



Annual Report 1998

**Office of the
Chief Financial Officer**

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**A MESSAGE FROM
THE ADMINISTRATOR OF THE
U.S. SMALL BUSINESS ADMINISTRATION**

AIDA ALVAREZ

The SBA is pleased to present its *Chief Financial Officer's FY 1998 Annual Report* that includes its audited financial statements with related program and financial information. This is the third straight year that the Agency's financial statements have received an unqualified opinion from its independent auditors and we are very proud of this accomplishment. This reflects the priority that the U.S. Small Business Administration (SBA) has placed on improved financial management since the enactment of the CFO Act of 1990.



As the 20th Administrator of the SBA my primary goal is to help small businesses succeed. This includes providing access to capital and credit, Federal procurement opportunities, assistance to develop entrepreneurial skills, loans to help the victims of natural disasters, welfare-to-work initiative support, and advocacy for the interests of small business. These efforts are especially important to small businesses in America's New Markets. Also, as SBA prepares for the 21st century, I am committed to making SBA a 21st century leading-edge institution. As such, the modernization of SBA's processes, systems and workforce is also one of my top priorities. This report provides further information on these SBA activities during the past fiscal year.

The SBA has also embarked on the full integration of the Government Performance and Results Act (GPRA) through increased strategic management for all decisions and activities affecting resources and programs. As such, performance measures have been developed for all key programs and activities and are used to monitor Agency accomplishments in preparation for the first reporting under GPRA in March of 2000. In addition, we are committed to implement the COSO (Committee of Sponsoring Organizations of the Treadway Commission) system of internal controls over the next 3 years. These controls will place SBA at the forefront of the Federal Government in terms of strengthening its internal control environment using standards that exceed current Federal guidelines, but are consistent with those required of all major financial institutions nationwide.

Over the past few years, the SBA has aggressively centralized activities and increased its privatization of functions to maximize the service levels provided to America's small businesses and to further leverage reduced Federal resource levels. For its financial assistance programs, SBA has delegated more responsibility for loan underwriting, servicing and liquidation activities to its private sector lending partners. This same transition from direct SBA assistance to increased reliance on our resource partners has also been implemented in all of SBA's management and technical assistance programs. These changes have increased SBA's need to develop comprehensive oversight and management control systems to ensure that the Agency's mission is accomplished in the most effective and efficient manner. Additionally, where SBA still retains loan underwriting and servicing responsibilities, we have centralized these activities to increase consistency of program delivery, increase productivity through the use of automation and to increase overall efficiency and effectiveness in serving our small business

customers. Finally, SBA has outsourced the servicing activity for 30 percent of its disaster home loans to a private-sector servicing contractor and has initiated an asset sales program in FY 1999 to begin the sale of its \$10 billion direct loan portfolio.

As an Agency committed to reaching out to new markets and modernization, SBA will put its customers first, train and empower its employees, and create community-based partnerships to expand its outreach and increase its efficiency. Our goal is to continue the SBA's proud tradition of providing needed assistance to small businesses in order to promote economic growth and to provide opportunities for small business success in an era of reduced Federal resources.

Sincerely,



Aida Alvarez
Administrator

EXECUTIVE SUMMARY

The Small Business Administration (SBA) was established in 1953 as an independent Agency of the Federal Government to administer a range of Federal programs and policies focused on the Nation's small business community.

The mission of the U.S. Small Business Administration is to maintain and strengthen the Nation's economy by aiding, counseling, assisting and protecting the interests of small businesses effectively and efficiently. SBA also helps businesses and citizens recover from disasters.

In large part, the strength of today's economy is the result of the strength of our country's small businesses. Small businesses employ 54 percent of the private workforce in the United States and are responsible for 51 percent of the private domestic product; small business incorporations are increasing, while small business failures and bankruptcies are decreasing.

Agency Accomplishments

The SBA's FY 1998 accomplishments reflect the SBA's continued role in providing greater access to capital for the Nation's entrepreneurs who in turn are creating the jobs that are the heart of today's healthy economy.

As the table below shows, SBA lending has increased for all of America's small businesses since the beginning of the Clinton Administration.

	Number of Loans		% Increase
	FY 92	FY 98	
Total Lending	26,381	47,198	79%
Women	3,588	11,084	209%
African American	739	1,921	160%
Hispanic American	1,356	3,264	141%
Asian American	1,583	5,195	228%
Native American	129	461	257%
Veterans	3,720	5,912	59%

Agency Program Highlights

7(a) Loan Program. In FY 1998, the SBA guaranteed a total of 38,974, 7(a) loans providing \$8.6 billion in financing to our Nation's small businesses. FY 1998's total dollar volume was the second highest in the history of the program. The program has doubled its number of loans during the last 6 years.

504 Development Company Program. SBA's 504 program grew from \$894 million in debentures financed in FY 1992 to \$2.45 billion in FY 1996. After a decrease in FY 1997 to \$1.4 billion, the 504 program increased to \$1.77 billion in FY 1998. Overall, the program has grown more than 81 percent during the last 6 years.

Small Business Investment Company Program (SBIC). The SBIC program continues to attract record levels of private capital. In FY 1998, SBIC licensees made 3,456 financings to small businesses with a dollar amount of nearly \$3.2 billion. The SBA received more than \$16 million in profit participation from SBICs in FY 1998.

Government Contracting/Minority Enterprises Development. Major achievements included instituting a pilot program for electronic filing and processing of 8(a) applications, and implementing an automated management information system. The SBA also published regulations establishing the procedural framework for centralizing firms and processing protests challenging the disadvantaged status of firms claiming to be small disadvantaged businesses for purposes of receiving certain price and evaluation credits in Federal procurements. The Agency also promulgated final regulations for the newly created HUBZone Empowerment Contracting Program, and implemented an automated management information system.

Disaster Assistance Program. SBA's disaster assistance program provided \$728.1 million in loans to small businesses and individuals for rebuilding after disasters struck 41 states, Guam, the Federated Republic of Micronesia and the Northern Marianas.

International Trade. In 1998, the SBA initiated partnership agreements with its counterparts in Mexico and Argentina to foster improved cooperation and global business opportunities for U.S. small businesses in these markets. The SBA also worked with Egypt to assist its efforts to develop small businesses through the Gore-Mubarak Commission.

Small Business Innovation and Research (SBIR) and Small Business Technology Transfer (STTR) Programs. Small businesses participating in SBA's SBIR and STTR programs support Federal research and development efforts contributing to America's national defense programs and safety and health projects.

Women's Business Ownership. The Office of Women's Business Ownership (WBO) provides assistance to women business owners. The Women's Business Center Program serves the nation's nearly 8.5 million women-owned businesses through technical, financial and management information, training and counseling. In FY 1998, the WBO provided managerial, marketing and procurement assistance to nearly 12,000 women through its 28 funded sites.

Counseling and Training. An estimated 1 million small business entrepreneurs received management training and counseling from SBA's national network of business education and assistance programs. This network includes the Service Corps of Retired Executives (SCORE), approximately 1,000 Small Business Development Centers (SBDCs), and 52 Business Information Centers (BICs).

Internet Access. The SBA's home-page, SBA OnLine, received more than 2 million hits per week by fiscal year end, and continues to grow. This service benefits the Agency's customers by making useful information readily available.

One Stop Capital Shop. The One Stop Capital Shop (OSCS) is the SBA's Empowerment Zone (EZ)/Enterprise Community (EC) signature contribution. It is an alternative delivery mechanism for the Agency's products to areas that have been underserved by SBA. OSCSs are cost effective, customer friendly and represent a working model of the public/private partnership.

Veterans' Affairs. The SBA is establishing an outreach program to provide enhanced business development assistance to eligible veterans in accordance with SBA's Reauthorization Act of 1997. In fiscal year 1998, we initiated a study of assistance to veterans. The SBA soon will award outreach grants to assist eligible veterans with entrepreneurial training, and will finish a comprehensive guide to assist in the start-up and expansion of businesses by eligible veterans.

Welfare to Work. The SBA is playing a leadership role in the President's welfare to work initiative. SBA resource partners provide entrepreneurial training to former welfare recipients with the skill and drive to start their own business. SBA's extensive network of field offices and resource partners connect small business owners with local service providers to provide training for welfare recipients.

AGENCY OVERVIEW

MISSION AND ORGANIZATION

Mission Statement

The mission of the Small Business Administration (SBA) is to maintain and strengthen the Nation's economy by aiding, counseling, assisting, and protecting the interests of small businesses and by helping businesses and families recover from disasters.

Strategic Goals

To accomplish its mission, the SBA has adopted the following strategic goals to guide its management and program decisions over the next five years:

1. Increase opportunities for small business success.
2. Transform SBA into a 21st century leading edge institution.
3. Help businesses and families recover from disasters.
4. Lead small business participation in welfare-to-work.
5. Serve as a voice for America's small businesses.

Organization

The SBA is a decentralized organization with more than 100 locations nationwide, including field office locations in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam. There is a full service district office in every state. A number of smaller branch offices and central office duty stations (CODs) supplement the larger geographic areas. The SBA has 10 regional offices, 70 district offices and 15 branch offices. The Agency also has a number of centers that approve disaster or business loans, and provide servicing to its disaster or business loan portfolios. In FY 1998, the Agency employed 4,379 full time equivalent (FTE) personnel (including 1,288 disaster FTEs) and had an annual operating budget of \$370 million, excluding the non-credit program initiatives.

AGENCY FUNDS

The SBA's programs and operations are financed through five appropriation accounts: Salaries and Expenses; Office of Inspector General; Business Loans Program Account; Disaster Loans Program Account and Surety Bond Guarantees Revolving Fund. For budget reporting purposes, SBA funds are maintained in the following accounts:

- Business Loans Program Account
- Business Direct Loan Financing Account
- Business Guaranteed Loan Financing Account
- Business Loan Fund Liquidating Account
- Disaster Loans Program Account
- Disaster Direct Loan Financing Account
- Disaster Loan Fund Liquidating Account
- Surety Bond Guarantees Revolving Fund
- Pollution Control Equipment Fund Liquidating Account
- Business Assistance Trust Fund
- Salaries and Expenses Account
- Office of Inspector General Salaries and Expenses Account

The two Salaries and Expense Accounts generally receive annual appropriations. The other SBA accounts generally utilize annual appropriations, multi-year and no-year appropriations, and indefinite appropriations. Since FY 1992, the credit program activities of the SBA have been subject to the Federal Credit Reform Act (FCRA). New program and financing accounts were established in FY 1992 under FCRA to finance all credit activities occurring after September 30, 1991. The program accounts receive appropriations to the extent of anticipated credit program levels. The financing accounts include payments from credit program accounts and other cash flows resulting from direct loan obligations or loan guarantee commitments.

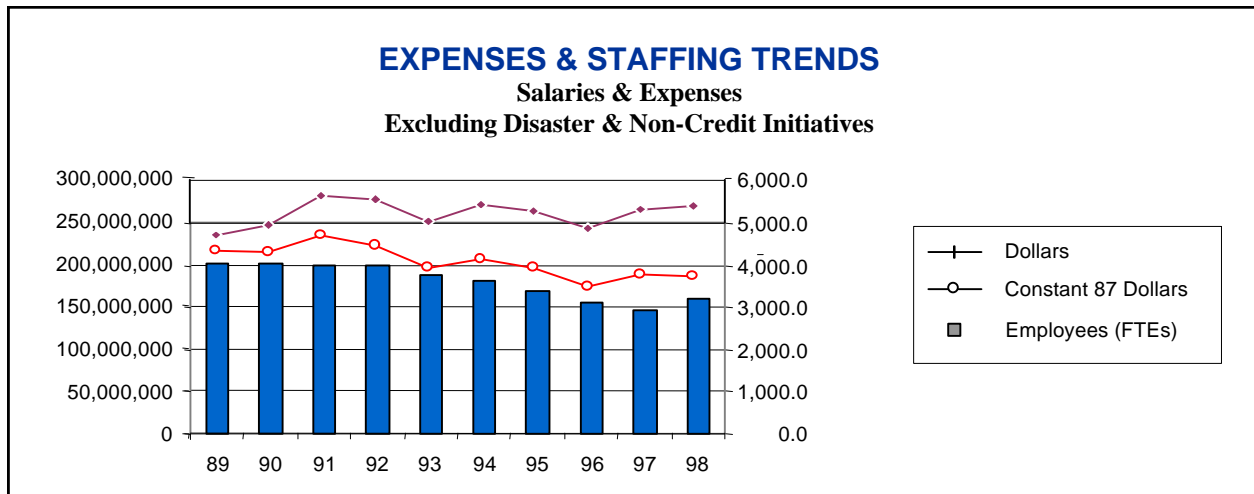
The Business Assistance Trust Fund is a "gift authority" account and does not receive any appropriated funds.

