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Resources, Community, and
Economic Development Division

B-280025

May 28, 1998

The Honorable James Talent
Chairman
The Honorable Nydia Velazquez
Ranking Minority Member
Committee on Small Business
House of Representatives

Subject: Results Act: Observations on the Small Business Administration's
Fiscal Year 1999 Annual Performance Plan

This report summarizes our observations on the Small Business Administration's (SBA) performance plan for fiscal year 1999, which was submitted to the Congress in February 1998. As you know, the Government Performance and Results Act of 1993 (the Results Act) requires federal agencies, beginning with fiscal year 1999, to prepare annual performance plans covering the program activities set forth in their budgets. To analyze SBA's plan, we collapsed the requirements for annual performance plans in the Results Act and the related guidance into three core questions: (1) To what extent does the agency's performance plan provide a clear picture of intended performance across the agency? (2) How well does the performance plan discuss the strategies and resources the agency will use to achieve its performance plan? (3) To what extent does the agency's performance plan provide confidence that its performance information will be credible?¹

In summary, we found that SBA's fiscal year 1999 performance plan provides an incomplete picture of intended performance across the agency, does not fully portray how SBA's strategies and resources will help it achieve the plan's performance goals, and partially provides confidence that the information SBA

¹These questions are based on criteria in the Results Act, the Office of Management and Budget's (OMB) guidance to federal agencies on developing their plans, and a December 1997 letter to OMB from eight congressional leaders on their expectations for these plans.

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will use to assess performance will be accurate, complete, and credible. Among its strengths, SBA's performance plan

- reflects the mission statement and strategic goals in its strategic plan;
- has performance goals that are objective, reasonably free of bias, and measurable;
- has performance measures that generally are objective, quantified, and useful for assessing progress toward the plan's performance goals;
- recognizes that SBA's success in achieving its performance goals depends on coordinating with federal agencies and others whose mission and activities complement those of SBA; and
- recognizes that external factors could affect SBA's ability to achieve its performance goals and mentions actions that SBA can take to mitigate the effects of some of these factors.

To make the plan more useful for purposes of the Results Act, the plan should link its performance goals and measures with the program activities in SBA's budget; discuss SBA's efforts and plans to coordinate with other agencies whose programs and activities complement SBA's; more completely describe the strategies for achieving its performance goals; and explicitly discuss how information technology will help SBA achieve specific performance goals. Also, to be more useful, the plan should more thoroughly discuss actions that SBA can take to mitigate the effects of external factors on its performance; specifically identify the human and technological resources that SBA will need to achieve the intended performance; better describe SBA's procedures for verifying and validating performance data; and discuss the limitations that affect the credibility of data that will be used to measure performance. While not required, SBA could also improve the performance plan by describing how the agency will attribute the achievement of, or changes in, the plan's performance goals specifically to SBA's programs and activities.

Some of the concerns we have regarding the quality of SBA's performance plan are similar to our observations on SBA's strategic plan issued on September 30, 1997. For example, SBA's strategic plan also lacked evidence that SBA had coordinated the plan with those agencies whose programs and activities complement SBA's and did not discuss the human, capital, or informational resources needed to achieve the goal and objectives in the plan.

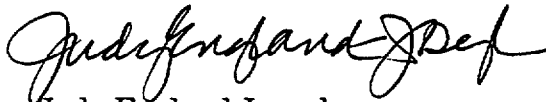
Enclosure I presents our detailed observations on how well SBA's annual performance plan addresses the three questions.

AGENCY COMMENTS

SBA provided us with comments on the information presented in this report. (See enc. II.) SBA said that it generally agreed with our findings and that our comments would be used when the performance plan is revised later this year.

We conducted our work from February through April 1998 in accordance with generally accepted government auditing standards. We are sending copies of this report to appropriate congressional committees; the Administrator, SBA; and the Director, Office of Management and Budget. A list of related GAO products follows enclosure II.

Please call me on (202) 512-7631 if you or your staff have any questions. Major contributors to this report were Dave Wood, Stan Ritchick, and LaSonya Roberts.



Judy England-Joseph
Director, Housing and Community
Development Issues

Enclosures - 2

OBSERVATIONS ON THE SMALL BUSINESS ADMINISTRATION'S
ANNUAL PERFORMANCE PLAN

The following presents our detailed observations regarding how well the Small Business Administration's (SBA) annual performance plan for fiscal year 1999 addressed three core questions: (1) To what extent does the agency's performance plan provide a clear picture of intended performance across the agency? (2) How well does the performance plan discuss the strategies and resources the agency will use to achieve its performance plan? (3) To what extent does the agency's performance plan provide confidence that its performance information will be credible?

