



**U.S. Small Business Administration**  
**Washington, D.C. 20416**

**OFFICE OF  
INSPECTOR GENERAL**

May 11, 2001

Honorable Dan Burton  
Chairman  
Committee on Government Reform  
U.S. House of Representatives  
2157 Rayburn House Office Building  
Washington, DC 20515-6143

Dear Mr. Chairman:

In response to your request of April 5, 2001, I am pleased to submit the Office of Inspector General's (OIG) assessment of what we consider to be the Small Business Administration's (SBA) ten most significant performance measures and the data underlying those measures. Because of the importance of performance-based management, OIG has expended substantial resources in reviewing, and reporting on, the Agency's implementation of the Government Performance and Results Act (GPRA). We identified managing for results as a top ten management challenge for FY 2001.

As indicated in the enclosed report, OIG has conducted five audits and two inspections that assess GPRA implementation, and the validity and reliability of underlying performance data of selected major Agency programs. These reports can be accessed on SBA's website at [www.sba.gov/IG/reports.html](http://www.sba.gov/IG/reports.html).

For the assessment you requested, OIG has used the measures in SBA's FY 2002 Performance Plan because they improve substantially on the measures in the FY 2000 Performance Report. In addition to identifying the ten most significant performance measures for achieving SBA's mission, OIG has indicated (1) the extent to which the performance measure is a useful indicator of performance, (2) whether the data or information underlying the measure is valid and accurate, and (3) what actions SBA is taking, or plans to take, to resolve measure and data problems.

If you or your staff have any questions, please do not hesitate to call me or Peter McClintock, Deputy Inspector General, at (202) 205-6586.

Sincerely,

Phyllis K. Fong  
Inspector General

Enclosure

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April 5, 2001

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The Honorable Phyllis K. Fong  
Inspector General  
Small Business Administration  
409 3<sup>rd</sup> Street, SW  
7<sup>th</sup> Floor  
Washington, DC 20416

Dear Inspector General Fong:

The Government Performance and Results Act of 1993 (The Results Act) was enacted to improve Federal agency performance and to provide Congressional and executive branch decision-makers with objective and reliable information about Federal programs. The Results Act requires each agency to submit an annual program performance report containing performance measurements that compare an agency's actual performance to its annual goals. Relevant performance measurements and credible performance data are critical if the Congress and agency managers are to exercise sound oversight of Federal programs. Therefore, I am requesting your assessment of what your office considers the ten most significant performance measures contained in your agency's performance report. Also please indicate the extent to which the data or information underlying the measure is valid and accurate.

As part of your analysis please identify the measure and why it is a useful indicator of performance. For example, is the performance measure an accurate and useful indicator of the success of a critical program? Also please identify the steps that have been taken to verify the validity of the measure. For example, has the performance information underlying the measure been audited or otherwise tested to ensure its validity? If so, who conducted the testing? If not, does your office plan on verifying this information?

I would appreciate receiving this information by May 11, 2001. If you have any questions or need any further information, please contact Nicole Petrosino at (202) 225-5074. I believe the Inspector General community has extremely valuable information on agency operations and appreciate your assistance in this matter.

Sincerely,



Dan Burton  
Chairman

**SMALL BUSINESS ADMINISTRATION OFFICE OF INSPECTOR GENERAL  
ASSESSMENT OF  
THE TEN MOST SIGNIFICANT AGENCY PERFORMANCE MEASURES**

**Summary.** In the past two years, the Office of Inspector General (OIG) has conducted five audits and two inspections of selected major Small Business Administration (SBA) programs to assess the implementation of the Government Performance and Results Act (GPRA), and the validity and reliability of the performance data used. In general, this work has concluded that improvements are needed in implementing GPRA. We found that some major SBA programs still needed: (1) outcome measures, (2) additional cost or service quality measures, (3) an alignment of the measures with the program's statutory mission, and (4) valid and reliable data. The OIG's reports can be accessed on SBA's website at [www.sba.gov/IG/reports.html](http://www.sba.gov/IG/reports.html). For FY 2001, one of SBA's ten most significant management challenges is managing for results.