AGENCY FINANCIAL POSITION

The financial position of the Agency at FY 1998 year-end is summarized as follows.

- Total assets \$15.9 billion
- Total liabilities \$15.88 billion
- Total loan portfolio \$46.9 billion
- Total reserves for losses \$3.5 billion

The following chart illustrates SBA's operational costs over the past 10 years in both constant (using 1987 as a benchmark) and nominal dollars (actual expenditure).



STRATEGIC PLANNING The Agency has implemented a strategic planning process linked to the performance management process for all employees and managers. This process translates the Administrator's goals and objectives into workable plans. These goals are listed on page 1.

The strategic goals are achieved through an annual performance plan. The annual goals are evaluated against performance indicators. The performance indicators are linked to annual performance measures for program managers administering SBA programs.

SBA's 5 year strategic plan included:

- Increase the aggregate number of general business loans; Certified Development Company (CDC), equity capital, export working capital and surety bond guarantees.
- Increase the number and percentage of underserved small businesses and entrepreneurs receiving direct SBA assistance or help through our business partners.
- Increase the number, dollar volume, and percentage of Federal contracts awarded to small businesses, women owned businesses, and small and disadvantaged businesses.
- Increase the number and percentage of start-up businesses receiving SBA assistance.
- Expand the number of resource partners and tailor their programs to the needs of special populations, as well as new entrepreneurs and those expanding their businesses.

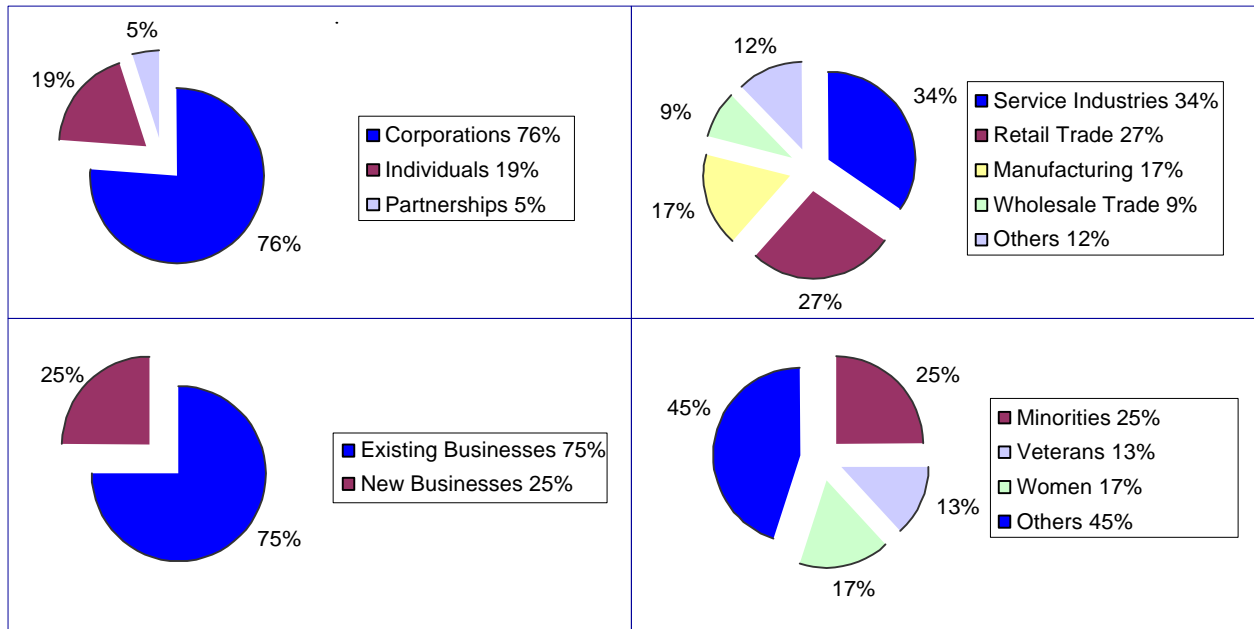
- Improve coordination among SBA resource partners and other community resources, and among SBA resources with other Federal programs.
- Develop a comprehensive Agency-wide internal control plan that is guided by COSO standards and assign responsibility for managing and implementing the plan.
- Educate the entire organization about internal controls and ensure that all managers are accountable for implementing and managing the internal control system.
- Establish protocol for lender oversight, establish loan program credit standards, service standards, and mission standards to measure lender performance.
- Maintain accurate current data on small businesses from the Bureau of the Census and other sources.
- Analyze and disseminate research to policy makers and small business stakeholders on small business characteristics that are relevant to the formulation of public policy.
- Ensure improved, across-the-board, Federal agency compliance with the Regulatory Flexibility Act; meaningful small business participation in the regulatory and the legislative process, and improve coordination between Federal and state regulatory agencies to reduce the burden on small businesses.

Performance Indicators

An essential element of the Government Performance and Results Act (GPRA) strategic plan is performance measures, which focus on outcomes. The SBA has used a number of specific program performance indicators since 1992 to measure its performance. The description and analysis (D&A) section of this report presents the collected data using **asterisks on charts and shading on tables** to indicate GPRA performance measures.

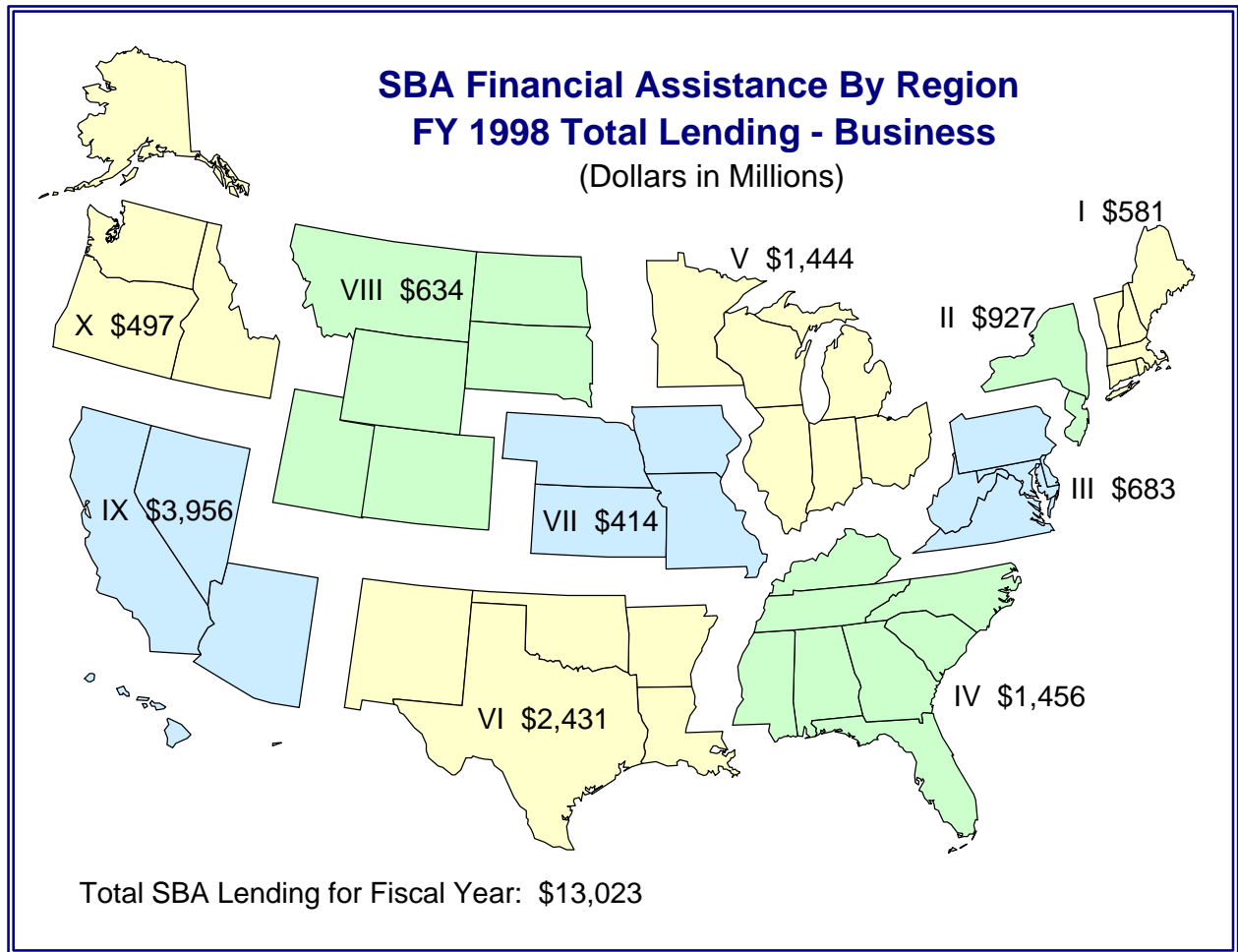
As part of its performance objectives, the SBA places special emphasis on directing its assistance efforts to those small business groups who are most under-represented in the marketplace; particularly veterans, women and minorities.

The following chart indicates the percentage of approved loans for different types of businesses.



Note: Percentages based on dollar value of loans approved in FY 1998.

The geographic distribution of SBA's loan guarantee programs is depicted on the following chart.



**AGENCY FEES
AND CHARGES**

In accordance with the CFO Act, 31 U.S.C. §902(a)(8), the SBA biennially assesses its level of user fees and other charges. As an integral part of the President's budget process, the SBA assesses and calculates the current and future revenues and the current and future costs of programs and activities. The SBA evaluates the level of current revenues in terms of their sources and amounts, increasing or decreasing these revenues through adjustments to the level of user fees charged, interest rates charged, or other means.

As part of the President's budgets, the SBA proposed the following adjustments to current revenue sources:

1. As part of the development of the Small Disadvantaged Business (SDB) program proposed in FY 1998, firms seeking SDB certification would pay a fee to have their ownership and control attested by private-sector firms under contract with the SBA. The fees would be set to cover the costs of these contracts.
2. For FY 1999, SBA proposed that the loan interest rate for disaster victims would increase to the cost of funds to the Treasury. This proposal was not adopted by the Congress.
3. For FY 2000, SBA proposes that the up-front guarantee fee and the on-going guarantee fee for Section 7(a) loans approved up to \$150,000 be standardized. The up-front fee will be set at 2 percent and the on-going fee will be set at 30 basis points of the outstanding loan balance and a fee charged for PLP reviews.
4. For the FY 1999 and FY 2000 President's budgets, the fees for the 504 Certified Development Company debenture program are set to equal a 0 percent subsidy rate. Therefore, for FY 1999, the fee to the loan borrowers was reduced from 0.775 percent to 0.729 percent. For FY 2000, this fee will be further reduced to 0.60 percent. A fee is proposed for SBIC reviews for late FY 1999 and FY 2000.
5. During FY 1998, the surety bond guarantee program assessed the viability of the capitalization of the revolving fund and the current market fees charged for surety bonding. It was determined that SBA's fee structure was excessive compared to market rates and that the fund could sustain a reduced fee structure. As such, both the contractor and surety fee were reduced in FY 1998.
6. As part of the development of the proposed FY 2000 America's Private Investment Corporation (APIC) program to be administered by HUD (with input from the SBA), an appropriate fee structure was set taking into consideration potential tax credits and other program revenues to give incentive to investing in "new markets" areas.
7. In order to increase credit and capital into the Administrator's "new markets" areas, fees and costs in most of SBA's credit and capital programs were reviewed to determine any necessary changes needed to give incentive to participants. In some cases, regulatory changes were proposed in lieu of fee changes.