SBA'S PERFORMANCE PLAN PROVIDES A PARTIAL
PICTURE OF INTENDED PERFORMANCE ACROSS THE AGENCY

The 12 performance goals in SBA's plan are objective and measurable. Similarly, the performance measures in the plan are generally objective, quantified, and useful for assessing progress. At the same time, the large number—over 100—of performance measures and, for some, a lack of quantified baseline levels of performance and/or targeted levels of performance for fiscal year 1999 could affect SBA's ability to assess its performance. While the plan reflects the mission statement and strategic goals in SBA's strategic plan and provides a clear link between strategic goals and the annual performance goals and measures, it does not link the plan's performance goals and measures with program activities in the agency's budget. Finally, while the plan recognizes that other agencies and stakeholders have missions and activities that complement SBA's and acknowledges that SBA must work closely with these entities to achieve its goals, it does not discuss SBA's efforts to coordinate its activities with them.

Defining Expected Performance

The 12 performance goals in SBA's performance plan are objective and reasonably free from bias. With the exception of two performance goals—increasing small businesses' share of federal procurement dollars to 22 percent and helping small businesses to hire 100,000 former welfare recipients—the 12 performance goals are not expressed in quantitative terms. However, the performance goals are measurable in that they include quantitative performance measures.

While certain aspects of the plan's performance goals—improving the success rate of 8(a) firms and reducing defaults—could be viewed as outcomes, the performance goals generally focus on outputs. In cases where performance goals are outcome-oriented, the plan does not make clear the expected level of performance. For example, one of the performance goals in the plan is to increase the "success" rate of 8(a) firms, with

measured performance expected to rise from 46 percent of firms in fiscal year 1998 to 51 percent in fiscal year 1999. However, because the plan does not define what constitutes success, it is not clear exactly what will be measured. The plan acknowledges that most of the performance measures are output measures and states that, during fiscal years 1998 and 1999, SBA will devote attention to designing more outcome-oriented measures, developing ways to collect information more cost effectively, and developing the analytical tools to analyze and report on its progress.

The Office of Management and Budget's (OMB) Circular A-11 recommends that performance plans should strike a balance between too few and too many performance measures. A sufficient number of measures are needed to show in a substantive way how well the agency is doing in meeting its goals. SBA's performance plan contains over 100 performance measures, with approximately 60 measures for the agency's strategic goal to increase opportunities for small businesses to succeed. Although this array of measures may be useful to individual program managers in ensuring that SBA's performance goals are met, they may be excessive for this performance plan and obscure, rather than clarify, performance issues. For example, the 60 measures include 2 that will measure the number of 7(a) loans and the number of Certified Development Company loans made to small businesses, as well as 6 others that will measure the number of 7(a) and Development Company loans made to each of the following types of individuals: African-Americans, Hispanic-Americans, Asian-Americans and Pacific Islanders, Native Americans and Alaskan Natives, Women, and Veterans.

In addition, 14 performance measures do not have any target levels of performance for fiscal year 1999; examples of such measures include the number of jobs created by 7(a) loans and the number of firms certified as small disadvantaged businesses. Some of these measures also lack baseline levels of performance against which to compare SBA's actual performance in fiscal year 1999. Also, nearly all of the 14 performance measures in the plan associated with SBA's strategic goal of serving as a voice for America's small businesses appear to be more in the nature of strategies to achieve the performance goals, rather than indicators or measures of progress toward those goals. For example, the plan lists the following as performance measures for this strategic goal: "track Internet use of small firms in Reg Flex," "document public policy successes," and "document number and type of changes made to regulatory proposals in response to Advocacy comments." Furthermore, the plan does not have any performance measures or target levels of performance for ensuring customer satisfaction and acting promptly on Office of Inspector General recommendations—two aspects of SBA's annual performance goal for transforming the agency into a 21st century, leading-edge financial institution.

