level of performance to be achieved by a program activity and an indicator is used to measure service levels, outputs, and outcomes of each program activity.
4. SBA disagreed with our statement about a new measure in SBA's fiscal year 2001 performance plan to assess the success of the 8(a) program. In SBA's fiscal year 2001 performance plan the measure to assess the rate of the success of the 8(a) program was revised from the fiscal year 2000 performance plan. The new measure is the number of firms that complete the 9-year program term or graduate early and receive business development assistance. The old measure is the number of 8(a) firms that are independently owned and operated 3 years after leaving the program. Although SBA's fiscal year 1999 performance report reflects the fiscal year 2000 measure for determining the success rate of 8(a) firms as the number of 8(a) firms that are independently owned and operated 3 years after leaving the program, SBA's fiscal year 2001 performance plan shows that SBA is not planning to use that measure in the future.
5. SBA stated that Senator Thompson suggested the format that is presented in its fiscal year 2001 performance plan. Although SBA's fiscal year 2001 performance plan does not contain performance goals and measures that directly related to the major management challenges confronting SBA, as we have outlined in enclosure II of the report, SBA does

Enclosure III

have strategies to address the management challenges. We have modified the report to show that SBA does have strategies to address the management challenges.

6. According to Office of Management and Budget's (OMB) Circular A-11 the annual performance plan should be directly linked to the agency's budget and the performance goals are set based on the funding expected to be available to achieve those targets. In addition the OMB circular states that the annual plan should display the funding level being applied to achieve the performance goals and indicators for that activity.

7. We agree that SBA is not required to issue a revised fiscal year 1999 performance plan, but SBA did not provide an explanation in its fiscal year 1999 performance report discussing the revision. As reflected in enclosure I of the report, we spoke to an official in SBA's Office of Management and Administration, who said that the performance goals and measures to which SBA held itself accountable in its fiscal year 1999 performance report were those contained in SBA's fiscal year 2000 performance plan. This official told us that SBA's fiscal year 1999 appropriation was not available at the time SBA developed its fiscal year 1999 plan but was available when SBA developed its fiscal year 2000 performance plan.

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