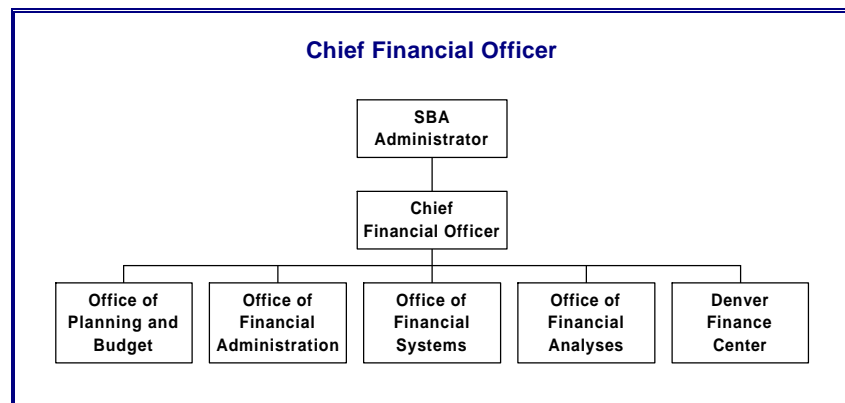
OFFICE OF THE CHIEF FINANCIAL OFFICER

Vision Statement

The Small Business Administration's Office of the Chief Financial Officer (OCFO) will be a recognized leader in the Federal financial management community. We will effectively support the Administrator in the accomplishment of the SBA mission. Our systems will be modern, user friendly and efficient. Our operations will be disciplined, accountable and responsive. The information we provide will be timely, understandable, accurate and complete. The staff will be recognized as the best in their fields.

Organization Chart

The Chief Financial Officer (CFO) reports directly to the SBA Administrator. The office includes the essential financial management functions shown in the following chart.



Accomplishments

Recent financial management improvements made by the Office of the Chief Financial Officer follow.

- **Subsidy Rates** – Improvements in SBA's analytical capabilities and processes resulted in more accurate, stable, timely, and credible subsidy rates. SBA contracted with outside experts for pre-execution validation of the FY 2000 estimates. The SBA prepared for asset sales by developing a model to produce predicted Government hold values.
- **Productivity and Production** – The Denver Finance Center's (DFC) productivity improved by 8.2 percent from FY 1997. The DFC processed over 9.3 million transactions (collections, disbursements, account servicing, reconciliations, etc.) during FY 1998, an increase of 6.2 percent over the prior year.

- **CFO Report** – The SBA received an **unqualified opinion** on its FY 1998 financial statements from the independent auditors. The SBA is one of only seven Federal agencies; and the only credit agency, to receive an unqualified opinion for the past 3 years.
- **SBA Internal Controls** – One of the Administrator’s initiatives is to transform SBA into a leading edge agency for the 21st century. This involves focusing on stronger internal controls by implementing a system developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Coordination between the CFO and the IG has facilitated COSO awareness throughout the SBA.
- **Contracting Out of Servicing** - A Congressionally mandated special initiative was accomplished after nearly 2 years of planning and effort. SBA awarded a contract for servicing 30 percent of the disaster home loan portfolio to Computer Data Systems Incorporated (CDSI) in June 1998. During FY 1998 the OCFO assisted in the development of accounting requirements and the manual processing of transactions while automated procedures were being implemented to make this project possible.
- **Outsourcing of Collections** - One of the major initiatives accomplished in FY 1998 was the outsourcing of receipt processing to several lockbox financial partners. This effort has had a fundamental impact on how DFC has historically collected and processed loan payment receipts. It has reduced the incoming mail flow from approximately 40,000 items on a daily basis to fewer than 1,000. It has also allowed the reorganization of operating facilities and moved the SBA closer to being a 21st century leading edge institution, by further developing electronic processing capabilities. DFC completed programming and system modification for moving collection processing to the private-sector lockboxes and adapted emergency lockbox methodology for collection processing by CDSI. The use of lockbox partners in the private sector, paid by Treasury, represents a significant savings to the SBA.

- **Guarantee Fee Receivables** – This project was initiated to analyze and correct weaknesses in the Agency’s collection of about \$45 million of delinquent guarantee fees. FY 1998 saw the conclusion of the year-long Agency pilot study of delinquent fees, the transition of the project into full production by one of the service centers, and the development of a new fee billing system.
- **Asset Sales** – During FY 1998 the OCFO began the development of functional accounting requirements to support the planned sale of more than \$10 billion in Government loan assets.
- **Reporting Transition** – During FY 1998, the Agency began transferring its financial reporting function from Washington DC to the DFC. This transition will continue into FY 1999 as the DFC, with support from Headquarters staff, assumes FY 1999 reporting and develops FY 1999 year-end financial statements.
- **Systems Development** –The OCFO made improvements to our electronic processing during FY 1998. A lender database was developed and the DFC worked in partnership with The Money Store to develop an electronic means of paying and receiving participant payments and information. This work was part of SBA’s compliance with the Debt Collection Improvement Act.
- **Core Accounting System** – The OCFO worked on the acquisition and implementation of a modern core accounting and general ledger system. SBA hired a contractor to assist in formalizing software evaluation methodology. The OCFO evaluated several commercially available accounting systems and contacted current users to evaluate consumer satisfaction with the systems. Also, the OCFO drafted system vision documents, completed Casewise diagrams, shared the system vision with SBA program officials and prepared system development plans referencing the vision for submission to the system modernization committee.

- **Annual Audit Follow-up** - Several items were identified in the Management Letter accompanying our FY 1997 annual audit which needed special attention in FY 1998. The OCFO worked with the Office of Small Business Development Centers (SBDC) to begin a reconciliation of financial records with those of the grantees and to develop a new electronic method of managing grants (to be tested during FY 1999.) Next, the OCFO undertook a reconciliation of General Ledger (GL) accounts within the administrative accounting system, FFS. The staff worked with the SBIC office to validate a prior-year review of account balances and to refine processing requirements to assure these accounts remain reconciled. Finally, continued emphasis throughout the year reduced the reconciliation of cash items with Treasury to historical low levels and by improving internal controls and research, the OCFO resolved an independent IG review item involving duplicate disbursements.

IMPACT OF FEDERAL CREDIT REFORM

The passage of the Federal Credit Reform Act (FCRA) has significantly affected budgeting and accounting for the Agency’s credit programs since FY 1992. The FCRA provides an estimate of the costs of the Agency’s financial assistance programs.

Under the FCRA, SBA is required to calculate a subsidy rate for each loan program. This rate estimates the net present value of all cash outflows and inflows. The rate calculation takes into consideration such factors as the expected repayments on the loans and the interest rate differential between the rate charged the borrower on SBA held loans and the rate at which funds are borrowed by the Treasury. The final product is a rate that reflects the percentage of each dollar approved which is subsidized by the Federal Government. This subsidy rate is the cost of assistance efforts to the taxpayer, excluding administrative costs. A summary table of SBA loan programs showing subsidy rates and other information follows:

LOAN PROGRAM SUMMARY - FY 1998 BUDGET					
Dollars Rounded to Thousands					
	Appropriated Program Level	Subsidy Rate 1/	Subsidy Budget Appropriation	Subsidy Cost Per Loan Made 2/	Average Loan Amount 3/
Business Direct Loans:					
Microloans	\$28,676	10.31%	\$2,956	\$44	\$431
Business (Gty)					
7(a) Business	\$9,199,301	2.14%	\$196,662	\$5	\$214
7(a) Delta	\$153,418	3.35%	\$5,141	\$20	\$583
Microloans Gty.	\$9,991	8.16%	\$815	\$50	\$609
Development Company (Gty)					
504 Dev. Co.	\$3,000,000	0.00%	\$0	\$0	\$365
504 Delta	\$26,944	0.72%	\$194	\$3	\$404
Investment Company (Gty)					
SBIC Debentures	\$488,000	1.93%	\$9,418	\$131	\$6,788
SBIC Participating Securities	\$700,000	2.19%	\$15,355	\$202	\$9,211
Disaster Assistance (Dir.)	\$1,022,869	23.46%	\$239,965	\$6	\$26

Note: All appropriated program levels reflect “gross” value of loans to be made. SBA performance indicators are shaded.

1/ This figure is calculated by dividing the subsidy budget appropriation by the appropriated program level rounded to the fourth decimal place. Source: OMB Standard Form 132, Apportionment Schedule.

2/ This figure is calculated by multiplying the subsidy rate and the average loan amount.

3/ This figure is calculated by dividing the dollar value of loans made for each program by the total number of loans made in FY 1998.

**CREDIT
MANAGEMENT**

The SBA has been active in improving its credit management and debt collection practices to collect all delinquent debt in a cost-effective manner. The debt collection tools utilized by SBA include: the use of SBA attorneys appointed as Special Assistant United States Attorneys (SAUSA) to augment the Department of Justice collection efforts, the IRS tax refund offset, On-line Payment and Collection / Treasury Offset Programs (OPAC/TOPS), referrals to Treasury for private collection agency actions, and Federal salary offset. For FY 1998, these five tools were responsible for the collection of a total of \$15.84 million in delinquent Federal debt as summarized by the following chart.

Dollars Collected in FY 1998 By Debt Collection Tool*	
Department of Justice / SAUSA Collections	\$15,143,823
Internal Revenue Service	497,533
OPAC/TOPS Offset	161,704
Collection Agencies	26,559
Federal Salary Offset	6,698

*SBA performance indicator.

**SBA's
MANAGEMENT
INTEGRITY
PROGRAM**

Under SBA's continuous efforts to deliver efficient programs while maintaining effectiveness and integrity, accomplishments have been achieved toward bringing the Agency into the 21st century. While working on achievement of this goal, SBA is cognizant of the formal implementation of the Federal Managers' Financial Integrity Act (FMFIA), the Chief Financial Officers (CFO) Act of 1990, OMB Circulars A-50, A-76, A-123, A-127 and A-130, and the responsibility to support results-oriented management as defined in the GPRA.

Initiating its transformation into a leading edge Agency for the 21st century, SBA has focused on stronger internal controls through the implementation of a system developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The SBA COSO initiative began with the establishment of a Risk Management Committee, hiring a professional staff, engaging PricewaterhouseCoopers for consultation, conducting diagnostic reviews; and by enhancing SBA's focus on subsidy rate, credit risk management, lender monitoring, program oversight, and reviews by the SBA's IG.

A Quality Service Review (QSR) process was utilized for SBA field locations in 1998. The QSR is a systematic and proactive process review of field activities. There were 22 QSRs conducted in 1998. They identified vital information to be reviewed by Headquarters. Headquarters' review disclosed both "best practices" for laudatory achievements and weaknesses in operations which resulted in corrective action in the field. In its Headquarters' review, SBA recognized weaknesses in questioning techniques used by the review teams and also recognized functional areas that had gone "undone" due to changes and/or movement of the mission.

The SBA is in the process of implementing its Management's Assessment Process (MAP). MAP will be a facilitated meeting of individuals from a program office or function brought together to identify and reinforce management objectives, assess risk associated with accomplishment of those objectives, review of existing controls or the lack thereof, and the development of an action plan; as necessary, to strengthen identified "gaps" in the controls. The MAP will produce documentation of controls, identify weaknesses complete with an action plan to strengthen them, and test and evaluate the results of the action plan. MAPs will emphasize management's obligation to monitor their environment's internal control program.