Connecting Mission, Goals, and Activities

The 12 performance goals in the performance plan are clearly linked to SBA's 5 strategic goals and 6 strategic objectives. OMB Circular A-11 provides that the annual performance plan should also show how specific performance goals are related to the specific program activities contained in the agency's program and financing (P&F) schedules in the President's budget. In SBA's case, the budget contains 8 P&F schedules, or budget accounts, that cover 39 program activities. SBA's performance plan contains a budget crosswalk, or a table, that allocates the agency's \$740.9 million fiscal year 1999 budget request among its five strategic goals by program/office categories, but the categories in SBA's crosswalk do not match or identify SBA's budget accounts and activities either by name or account number. As a result, SBA's plan does not provide sufficient information to determine which performance goals and measures in the plan cover which program activities or whether all program activities in SBA's budget are covered by performance goals.

Recognizing Crosscutting Efforts

The performance plan discusses in detail how SBA's programs and activities complement those of other agencies and acknowledges that SBA must coordinate with them to ensure the success of its goals. One such example is SBA's strategic goal to help businesses and families recover from natural disasters, which is a mission shared with the Federal Emergency Management Agency (FEMA) and other federal, state, and local agencies involved with disaster relief. The plan acknowledges that SBA's success in achieving this strategic goal requires that SBA work closely with these agencies. However, other than noting that SBA and FEMA will continue efforts to develop a joint home-loss inspection report, the plan does not discuss how SBA has coordinated or will coordinate its disaster-relief activities with FEMA and the other agencies. Similarly, the plan provides little information on SBA's coordination efforts with other federal agencies whose programs and activities crosscut those of SBA in areas such as providing credit, capital, export financing, and federal procurement opportunities to small businesses. Our review of SBA's September 1997 strategic plan noted that the plan contained no evidence that SBA had coordinated the plan's development with those agencies whose programs and activities complement SBA's.

SBA'S PERFORMANCE PLAN PARTIALLY DISCUSSES
HOW THE AGENCY'S STRATEGIES AND
RESOURCES WILL HELP ACHIEVE ITS GOALS

SBA's performance plan includes a discussion of strategies for most of the performance goals. However, for certain performance goals and measures in the performance plan, strategies are missing; in other cases, the plan does not clearly

convey how the activities will achieve the plan's goals. While the plan allocates SBA's fiscal year 1999 budget request among the agency's five strategic goals, the plan does not explicitly discuss how information technology resources will help SBA achieve specific performance goals and measures or identify the human or specific technology resources that SBA will need in fiscal year 1999 to achieve the plan's goals.

Connecting Strategies to Results

While the performance plan generally discusses the strategies or the actions that SBA plans to take to accomplish the plan's performance goals, the linkage could be stronger. Some performance goals and measures in the plan are not clearly linked to strategies, while certain strategies appear incomplete. For example, under SBA's strategic goal of transforming SBA into a 21st century, leading-edge financial institution, the performance goal encompasses acting promptly on Inspector General recommendations, but the plan contains no strategies to accomplish this aspect of the goal (or, as noted above, any performance measures). In addition, one of the performance measures under SBA's strategic goal of increasing opportunities for small businesses to succeed is to increase the number of "hits" on the women's web site by 1 million during fiscal year 1999. The plan mentions that SBA plans to increase the number of women's centers, but there is no discussion of what SBA intends to do to achieve the additional 1 million hits.

In addition, some of the strategies in the performance plan do not clearly convey how the performance goals will be achieved. For example, the strategies to accomplish the plan's goals of (1) increasing counseling and training to small businesses and (2) increasing the number of jobs created as a result of such counseling and assistance include expanding the numbers of Business Information Centers and Women's Business Centers and increasing the counseling provided by Small Business Development Centers and by the Service Corps of Retired Executives. While the plan clearly assigns responsibility among the centers, it does not convey the strategies that the centers will pursue to achieve the target performance levels. Finally, some of the plan's strategies describe activities that will be performed without clearly conveying how they will help achieve the plan's goals. For example, much of the section that describes the strategies for achieving the performance goals and target levels of performance for SBA's strategic goal of serving as a voice for America's small businesses is basically a generic discussion of the roles and responsibilities of SBA's Office of Advocacy.

Although not required by the Results Act, SBA's performance plan recognizes that certain external factors, such as the economy and continued stakeholder and resource partner support, will affect the agency's ability to achieve its performance goals during fiscal year 1999. The plan contains a useful discussion of actions that SBA can take to

mitigate the effects of factors affecting its efforts to become a 21st century, leading-edge financial institution. Because SBA is so dependent on external factors to achieve its goals, a similar discussion of external factors and mitigation strategies for its other four strategic goals would be useful.