As requested, OIG has selected what we consider to be SBA's ten most significant performance measures. SBA's FY 2000 Performance Report contains 35 measures of which almost all are output measures. Because the Agency's FY 2002 Performance Plan significantly improved the quality of the measures, we have chosen the ten most significant measures from the FY 2002 plan. SBA now has two general program goals: (1) help small businesses succeed, and (2) help families and business recover from disasters. The Agency has reduced the number of program measures to 13 and made substantial improvements in the quality of the measures. SBA lists one operational goal—improve SBA management. Under this goal, the Agency lists six initiatives: (1) manage for results, (2) transform the workforce, (3) modernize our information systems, (4) improve financial management, (5) improve credit program management, and (6) create electronic government. These initiatives have no measures associated with them. SBA has indicated that the initiatives will be published after a review by the incoming Administrator. Five of these initiatives relate specifically to the ten FY 2001 management challenges.

In the following table, OIG provides the ten most significant performance measures and our assessment of (1) the extent to which the performance measure is a useful indicator of performance, (2) whether the data or information underlying the measure is valid and accurate, and (3) what actions SBA is taking, or plans to take, to resolve measure and data problems. OIG believes that, of the ten measures, four are useful in indicating program performance, four are somewhat useful, and two are not useful. In responding to OIG's challenge to improve the Agency's "managing for results process," SBA agreed to develop specific guidance concerning the preparation of organizational performance goals and indicators.

In audits and inspections relating to the ten measures identified in this report, OIG found data validity and accuracy problems. To address these problems, in its FY 2000 Performance Report, SBA stated that it will pursue four strategies for data validation and verification: (1) foster organizational commitment and capacity for data quality, (2) assess the quality of existing data, (3) respond to data limitations, and (4) build quality into the development of performance data.

| <b>FY 2002 Significant Performance Measures</b> | <b>Usefulness as an Indicator of Performance</b>                                                                                                                                                                                                                                                                                                                 | <b>Data Validity and Accuracy</b>                                                                                    | <b>OIG Audit and Inspection Reports</b> | <b>SBA Actions to Resolve Problems</b> |
|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------|----------------------------------------|
| Goal 1–Help Small Business Succeed              |                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                      |                                         |                                        |
| 1. Regulatory cost savings to small businesses  | Useful. By determining the cost savings of reducing or minimizing the impact of regulations on small businesses, SBA can provide some indication of the success of the efforts of the Office of Advocacy in reviewing and monitoring regulatory proposals for small business impact. Nevertheless, it will not be possible to draw a direct causal relationship. | OIG has not reviewed the underlying data for this measure. We anticipate including it in our audit plan for FY 2002. | None                                    |                                        |