Audit Resolution And Follow-Up

The SBA's policy and procedures require management to resolve audit findings and recommendations promptly, ensure that timely corrective actions are taken, and maintain accurate records on audit recommendations. The Office of the Chief Financial Officer maintains an audit follow-up system to monitor the implementation of the audit recommendations. Data kept within the system is used to prepare semiannual reports on audit resolution for the President and the Congress. Other objectives of the system are to:

- Track final actions taken to implement audit management decisions.
- Provide a complete record of actions taken on both monetary and non-monetary audit recommendations.
- Prepare the semiannual reports on the status of management actions.

During FY 1998, the Agency's program managers continued to demonstrate a commitment to timely resolution and implementation of OIG audit recommendations. A total of 130 recommendations were implemented during the fiscal year and 19 recommendations remain open.

GAO Liaison

The Office of the Chief Financial Officer carries out the Agency's GAO liaison function. The OCFO facilitates all GAO information requests including entrance interviews with SBA management and other assistance. The OCFO also provides a monthly report to the SBA management on the status of GAO reviews.

FMFIA Report

The SBA reported in its FY 1998 Federal Managers' Financial Integrity Act (FMFIA) report that its financial systems and administrative management processes provide assurance that the objectives of Section 2 (Material Weaknesses) and Section 4 (Financial System Non-Conformances) of the FMFIA are being achieved. Based on results of a variety of management reviews (e.g., Vulnerability Assessments, program reviews of field operations and Inspector General audits), the Agency has concluded that further improvements are needed in its internal controls. The SBA has begun implementation of the COSO system of internal controls along with other improvements to strengthen credit program risk management, lender oversight, credit subsidy model management, and field office reviews.

During FY 1998, three items were resolved and two new material weaknesses were identified. The SBA reported a total of seven unresolved items: i.e., five *program* material weaknesses and two *financial system* material non-conformances.

The program material weaknesses pertained to the following program areas:

- Minority Enterprise Development
- Small Business Development Centers
- Surety Bond Guarantees
- Office of the Chief Financial Officer

The financial system material non-conformance weaknesses pertained to the Office of the Chief Financial Officer.

Appropriate corrective actions and milestones for improvement of the remaining weaknesses are scheduled for FY 1999 and beyond. The SBA is confident that the actions it has begun to implement, the COSO systems of internal controls and other improvements will further strengthen SBA's internal controls.

SBA PROGRAM DESCRIPTION AND ANALYSIS

CAPITAL ACCESS

The SBA provides financial assistance to underserved small businesses. The SBA's programs are designed to complement the private sector in providing loans, guarantees, bonding, and other forms of financial assistance to this critical sector of our economy.

For purposes of this report, Capital Access includes five program areas, which are listed and discussed below. These program areas are:

1. Business Loan Program
2. Development Company Assistance
3. Investment Company Assistance
4. Surety Bond Assistance
5. International Trade

Each of these five program areas is discussed in detail below.

Business Loan Program

Program Description

The business loan program, authorized by Section 7(a) of the Small Business Act, is SBA's largest financial assistance program. Banks and certain non-bank lenders make loans, which are guaranteed at percentages, varying from 50 percent to 90 percent.

The SBA is authorized to make direct and guaranteed loans under several specific loan programs. In FY 1996, direct loans under the general business loan program were eliminated, except for Microloan direct lending. Under the general business loan program, business loans are guaranteed by the SBA for varying amounts (up to 90 percent of the total loan amount or a maximum of \$750,000). An initial guarantee fee ranging from 2 percent to 3 7/8 percent is charged, depending on the size of the loan.

The SBA has three types of programs through which private lenders may make SBA-guaranteed business loans: the regular program, the certified lenders program (CLP), and the preferred lenders program (PLP). Under the regular program, the private lender accepts the loan application; the SBA performs the credit analysis and retains final loan-making authority. The CLP program operates like the regular program except that the SBA promises a decision in 3 days. Under the PLP program, the lender performs the credit analysis and makes the credit decision. The CLP and PLP programs are of great benefit to lenders and loan applicants, as well as the SBA, which is able to leverage its resources more effectively to provide quicker assistance to more small businesses.

In response to the President's effort to make Government more efficient, the SBA has taken great strides to streamline several of its lending programs. Implementation of the LowDoc program, which simplifies the application process for guarantee assistance, has significantly reduced the amount of time and resources required. In FY 1995, the SBA centralized the processing of PLP loans. Loan packages are now given a 24-hour turnaround to the participating lender. This has reduced the number of SBA personnel necessary to process PLP loans and has resulted in a more uniform program. In FY 1995, the SBA began a pilot program called FA\$TRAK program with 18 lenders. Under this streamlined and expedited loan program, lenders use mostly their own forms and procedures to process smaller SBA guaranteed loans. In exchange for the increased authority and flexibility, lenders accept a 50 percent guarantee. In FY 1998, the SBA renamed this program *SBAExpress*, increased the maximum loan amount under this program to \$150,000, and opened the program to additional lenders.

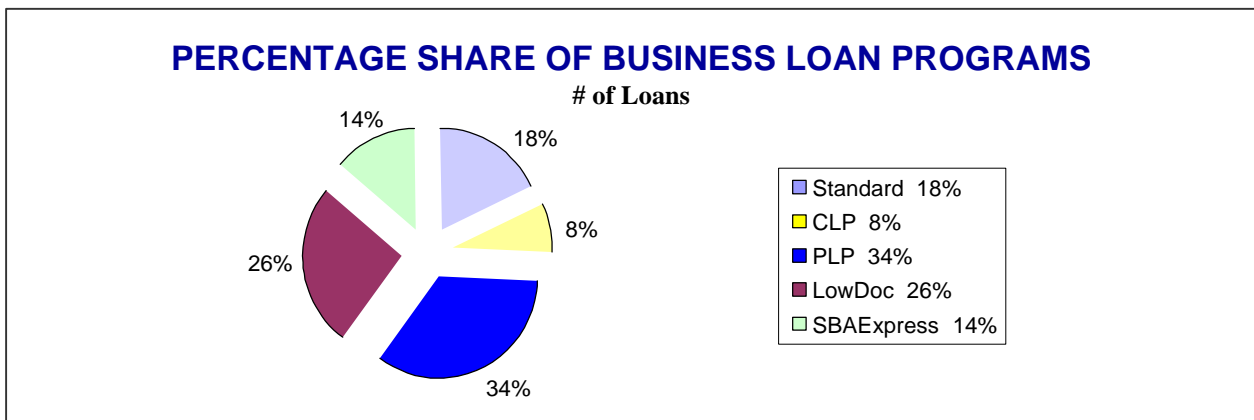
In addition to these guaranteed loans, the SBA Microloan program provides small scale financing (\$25,000 maximum) on a short term basis for equipment, inventory, supplies and working capital through Microloan intermediaries. The SBA makes direct loans, and on a pilot basis, provides loan guarantees to intermediaries who in turn make direct loans to small businesses.

Program Performance

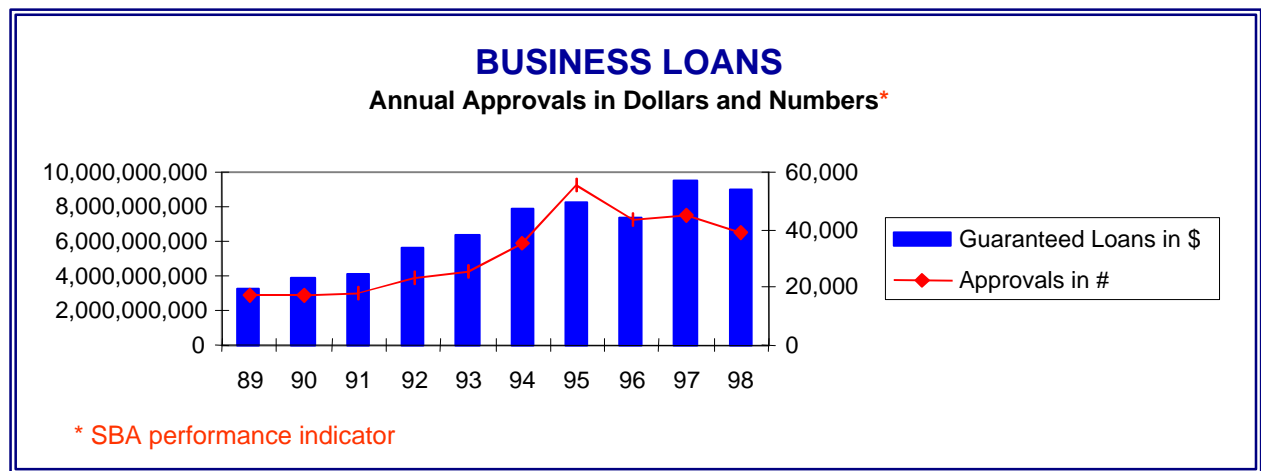
The following highlights significant developments for the business loan program.

- The number of loan approvals has been steadily increasing since FY 1986, with a prominent rise from FY 1991 through FY 1995. The number of loan approvals has declined since FY 1995 and the number and dollar amount of loan approvals decreased in FY 1998 from FY 1997.
- Purchases declined in the 7(a) program for FY 1998.
- Charge-offs decreased in the 7(a) program for FY 1998.

The PLP, CLP and SBAExpress programs that rely heavily on lender credit analysis have been growing steadily in the past several years. Also, LowDoc loans represented 26 percent of the number of loan approvals and 7 percent of gross dollar amount of approvals in FY 1998. The following chart depicts each program's share as a percentage of total number of loans made in FY 1998.



During FY 1998, SBA guaranteed 38,974 loans for \$8.6 billion, (net of decreases and cancellations). Historical loan approval information is summarized in the following graph.

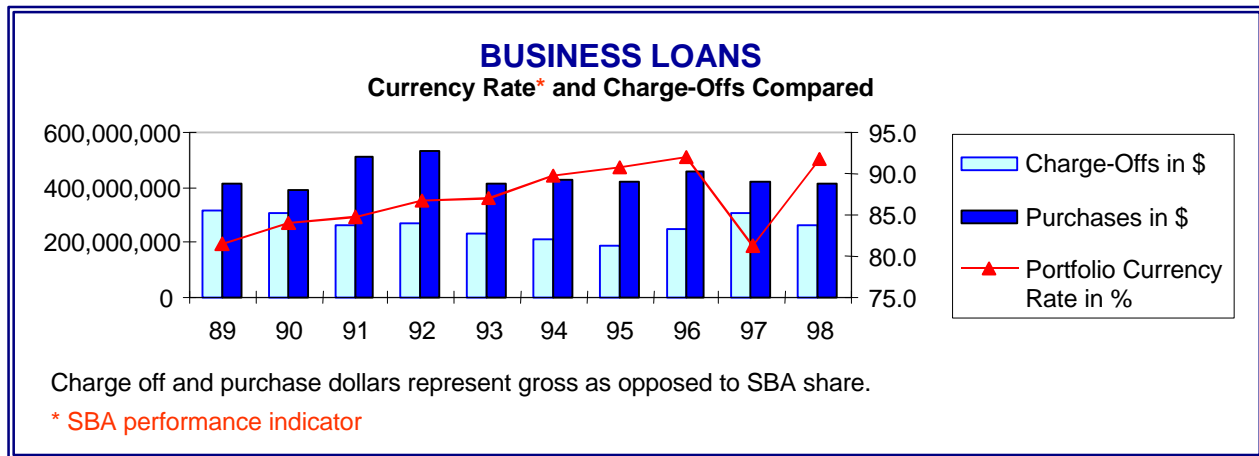


The following table shows a decrease in loan approvals in number and a decrease in the dollar volume from FY 1997 to FY 1998. The data shows that the portfolio currency rate (which includes SBA's purchased and guaranteed loans) showed an increase to 91.8 percent in FY 1998 from 81.3 percent in FY 1997. We believe that the primary reason for this change is the increased accuracy and timeliness in reporting by lenders. (FY 1997 was the first year of the monthly lender reporting system.)