Connecting Resources to Strategies

OMB's Circular A-11 provides that annual performance plans should briefly describe the operational processes, skills, and technologies and the human, capital, information, or other resources required to achieve the performance goals and measures. While the budget crosswalk in SBA's plan shows how the agency's fiscal year 1999 funding request will be apportioned among SBA's five strategic goals, the plan does not specifically identify the human or technological resources that SBA will need to achieve its performance goals. For example, SBA requested an additional 143 staffing positions for fiscal year 1999, but the plan does not indicate which performance goals require these resources or indicate the total human resources needed to achieve the performance goals. The plan notes that a number of SBA's efforts to improve commercial and home loan servicing under its strategic goal of helping businesses and families recover from disasters were established subject to the availability of staff, but the plan does not discuss the type of skills required or the alternative ways (e.g., hiring or training) in which these skills could be acquired.

SBA's performance plan outlines the agency's management and information plans, including (1) its 5-year Information Technology plan to improve the collection and maintenance of data to support the Results Act and (2) its overhaul of SBA's major financial systems to provide for lender oversight and monitoring. While these efforts are designed to provide managers with better information, the plan does not link these system efforts to specific performance goals or measures in the plan or discuss exactly how these changes will provide SBA with more credible information to measure performance. For example, under the strategic goal of transforming SBA into a 21st century, leading-edge financial institution, the plan mentions a \$12 million fiscal year 1999 budget request to continue efforts to improve portfolio management. While the plan mentions using "21st century information technology," it does not describe this technology or explicitly discuss how the investment in this information technology will help SBA ensure a strong internal control environment, identify and manage risk, reduce costs, ensure customer satisfaction, or act promptly on Inspector General recommendations.

Also, the budget crosswalk in the plan showing SBA's allocation of its fiscal year 1999 budget request may not accurately reflect the amount of funds that the agency will spend on each of its strategic goals during the fiscal year. The performance plan, for example, identifies activities that SBA's regional and district offices and Office of

Women's Business Ownership will perform to help achieve SBA's strategic goal of leading small business participation in welfare-to-work initiatives. Yet, SBA's allocation of funds in the budget crosswalk indicates that no fiscal year 1999 funds are allocated to these offices for such activities. Similarly, the plan describes activities that SBA's offices of Size Standards, Women Business Ownership, and Small Business Development Centers will perform to help achieve SBA's strategic goal of serving as the voice of America's small businesses, but the budget crosswalk indicates that no fiscal year 1999 funds are allocated to these offices for such activities.

SBA'S PERFORMANCE PLAN PARTIALLY PROVIDES
CONFIDENCE THAT THE AGENCY'S
PERFORMANCE INFORMATION WILL BE CREDIBLE

SBA's plan partially describes the procedures that will be used to verify and validate performance data and the limitations that exist with internal sources of data that SBA plans to use to assess performance. Also, its plan recognizes that SBA will rely on certain external sources of data to measure performance. Although the Results Act does not require that the limitations of external sources of data be discussed in performance plans, SBA's plan would be improved by such a discussion.

Verifying and Validating Performance

SBA's performance plan includes a brief identification of SBA's means to verify and validate data for each performance measure. However, these are often one- and two-word descriptions, such as "loan data base," "quarterly reports," "SBA reports," "loan system," and "Division DP reports" that appear to be sources of data for the measures rather than means to verify and validate the data. When the plan uses terms that connote a verification or validation technique, such as "survey," "sampling," "audit," "SBA review," "audit reports and survey," and "data audit," the plan does not provide details on how SBA will specifically verify and validate the data. For example, SBA's plan could have noted loan purchase rates and charge-off rates—two of the measures for assessing SBA's performance of becoming a 21st century, leading-edge financial institution—are currently verified through audits of SBA's financial statements. We noted several other measures in SBA's plan that are or could easily be verified through financial statement audits.

SBA's plan contains a section that discusses the validity and reliability of its information systems. However, this section appears to have broad, agencywide applicability and is not linked to specific goals and measures in the plan. While the performance plan discusses actions SBA plans to help small businesses deal with the year 2000 problem, the plan does not discuss or provide information on the agency's efforts to resolve the problem. Finally, the plan does not discuss or provide assurance

that SBA information systems are secure from risks, such as tampering, that could affect the reliability and availability of performance data.