| <b>FY 2002 Significant Performance Measures</b>                                 | <b>Usefulness as an Indicator of Performance</b>                                                                                                                                                                                 | <b>Data Validity and Accuracy</b>                                                                                                                                                                                                                                                             | <b>OIG Audit and Inspection Reports</b>                                                                                                                                                                                                                    | <b>SBA Actions to Resolve Problems</b>                                                                                                                                                                                                                                                                                                     |
|---------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2. Jobs Created by SBA Borrowers                                                | Useful. The number of jobs created by SBA borrowers directly ties to the legislative purpose of the 504 loan program and is a useful outcome indicator for SBA's loan programs.                                                  | A 7(a) business loan program audit of the information reported for this measure in FY 1999 showed that the data were based on estimates that have not been validated and verified. SBA is still using the estimates. Thus they are not reliable.                                              | <i>Results Act Performance Measurement for the 7(a) Business Loan Program</i> , Audit Report #1-01, December 4, 2000.                                                                                                                                      | SBA is working with the Department of Labor and the Internal Revenue Service to obtain reliable data on jobs created. SBA acknowledges the challenge it faces in quantifying the causal relationship between outputs and measurable growth in the small business sector.                                                                   |
| 3. Improved access to capital and credit: 7(a), 504, Microloan, & SBIC programs | Not useful. This dollar volume measure is not useful in measuring the success of the various loan programs. It is an output and does not provide a meaningful indicator of whether small businesses have been helped to succeed. | An SBIC program audit found that some of the data relating to the FY 1999 outputs—the number of financings—were not reliable. A 7(a) business loan audit found that the program was reporting loans approved rather than loans disbursed. For FY 2000 the data were reported in the same way. | <i>Results Act Performance Measurement for the Small Business Investment Company</i> , Audit Report #0-25, September 6, 2000.<br><br><i>Results Act Performance Measurement for the 7(a) Business Loan Program</i> , Audit Report #1-01, December 4, 2000. | For FY 2002, the number of actual SBIC financings will be reported by fiscal year and, therefore, should be more reliable.<br><br>SBA is developing specific guidance concerning the preparation of organizational performance goals and indicators. SBA is also developing standards and procedures for data verification and validation. |

| <b>FY 2002 Significant Performance Measures</b>                      | <b>Usefulness as an Indicator of Performance</b>                                                                                                                                | <b>Data Validity and Accuracy</b>                                                                                                                                                                                                                                                                                                      | <b>OIG Audit and Inspection Reports</b>                                                                                                                                                                                                                                                                                                                                                          | <b>SBA Actions to Resolve Problems</b>                                                                                                                                                                  |
|----------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4. Increase diversity (number of loans to targeted groups)           | Useful. This is a useful output indicator that measures the level of activity to specific targeted borrowers and is linked to the legislative purpose of selected SBA programs. | <p>The 7(a) and SBIC audits found that the data reported for this measure for FY 1999 were not reliable or supported by source records. For FY 2000 the data were reported in the same way.</p> <p>An inspection of data from SBA loan processing centers found uncertainty regarding what constitutes adequate data verification.</p> | <p><i>Results Act Performance Measurement for the 7(a) Business Loan Program, Audit Report #1-01, December 4, 2000.</i></p> <p><i>Results Act Performance Measurement for the Small Business Investment Company, Audit Report #0-25, September 6, 2000.</i></p> <p><i>Advisory Memorandum: Data Issues Regarding the Processing Centers, Inspection Report #00-09-01, September 28 2000.</i></p> | <p>For FY 2002 random sampling and projections will be used to identify financings to women and minorities.</p> <p>SBA is developing standards and procedures for data verification and validation.</p> |
| 5. Number of start-up firms financed by 7(a), 504, and SBIC programs | Useful. This is an output indicator for measuring SBA activity in reaching small business start-ups.                                                                            | OIG has not reviewed the data for this measure.                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                         |

| FY 2002 Significant Performance Measures                                                                          | Usefulness as an Indicator of Performance                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Data Validity and Accuracy                                                                                     | OIG Audit and Inspection Reports                                                                                                               | SBA Actions to Resolve Problems                                                                                                                                                                                                                                                                                                           |
|-------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6. Mandated fair share of Federal prime contract dollars                                                          | Somewhat useful. It is a useful indicator of Government-wide success but not of SBA success because SBA does not control procurement in other Federal agencies.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | OIG has not reviewed the data underlying this measurement because they are provided by other Federal agencies. |                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                           |
| 7. 8(a) program client success rate 3 years after graduation. Success means that the client is still in business. | Not useful. This outcome measure does not address success in terms of applicable legislation. Public Law (P.L.) 100-656 states that "...the measure of success ... shall be the number of competitive firms that exit the program without being unreasonably reliant on section 8(a) contracts and that can compete in the mainstream of the American economy..." Section 7(j)(10)(H) of the Small Business Act provides that an 8(a) firm demonstrates its ability to compete in the marketplace without assistance from the 8(a) business development (BD) program by substantially achieving the targets, objectives, and goals contained in that firm's business plan. | SBA did not report data for this measure in its FY 2000 Performance Report.                                    | <i>Performance Measurement for the Minority Small Business and Capital Ownership Development Program</i> , Audit Report #1-11, March 27, 2001. | Management took no exception to our recommendation that SBA measure the success of the 8(a) BD program in accordance with the measure of success prescribed in P.L. 100-656. After the report was issued, management stated that it would make programmatic changes so it would be possible to track the indicators as stated in the law. |