BUSINESS LOANS	FY 1997	FY 1998	CHANGE	% CHANGE
Net Approvals (\$)	9.0B	8.6B	(0.4B)	(4.4%)
Net Approvals (#)	43,068	38,974	(4,094)	(9.5%)
Portfolio Current (%)	81.3%	91.8%	10.5	12.9%
Portfolio Past-Due/Delinquent(%)	14.4%	3.9%	(10.5)	(72.9%)
Portfolio in Liquidation (%)	4.3%	4.3%	-----	-----
Purchases (\$)	418.3M	409.7M	(8.6M)	(2.1%)
Purchases (#)	4000	4526	526	13.2%
Charge Offs (\$)	310.8M	264.9M	(45.9M)	(14.8%)
Charge Offs (#)	4152	4018	(134)	(3.2%)
Charge-offs as a % of Disbursements	7.77%	7.52%	(0.25%)	(3.2%)
Charge-offs as a % of Outstanding Portfolio	1.42%	1.16%	(0.26%)	(18.3%)

Note: SBA performance indicators are shaded in the table.

During FY 1998, 4,526 loans for a total of \$409.7 million were purchased from the lenders and 4,018 loans representing \$264.9 million were charged off. Historical loan purchases and charge-off information is summarized in the following graph.



Certified Development Company Assistance (Section 504)

Program Description

The SBA's Development Company program was created to give small business owners the means to expand, modernize, and compete in the economy by providing long-term, fixed asset financing.

The Development Company program, also known as the Section 504 program, permits loans to be made to small businesses by Certified Development Companies (CDCs). CDCs are generally non-profit organizations sponsored by private interests or by state or local governments. CDCs are certified by the SBA and are focused on economic development in their community or region.

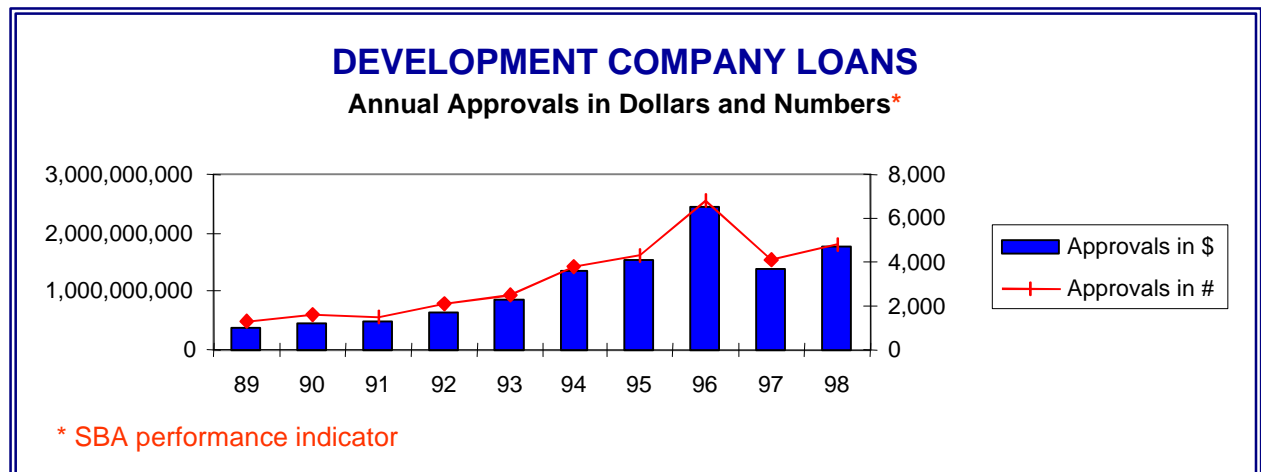
Each loan package must be approved by the SBA and show that the assistance will have a significant economic impact on the community in which the project is located, primarily through job creation or retention. Each package includes at least a 10 percent equity injection by the small firm, generally a 50 percent bank loan with a lien position ahead of the SBA guaranteed debenture and the balance as a debenture issued by the CDC and 100 percent guaranteed by the SBA. The average SBA exposure was \$365,000 per debenture in FY 1998.

Program Performance

The following highlights significant developments for the Section 504 program.

- Lending increased steadily from FY 1989 to FY 1996. However, a decline in FY 1997 was recorded due to decreased demand, possibly resulting from increased fees imposed that year that resulted in a zero subsidy rate. In FY 1998, volume rebounded somewhat, exceeding the FY 1997 approval numbers and registering the second highest volume year in the history of the program. Fees were reduced for borrowers in FY 1998.
- Purchases, both in dollars and numbers, increased in FY 1998 over FY 1997.
- Charge-offs, both in dollars and numbers, decreased in FY 1998 over FY 1997.

During FY 1998, 4,847 loans were approved through the 504 program for a total gross dollar amount of \$1.77 billion. The following graph illustrates that, after steadily increasing since FY 1989, there was a drop off in the number and dollar volume of development company approvals in FY 1997. The FY 1998 numbers show an increase in the number and dollar volume of loan approvals over FY 1997.



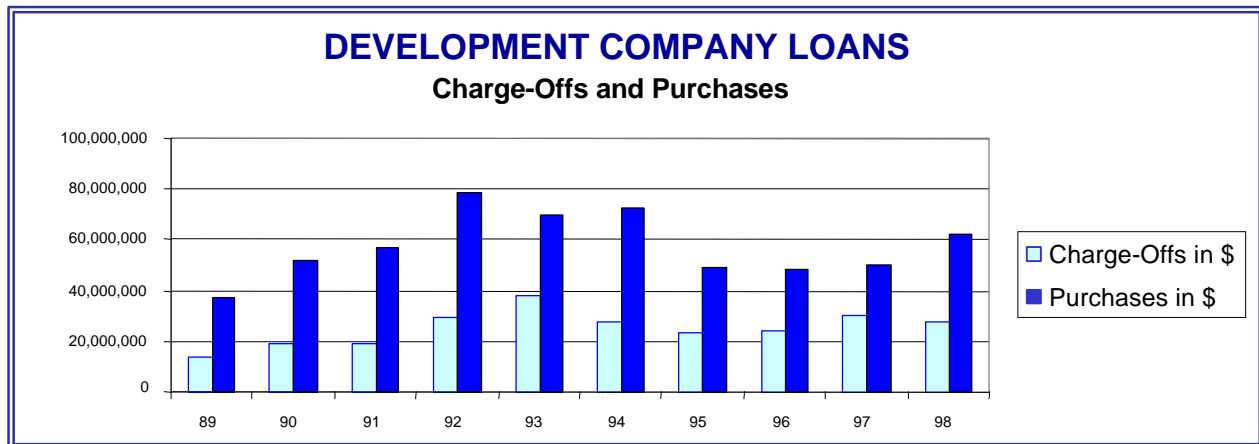
CDCs have provided more than \$12 billion in 504 financing to assist more than 36,000 small businesses in total projects of about \$32 billion, including equity and bank financing. Based on criteria used estimate job creations, CDCs have reported that approximately 890,000 jobs have been created or retained as a result of projects funded by the 504 program.

The following table shows the increase in volume and dollar amount of Section 504 loan approvals in FY 1998 over FY 1997. The table also shows that the purchases increased somewhat in FY 1998 as a result of past program growth and charge-offs decreased in FY 1998 from FY 1997 levels.

DEVELOPMENT COMPANY LOANS	FY 1997	FY 1998	CHANGE	% CHANGE
Net Approvals (\$)	1,436M	1,769M	333M	23.2%
Net Approvals (#)	4,045	4,847	802	19.8%
Purchases (\$)	49.7M	62.2M	12.5M	25.2%
Purchases (#)	203	233	30	14.8%
Charge Offs (\$)	30.5M	27.7M	(2.8M)	(9.2%)
Charge Offs (#)	171	127	(44)	(25.7%)
Charge-offs as a % of Disbursement	3.35%	3.13%	(0.22%)	(6.6%)
Charge-offs as a % of Outstanding Portfolio	0.47%	0.39%	(0.08%)	(17.0%)

Note: SBA performance indicators are shaded in the table.

The following graph shows that SBA’s development company purchase dollars increased in FY 1998 and charge-offs decreased.



Small Business Investment Company Program

Program Description

The Small Business Investment Company (SBIC) program was established to address the need for venture capital by small emerging enterprises and to improve their opportunities for growth, modernization, and expansion. The program provides financing through SBICs, which utilize their own capital, along with funds obtained through the sale of SBA-guaranteed debentures and participating securities.

SBICs provide equity capital, long-term loans, debt-equity investments and management assistance to qualifying small businesses. The SBICs share in the success of the small businesses as they grow and prosper.

As of September 1998, the SBA portfolio of active companies was composed of 245 SBICs with capital resources of \$8.6 billion and 73 Specialized SBICs (SSBICs) with capital resources of \$353 million.

Program Performance

The following highlights significant trends or developments for this program.

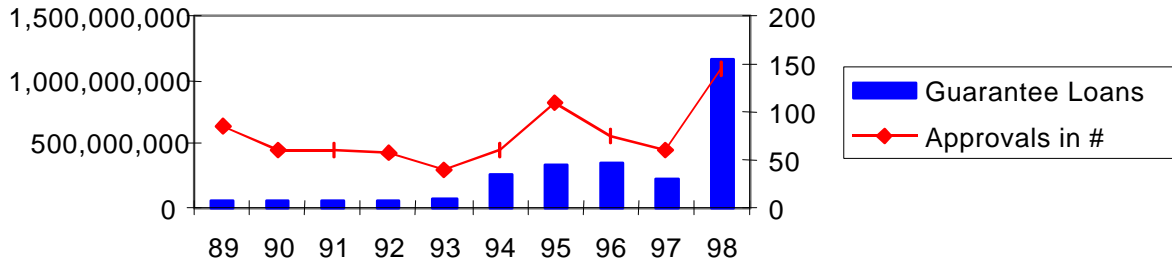
- SBIC leverage approvals continued to increase, as interest in the participating securities program remained high.
- Licensing activity also remained high, especially among potential participating securities issuers.
- The amount of leverage in liquidation as a percentage of total outstanding program leverage has continued to decline from 39 percent in FY 1994 to 9.7 percent in FY 1998.
- A new interim funding process, just-in-time funding, was implemented that provides SBICs with the flexibility to time their takedowns of leverage based on expected financing of small businesses.
- The terms of SBA's leverage commitments to SBIC's were extended so that the funds can be drawn down over a 5-year period, similar to the investment cycle of the SBIC's.

During FY 1998, SBICs made 3,456 investments to small businesses for a total of approximately \$3.2 billion.

The following graph displays the financing activity for the SBIC program over the past 10 years. This financing is in the form of debentures, preferred stock and participating securities. The participating securities program, initially authorized in FY 1992 and implemented in FY 1994, defers the SBIC's obligation for interest payments, and allows SBA to participate in the earnings of the SBIC's portfolio attributable to the participating securities financings. As of September 1998, the SBA received more than \$16 million in profit participation from SBICs. The number of SBIC licenses granted remained high in FY 1998 with 31 new licenses. In addition, interest in the program was also high with 68 applications for licenses filed during FY 1998.