The plan also contains a section that discusses SBA's program evaluation plans for fiscal year 1999. In certain instances, the evaluations planned by SBA appear to be relevant to specific performance goals and measures in the plan in that they could help validate data SBA uses to assess performance, but the plan does not make this connection explicit. For example, SBA's Office of Disaster Assistance plans to conduct a quality review of the loan-processing operations in each disaster area. This review could help assess the validity of the data used for SBA's performance measure of increasing the percent of disaster loans processed within 7 to 21 days. Similarly, SBA plans to continue its top-down reviews of the 7(a) and 504 lending programs and, in fiscal year 1999, to focus on the number of small business start-ups and job creations from these SBA programs. The number of small business start-ups and jobs created are specific performance goals and measures for assessing the agency's progress in achieving its strategic goal of increasing opportunities for small businesses to succeed.

Recognizing Data Limitations

SBA plans to rely extensively on internal sources of data, such as its loan data base and program reports, to measure its performance. The plan does not discuss any limitations that exist with these data sources to provide SBA with the data to measure its performance. SBA in its September 30, 1997, strategic plan, noted that it did not collect or report on many of the measures that it will require to assess performance, and we observed that the strategic plan would benefit from brief descriptions of how SBA plans to collect the data to measure progress towards its goals and objectives.

In addition, we continue to question whether the sources of data in the performance plan will provide SBA with the data needed to attribute success in achieving the plan's performance goals specifically to the agency's programs and activities. Our July 1997 report on SBA's draft strategic plan noted that it cited measures such as the increased number of businesses created, maintained, or expanded; the increased number of jobs; and the increased sales of client small businesses.² We noted that for these measures to be effective in determining the agency's performance, SBA would not only need such information as the number of businesses, jobs, etc., but also would need information to attribute the change in these numbers to its programs and activities. SBA's performance plan contains the same type of performance measures. Although

²Results Act: Observations on the Small Business Administration's Draft Strategic Plan (GAO/RCED-97-205R, July 11, 1997).

the Results Act does not require that performance plans establish causal attribution when reporting on program outcomes, SBA's plan could be strengthened by a discussion of how SBA will attribute the achievement of, or changes in, its performance goals specifically to SBA's programs and activities.

Finally, SBA's plan recognizes the agency's need for data from external sources to assess its performance. For example, SBA plans to use surveys by the National Venture Capital Association and the Investment Advisory Council for data on the number of jobs created by its Small Business Investment Company Program; the Federal Procurement Data System for the percentage of federal procurement dollars to small businesses, women-owned businesses, and small disadvantaged businesses; and the Census Bureau's data for information on trends in minority- and women-owned businesses. SBA's plan could benefit from a discussion of the accuracy and reliability of data from external sources, even though not required by the Results Act.

COMMENTS FROM THE SMALL BUSINESS ADMINISTRATION

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

OFFICE OF THE ADMINISTRATOR

APR 29 1998

Ms. Judy A. England-Joseph
Director
Housing and Community
Development Issues
U.S. General Accounting Office
Washington, DC 20548

Dear Ms. England-Joseph:

Thank you for giving us an opportunity to comment on the draft report on the Small Business Administration's (SBA) Annual Performance Plan for FY 1999. We agree generally with the General Accounting Office's (GAO) findings. We appreciate your efforts in reviewing our plans, and will use your comments in revising the plan as required pursuant to receipt of our FY 1999 Appropriations sometime later this year.

Every agency in the Executive Branch as well as the Committees of Congress are learning about managing for results. This is a significant culture change for all of us. We are committed to implementing the Government Performance and Results Act (GPRA) to restore public trust in Government and to benefit the American taxpayer by offering more cost effective programs and services. To the extent practicable, we are moving more toward outcomes, linking our plans and performance indicators to our budget, and clarifying our strategies. We also are committed to what the Vice President calls "working across boundaries—blurring (government hierarchies) into virtual organizations where the customer doesn't have to care which agency is actually delivering the service." To a very great extent, SBA's success continues to depend heavily on external factors, viable networks, and resource partners. We are convinced the new millennium will offer tremendous opportunities and challenges for small businesses. Through the framework of the GPRA, we believe SBA can mold itself into a leading edge 21st century institution, capable of giving the small business owner what he/she deserves and the President and Congress expect.

Please do not hesitate to contact me or my staff, should you need additional information or wish to discuss the report further.

Sincerely,


Aida Alvarez
Administrator

RELATED GAO PRODUCTS

Results Act: Observations on the Small Business Administration's Draft Strategic Plan (GAO/RCED-97-205R, July 11, 1997).

Results Act: Observations on SBA's September 30, 1997, Strategic Plan (GAO/T-RCED-98-31, Oct. 29, 1997).

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