| <b>FY 2002 Significant Performance Measures</b>                              | <b>Usefulness as an Indicator of Performance</b>                                                                                                                                                                                                                                                                                                                                                                                          | <b>Data Validity and Accuracy</b> | <b>OIG Audit and Inspection Reports</b>                                                                                                          | <b>SBA Actions to Resolve Problems</b>                                                                                                                                                                                                                                                                                                              |
|------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 8. Customer satisfaction rate with Entrepreneurial Development (ED) programs | Somewhat useful. This intermediate outcome measure shows the quality of services delivered as perceived by SBA clients. Although more refined than an output measure focussing on quantity of assistance, this measure does not show how the clients benefit. The measure is useful for indicating whether clients believed the service to be successful and, thus, provides information on how program service delivery can be improved. | No data have been reported.       | <i>Coordination and Performance Measurement in SBA's Entrepreneurial Development Programs</i> , Inspection Report #00-09-02, September 28, 2000. | To obtain information on the final <i>outcome</i> , OIG recommended that SBA develop a client survey. SBA is surveying clients in some of the ED programs. It is not yet clear whether outcomes, such as jobs created, will be reported. SBA has stated that its program review of the Small Business Development Center network includes outcomes. |



| FY 2002 Significant Performance Measures                      | Usefulness as an Indicator of Performance                                                                                                                                                                                                                                                                                                                                                          | Data Validity and Accuracy                                                                                                                          | OIG Audit and Inspection Reports                                                                            | SBA Actions to Resolve Problems                                                                                                                                                                                                                                 |
|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Goal 2–Helping Businesses and Families Recover from Disasters |                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                     |                                                                                                             |                                                                                                                                                                                                                                                                 |
| 9. Field presence within 3 days of a disaster declaration     | Somewhat useful. For a program where timeliness is of the essence, this measure is useful. However, a field presence indicator addresses only the efficiency of providing on-site assistance. SBA does not have performance indicators that measure whether the disaster assistance program helps businesses and families recover from disasters. Thus, there is no outcome measure for this goal. | An audit of the disaster program showed that this measure is not reliable because disaster field office locations do not report on it consistently. | <i>Performance Measurement for the Disaster Assistance Program</i> , Audit Report #1-06, February 15, 2001. | The Office of Disaster Assistance has stated it is taking steps to establish specific performance indicators to measure program outcomes. They have also developed a draft definition which they will share with Disaster Area Directors at their next meeting. |

| FY 2002 Significant Performance Measures | Usefulness as an Indicator of Performance                                                                                                                                                                                                                                                                                                       | Data Validity and Accuracy                                                                                           | OIG Audit and Inspection Reports                                                                            | SBA Actions to Resolve Problems                     |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|
| 10. Customer satisfaction rate           | Somewhat useful. While this intermediate outcome measure does not measure the success of the program in helping businesses and families recover from disasters, it is useful for indicating whether loan recipients believe the service to be successful. Thus, it can provide information on how delivery of program services can be improved. | While OIG has not assessed the data, an audit found that SBA plans to survey only borrowers who have received loans. | <i>Performance Measurement for the Disaster Assistance Program</i> , Audit Report #1-06, February 15, 2001. | SBA is surveying borrowers who have received loans. |