INVESTMENT COMPANY LOANS

Annual Approvals in Dollars and Numbers *



* SBA performance

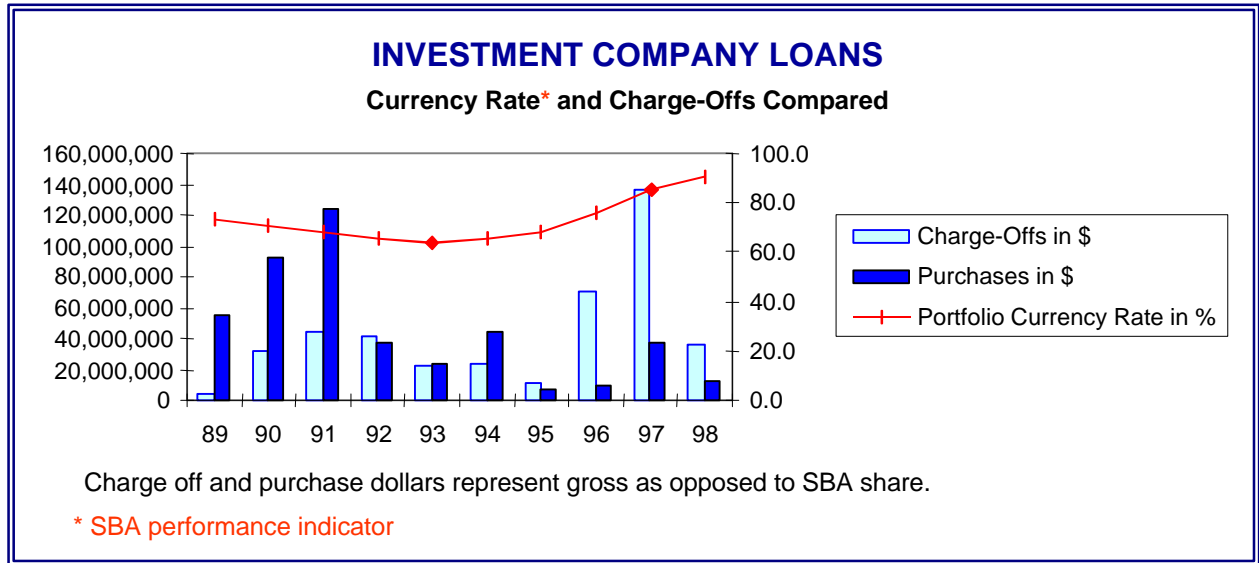
The total private capital of SBIC licensees in FY 1998 was \$578.3 million. Of the \$1,161.6 million in SBIC funding approvals (obligations) in FY 1998, the participating security program accounted for \$700 million (60.3 percent) and the debenture program accounted for \$461.1 million (39.7 percent). SBA no longer makes preferred stock purchases under this program. SBIC's provided additional capital funding that totaled the \$3.2 billion investments in small businesses.

The following table shows improved performance of the portfolio during FY 1998, as evidenced by an improvement in the portfolio currency rate, a reduction in the number and size of purchases, and an improvement in the portfolio liquidation percentage and in charge offs of completed liquidation cases.

INVESTMENT COMPANY LEVERAGE	FY 1997	FY 1998	CHANGE	% CHANGE
Approvals (\$)	372.6M	1,161.6M	789.0M	211.8%
Approvals (#)	75	144	69	92.0%
Portfolio Current (\$)	85.4%	90.3%	4.9%	5.7%
Portfolio Past-Due/Delinquent (%)	0.1%	0.0%	(0.1%)	(100.0%)
Portfolio Liquidation (\$)	14.6%	9.7%	(4.9%)	(33.4%)
Purchases (\$)	37.5M	12.6M	(24.9M)	(66.4%)
Purchases (#)	27	16	(11)	(40.7%)
Charge Offs (\$)	136.9M	36.4M	(100.5M)	(73.4%)
Charge Offs (#)	159	48	(111)	(69.8%)
Charge-offs as a % of Disbursement	8.67%	8.62%	(0.05%)	(0.6%)
Charge-offs as a % of Outstanding Portfolio	7.56%	1.86%	(5.7%)	(75.4%)

Note: SBA performance indicators are shaded in the table.

The following graph indicates investment company trends over the past 10 years. In FY 1997, charge-offs rose significantly as prior year losses resulting from the legislatively mandated preferred stock buyback and liquidation charge-offs were recognized. The purchase figure for FY 1998 includes \$2 million of active SBIC debentures that were placed on demand pending refinancing. The portfolio currency rate includes SBA's purchased and guaranteed loans. This rate increased from 85.4 percent in FY 1997 to 90.3 percent in FY 1998.



Surety Bond Assistance

Program Description

The Surety Bond Guarantee (SBG) program assists certain small business contractors in obtaining the required bid, performance, and payment bonds for construction, service, and supply contracts. These bonds provide security for the project owner against loss resulting from the contractor's failure to fulfill the obligations of the contract.

The SBG program is not considered a credit program under the guidelines of the Federal Credit Reform Act because there is no guarantee of principal and/or interest payments. Therefore, no subsidy calculations are made for this program.

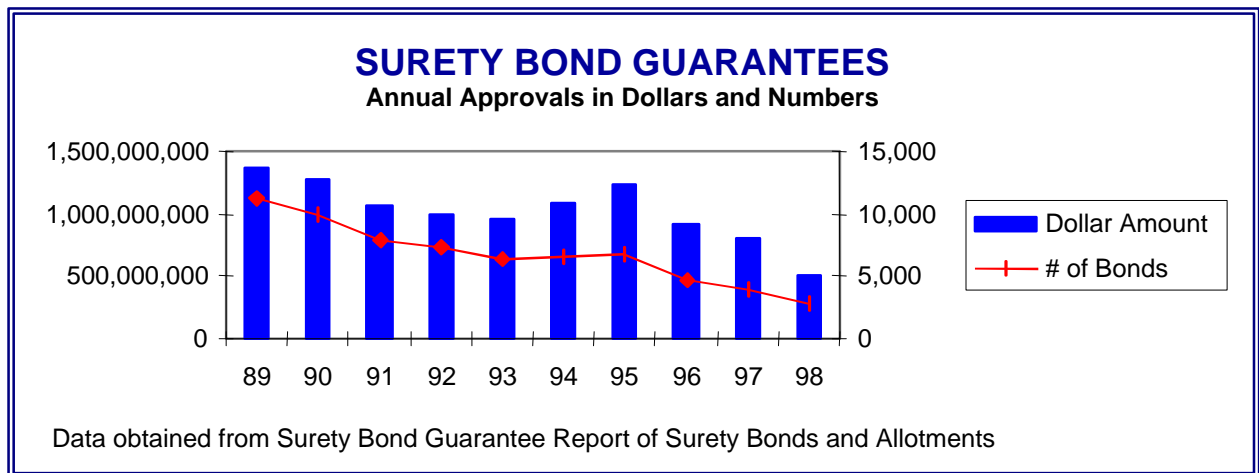
Program Performance

The following highlights trends or developments for the SBG program.

- Approvals have fluctuated over a 10-year period. FY 1998 showed a decrease over the previous year.
- In FY 1998, 2,860 final bonds were guaranteed for \$531 million in contract amount.
- \$16.6 million in claims were paid, and \$5.9 million was recovered in FY 1998.

In FY 1998, SBA approved 10,445 bid bond applications representing potential contracts worth nearly \$2.4 billion. The Agency guaranteed 2,860 final bonds amounting to \$531 million in contract value of which SBA’s share was \$414 million.

The following chart shows that SBA’s dollar volume of surety bond approvals has fluctuated over much of the 10-year period. The SBG volume usually tracks with the construction industry.



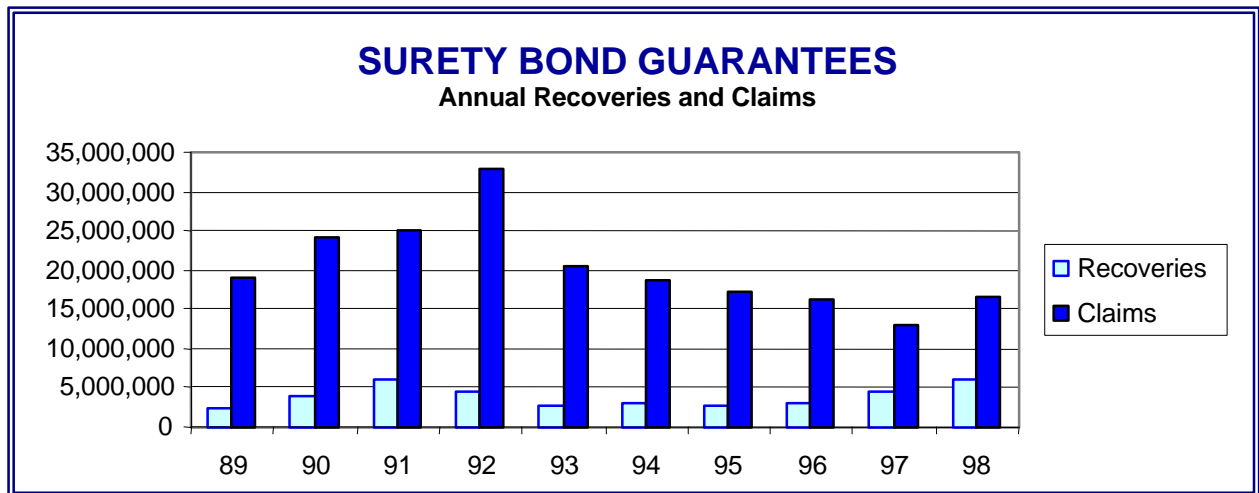
The average contract amount of final bond approvals decreased from \$203,593 in FY 1997 to \$185,492 in FY 1998 indicating that SBA assistance is going to smaller contractors.

The following table compares FY 1998 program volume and claims with FY 1997 results.

SURETY BOND GUARANTEE	FY 1997	FY 1998	\$ CHANGE	% CHANGE
Approvals \$	806.7 M	531M	(275.7M)	(34.2%)
Approvals #	4,021	2,860	(1,161)	(28.9%)
Claims \$	13.0 M	16.6M	3.6M	27.7%
Recoveries \$	4.6 M	5.9M	1.3M	28.3%

Note: Reflects gross approvals.

As the following graph shows, recoveries increased in FY 1998 over the two previous fiscal years resulting from intensified recovery efforts.



International Trade

Program Description

The Office of International Trade (OIT) oversees the Agency's programs designed to help U.S. small businesses export their products. The Agency delivers both business development and financial assistance programs.

The SBA initiated partnership agreements with its counterparts in Mexico and Argentina to foster improved cooperation and business opportunities for small businesses in these markets in FY 1998. The SBA remains a member of the Gore-Chernomyrdin Commission and is actively working with the banking and small business communities to encourage American small businesses to explore exporting opportunities in the Russian Federation. The SBA is also working with Egypt to assist its effort to develop small businesses through the Gore-Mubarak Commission. During FY 1999, the SBA will sponsor trade missions to Ireland, Mexico, and Canada to promote increased exporting opportunities for U.S. small business. Such SBA efforts to promote small business exports and development internationally are expected to have long-term positive results.

The SBA's Export Working Capital Program (EWCP) and the International Trade Loan Program come under the 7(a) Loan program for export purposes are available to help U.S. small businesses transact export deals and finance facilities and equipment.

The OIT provides a wide array of trade finance and counseling services to small business exporters through its Headquarters' staff and trade finance specialists located at 19 U.S. Export Assistance Centers (USEACs). These centers combine the resources of the SBA, the Department of Commerce, the Export-Import Bank and other public and private-sector partners. Expert assistance is also provided through the SBA's business assistance resources (SCORE, SBDCs, SBA offices) and through online information services. The OIT also develops publications to assist small businesses enter the international marketplace and obtain trade financing for their exporting efforts.

DISASTER ASSISTANCE

Program Description

The SBA assists victims of physical disasters such as earthquakes, floods, and hurricanes by extending direct loans to individuals and businesses. Loans are made at favorable terms and conditions for uninsured losses of real and personal property, and economic injury caused by a disaster. The Disaster Loan Program is the primary form of Federal assistance for non-farm, private sector losses and is the only form of SBA financial assistance not limited to small businesses.

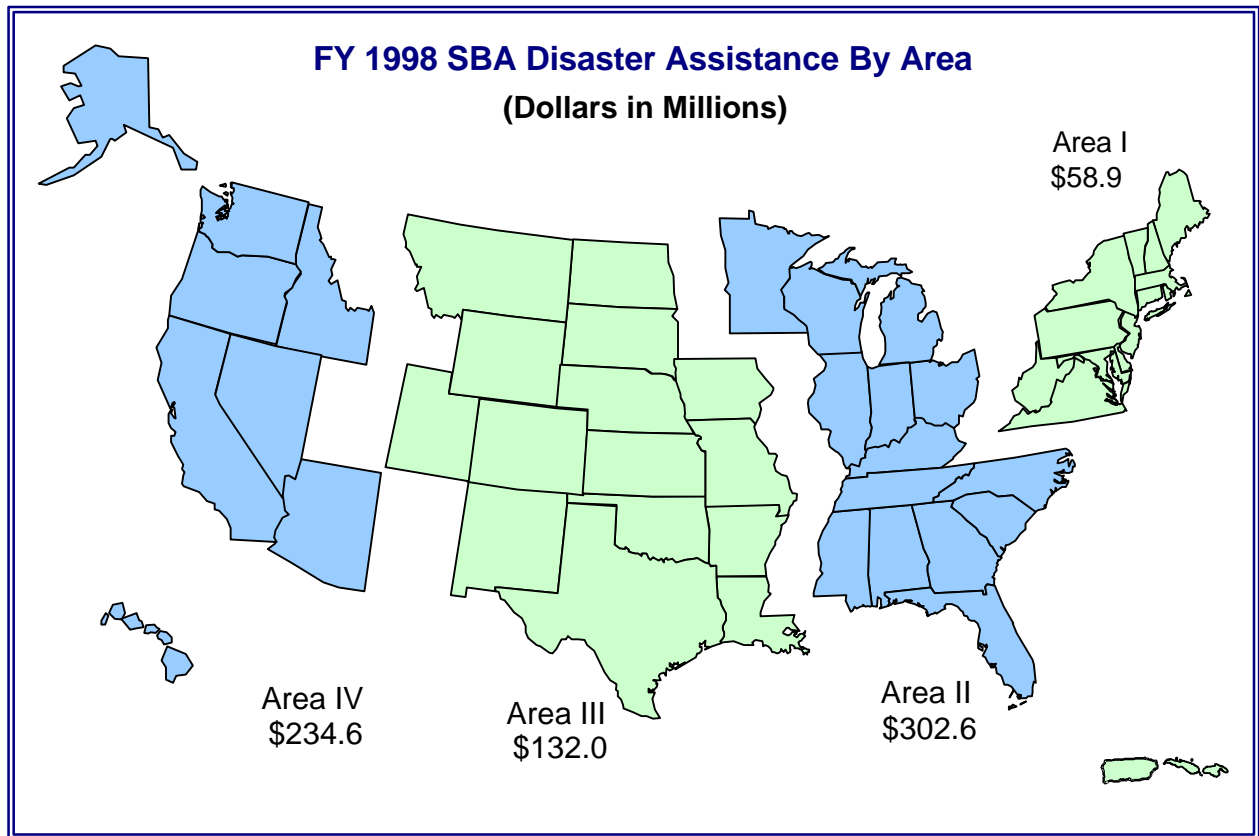
Three major types of disaster assistance are provided:

Home Disaster Loans - Loans to homeowners or renters to repair or replace damage to homes or personal property owned by the applicant. Renters are eligible only for personal property loans.

Business Physical Disaster Loans - Loans to businesses of all sizes to repair property owned by the businesses, including damaged inventory and supplies.

Economic Injury Disaster Loans (EIDL) - Working capital loans to small businesses and small agricultural cooperatives to assist them through recovery from the disaster.

The program is administered through four area offices. These areas and their share of Disaster Assistance are depicted on the chart below.



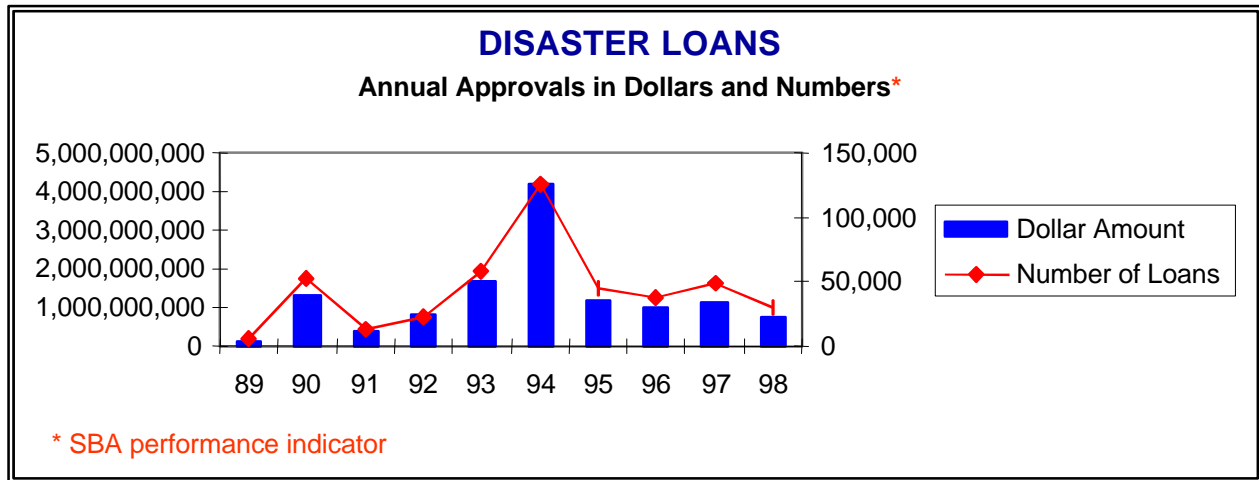
Note: The above dollar amounts represent “net loan approvals” (after increases, decreases and cancellations).

Program Performance

The following highlights significant trends or developments for the Disaster Assistance Program.

- Loan approvals have fluctuated significantly from year to year, due to the nature of the program. For FY 1998, 30,154 loans were approved for \$728.1 million.
- Portfolio currency rate increased to 87.9 percent from 86.8 percent in FY 1997.
- Charge-offs increased for FY 1998 reflecting past increases in program activity.

The following graph shows that SBA's dollar volume of disaster loan approvals fluctuates from year to year. From FY 1991 through FY 1993, approvals significantly increased in response to Hurricane Hugo, Hurricane Andrew, Hurricane Iniki, Typhoon Omar, the Los Angeles riots, the Great Midwest floods and severe coastal storms on the east coast. During FY 1994, in the aftermath of the Northridge earthquake, SBA approved more than 125,000 loan applications at a value of more than \$4.1 billion. The continuing activity from Northridge, together with floods and hurricanes, caused the high activity in FY 1995. Floods and hurricanes in FY 1996, FY 1997 and FY 1998 kept the level of activity at just around \$1 billion for those years.



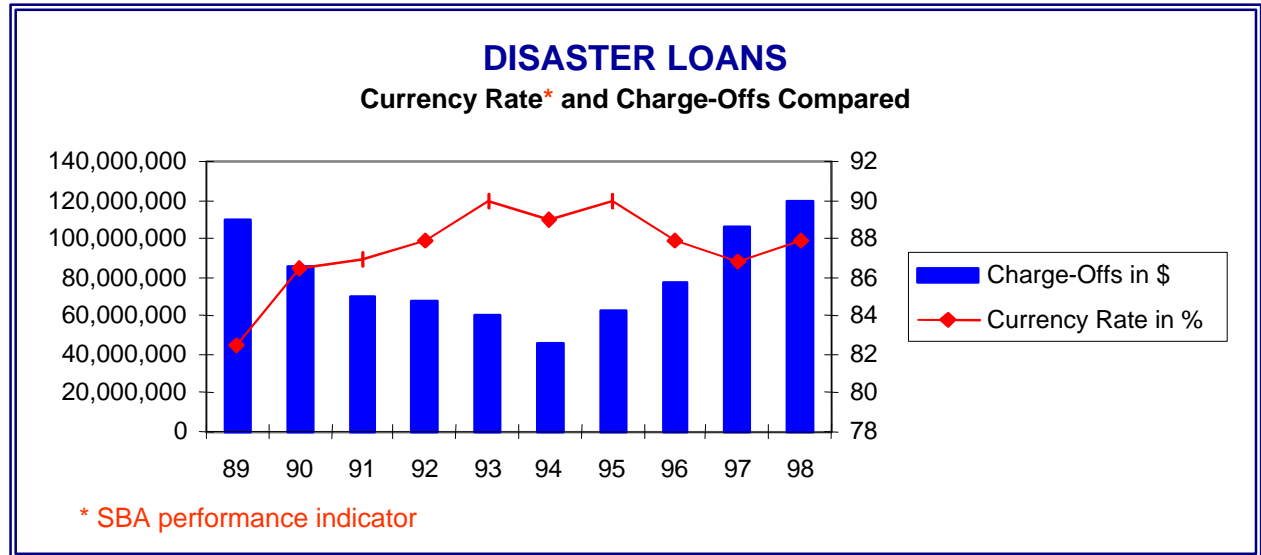
Since the inception of the program in 1953, the Agency has approved 1,448,610 disaster loans for more than \$26.6 billion.

As can be seen from the following table, SBA approved 30,154 disaster loans for \$728.1 million in FY 1998. SBA continued to streamline the disaster loan process, achieving unprecedented response times.

DISASTER ASSISTANCE	FY 1997	FY 1998	CHANGE	% CHANGE
Approvals (\$)	1,138.6M	728.1M	(410.5M)	(36.1%)
Approvals (#)	49,515	30,154	(19,361)	(64.2%)
Portfolio Current (\$)	86.8%	87.9%	1.1%	1.3%
Portfolio Past-Due/Delinquent (\$)	6.2%	4.5%	(1.7%)	(27.4%)
Portfolio Liquidation (\$)	7.1%	7.7%	0.6%	8.5%
Charge Offs (\$)	106.4M	119.7M	13.3M	12.5%
Charge Offs (#)	5,708	7,493	1,785	31.3%
Charge-offs as a % of Disbursement	8.27%	8.55%	0.28%	3.4%
Charge-offs as a % of Outstanding Portfolio	1.51%	1.70%	0.19%	12.6%

Note: SBA performance indicators are shaded in the table.

The following graph shows that the SBA's disaster portfolio currency rate remained relatively constant over most of the 10-year period. Charge-off volume peaked in FY 1989 due to aggressive charge-off policies implemented. Since FY 1989, these efforts have resulted in a relatively stable currency rate. Significant increases in the number of new loans starting in FY 1990 increased charge-off activity in the following years.



The SBA has been actively improving its credit management and debt collection practices. Five successful debt collection tools used for outstanding disaster loans include use of SBA attorneys appointed as Special Assistant United States Attorneys to augment the Department of Justice collection efforts, the IRS offset, OPAC/TOPS offset, referrals to Treasury for the use of private collection agencies and Federal salary offset. The following chart shows the disaster dollars collected by each debt collection tool for FY 1998.

Disaster Dollars Collected Per Debt Collection Tool*	
Department of Justice / SAUSA Collections	\$18,207,580
Internal Revenue Service	4,931,157
OPAC/TOPS Offset	847,231
Collection Agencies	86,041
Federal Salary Offset	310,232

*SBA performance indicator.

ENTREPRENEURIAL DEVELOPMENT

The SBA provides management assistance in the form of training and counseling programs. The program offices overseeing SBA's primary management assistance programs are:

- Business Initiatives
- Veterans' Affairs
- Women's Business Ownership
- Small Business Development Centers
- Welfare to Work
- One Stop Capital Shop
- Native American Affairs

Business Initiatives

Business Initiatives (BI) encompasses a diverse mix of business information, education, training and counseling resources offered to the public. The BI program oversees the operation of 52 Business Information Centers (BICs) and the Service Corps of Retired Executives (SCORE) counseling and training program. BI also provides training to small businesses through cosponsorships with private sector entities and offers other training and information through its for-sale publications program, an electronic bulletin board, SBA OnLine and other internet-based services.

Business Information Centers are often established through partnerships between the SBA and for-profit entities, other Federal agencies, and non-profit organizations. BICs offer clients the latest computer technology, hardware and software, an extensive small business library of hard copy books and publications and management videotapes to help entrepreneurs plan their business, expand an existing business or venture into new business areas.

The Service Corps of Retired Executives (SCORE) counsels and trains the largest number of start-up business owners each year. Through one-on-one counseling and workshops, SCORE makes approximately 354,000 contacts with business owners annually. With some 390 chapters and 14,000 volunteers, the services of a SCORE volunteer are readily available within a few hours drive of most businesses. All counseling is provided free of charge to the client.

Veterans' Affairs

The Office of Veterans' Affairs (OVA) oversees the Agency's assistance to veterans and works with the SBA program offices to provide special consideration to veterans. The office designs procurement and management training programs specifically for veterans and coordinates veterans' training and counseling with other agencies or departments.

The OVA coordinates national veterans' programs such as the Veterans Business Training, Procurement and Technology Transfer Conferences, and the Transition Assistance program for military personnel. The OVA promotes entrepreneurship and assists small businesses affected by base closings and military downsizing.

The SBA is establishing an outreach program to provide enhanced business development assistance to eligible veterans in accordance with SBA's Reauthorization Act of 1997. In FY 1999, the SBA will award legislatively mandated outreach grants to assist eligible veterans with entrepreneurial training and will develop a comprehensive guide to assist veterans in the start-up and expansion of their businesses.

Women's Business Ownership

The Office of Women's Business Ownership (OWBO) provides assistance to the increasing number of women business owners and acts as their advocate in the public and private sectors. OWBO is the only office in the Federal Government specifically focusing on the women business owner. It serves the Nation's nearly 8.5 million women-owned businesses through technical, financial and management information, training, and counseling.

OWBO manages the Women's Business Center Program (WBC), a public-private partnership which supports a network of 69 women's business centers in 38 states, the District of Columbia and Puerto Rico. Of these centers, 28 are currently funded physical sites and six additional sites were awarded grants for FY 1999. For FY 1998 the 28 funded sites provided financial, managerial, marketing and procurement assistance to more than 18,300 women.

Part of the WBC network is the Online Women's Business Center on the Internet at <http://www.onlinewbc.org>. Launched in January 1998, the free interactive web site offers business counseling, training, mentoring, and live chats in English and Spanish. It also details the wide range of programs and services offered by the SBA to women entrepreneurs. It has received more than 1.5 million hits from over 100 countries.

All WBCs are linked electronically through an intranet, OWBOZONE, to provide a free flow of information. The OWBO has also established a Women's Home Page in the SBA web site, <http://www.sba.gov/womeninbusiness> .

The Women's Network for Entrepreneurial Training (WNET) is a mentoring program for women business owners. The WNET program links seasoned entrepreneurs with women whose businesses are poised for growth at 116 roundtables nationwide - a 36 percent increase since FY 1997.

The Women's Prequalification Pilot Loan program is a nationwide program that enables women to prequalify for an SBA loan guarantee before going to the bank. Since June 1994, more than \$80 million in loans have been made to women under this program.

Women's business ownership is expected to climb to nearly 50 percent of all businesses by the year 2000; women now own 8.5 million businesses, representing \$43 billion in revenues. **In FY 1998, 24 percent of all SBA loans were made to women, representing \$1.8 billion.**

Small Business Development Centers

The Small Business Development Center (SBDC) program plays a major role in delivering management and technical assistance, economic development and management training to existing and prospective small businesses. This is accomplished through cooperative agreements with lead SBDC centers working with universities, colleges, and state agencies to conduct small business counseling and training.

The SBDC network includes more than 1,000 sites, including one in every state (four in Texas), the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. In FY 1998, SBDCs reported that they counseled 237,655 individuals and provided 19,634 training sessions to 309,382 people.

Welfare to Work

The SBA is playing a leadership role in the President's welfare to work initiative. In each city and state across the country, the SBA is using its extensive network of field offices and resource partners to connect thousands of small business owners planning to hire employees, with local service providers who train welfare recipients. In FY 1998, the SBA received more than 70,000 commitments from small businesses to hire welfare recipients. The SBA is also providing entrepreneurial training to former recipients with the skill and drive to start their own businesses. To date, the SBA has provided training to nearly 30,000 welfare recipients

One Stop Capital Shop

The One Stop Capital Shop (OSCS) is SBA's contribution to the Empowerment Zone (EZ)/Enterprise Community (EC). It is an alternative delivery mechanism for the Agency's products to areas that have been underserved by the SBA. OSCS are cost effective, customer friendly and serve as a working model of public/private partnership.

The OSCS brings the SBA's business development and capital resources together in one location with other federal, state, local and private sector resources to leverage and complement those resources and provide customer convenience. The OSCS provides the economic tools for sustained economic development and growth.

Local communities are required to be stakeholders in the process to determine goals, mission, partners and day to day operation. The SBA's presence does not duplicate, rather it complements and leverages other available financial and technical assistance resources. The SBA provides the equipment and reference materials for a Business Information Center (BIC) and up to two SBA full-time employees. In general, the communities are required to house and maintain the BIC as well as the OSCS and bring together the other partners.

There are a total of 15 One Stop Capital Shops in operation. The first EZ/EC OSCS opened on November 6, 1995, in Boston. During FY 1998, the OSCSs served more than 41,000 clients; OSCS referrals resulted in 435 loans for more than \$80 million, created more than 1,500 new jobs and retained more than 2,000 existing jobs within Empowerment Zone/Enterprise communities. OSCSs trained and counseled more than 12,000 African-Americans, 2,300 Hispanics, 100 Native Americans, and 300 Asian Americans and provided assistance to more than 7,400 women. For its outstanding work, the OSCS program received two Hammer Awards from the Vice President in 1998.

Native American Affairs

The SBA Office of Native American Affairs (ONAA) is the only office in the Federal Government, which solely assists Native American small business clients, including individuals, tribally owned small businesses and small businesses located in Native American communities. The primary focus of ONAA is economic development and job creation through small business ownership and education.

The ONAA formulates policy, develops legislative and program initiatives that ensure Native American individuals have access to business development resources, training and services. SBA coordinates the delivery of services to Native Americans with other SBA program offices, SBA resource partners (SBDC & SCORE), Federal and State agencies, Tribal governments, National Native American organizations, and Tribal colleges to educate, develop and expand Native American owned businesses.

SBA's accomplishments in the Native American community:

- Provided operational funding for 14 Tribal Business Information Centers (TBICs) in California, North Carolina, Minnesota, North Dakota, South Dakota and Montana.
- In FY 1998, Reservation-based TBICs served 3,000 clients, provided 4,892 hours of business counseling, held 200 workshops, and assisted in the completion of 200 business plans and 120 loan packages, and were instrumental in the startup of 170 new businesses.
- At the end of FY 1998 there were 404 Native American owned business concerns participating in the 8(a) Business Development program.
- The SBA made 461 loans totaling \$76.5 million to Native American-owned businesses in FY 1998.
- Participated in an inter-agency conference, "Building Economic Self-Determination in Indian Communities," which addressed strategies for building strong tribal economies as well as the need to identify opportunities and incentives for doing business in the Indian communities.

Program Budget and Performance

Program information on Entrepreneurial Development programs is shown in the table below.

ENTREPRENEURIAL DEVELOPMENT	FY 1997	FY 1998	CHANGE	% CHANGE
SCORE:				
Training Events (#)	4,381	5,079	698	15.9%
Training Attendees (#)	109,303	105,169	(4,134)	(3.8%)
New Counseling Cases (#)	163,705	167,445	3,740	2.3%
Counseling Hours (#)	342,676	393,434	50,758	14.8%
Veterans:				
Guarantee Loans (#)	6,607	5913	(694)	(10.5%)
Guarantee Loans (\$)	1,500M	1,371M	(129M)	(8.6%)
Women's Bus. Ownership:				
Women's Business Centers (#)	^a 28	34	6	21.4%
WBC Programs Served (#)	8,140	18,321	10,181	125.1%
Exporting:				
Guarantee Loans (#)	861	961	100	11.6%
Guarantee Loans (\$)	278M	312M	34M	12.2%
Counseling Cases (#)	401	413	12	2.9%
Counseling Hours (#)	141M	158M	17M	12.1%
SBDC:				
Training Events (#)	19,293	19,634	341	1.7%
Training Attendees (#)	315,406	309,382	(6,024)	(1.9%)
Counseling Cases(#)	245,766	237,655	(8,111)	(3.3%)
Counseling Hours(#)	1,254,857	1,271,412	16,555	1.3%

^a The above numbers of trained and counseled clients only reflect activity from 18 WBCs that were operational prior to the 10 new sites.

GOVERNMENT CONTRACTING & MINORITY ENTERPRISE DEVELOPMENT

These offices administer SBA's programs to provide Federal contracting opportunities and research and development assistance to small businesses. These offices include:

- Government Contracting
- Minority Enterprise Development
- Technology
- Size Standards
- HUBZone

GOVERNMENT CONTRACTING

Program Description

The Office of Government Contracting ensures that small businesses receive a fair share of Government contracts and subcontracts. This objective is carried out through various component programs, including the Prime Contracts, Subcontracting Assistance, Natural Resources Sales Assistance, Certificate of Competency, and Procurement Policy and Liaison programs.

The Prime Contracts program is carried out primarily with the assistance of Procurement Center Representatives (PCR) who monitor requirements for and promote small business participation in Federal procurement. The Breakout Program provides small businesses procurement opportunities in Federal procurements.

Through the Subcontracting Assistance program, the SBA ensures that small businesses receive maximum practicable opportunity to participate as subcontractors on Federal contracts. The SBA's Commercial Market Representatives (CMRs) perform compliance reviews to ensure that prime contractors make a good-faith effort to subcontract to small businesses.

The Natural Resources Sales Assistance program aids and assists small businesses in obtaining their fair share of Federal property offered for sale or disposal in accordance with public law. Efforts have been concentrated on the sale of Federal timber, royalty oil, coal leases, and other mineral leases.

The SBA also maintains an electronic gateway for procurement information called PRO-Net. PRO-Net is an internet accessible database of small businesses interested in doing business with the U.S. Government and also provides an electronic gateway to the Commerce Business Daily, Agency home-pages and other sources of procurement opportunities. PRO-Net also serves as a central on-line register that identifies firms certified as 8(a) program participants and HUBZone small business concerns.

The Certificate of Competency (COC) program authorizes the SBA to certify a small company's "capability, competency, credit, integrity, perseverance and tenacity" to perform a specific Government contract. This certification provides contracting opportunities to small businesses.

**Program Budget
and Performance**

Information for this program is shown in the table below.

GOVERNMENT CONTRACTING	FY 1997	FY 1998	CHANGE	% CHANGE
Subcontracting Compliance Reviews (#)	1,718	1,436	(282)	(16.4%)
Needs Assessments (#)	526	250	(276)	(52.5%)
Specific Referrals (#)	4,540	1,841	(2,699)	(59.6%)
Firms Counseled (#) ¹	21,227	14,000	(7,227)	(34.1%)
PRO-Net - Firms Registered (#)	171,000	178,056	7,056	4.1%
PRO-Net - Demonstrations (#)	43	55	12	27.9%
Small Business Set-Asides	11.0 B	11.5B (est)	.5B	4.5%
Savings through BPCR & COC programs	75.9 M	52.5M (est)	(23.4M)	(30.8%)

**MINORITY
ENTERPRISE
DEVELOPMENT**

Program Description

The mission of the office of Minority Enterprise Development (MED) is to assist small disadvantaged businesses which, because of their demonstrated potential for success, have been certified for participation in the Section 8(a) program. MED provides them with marketing support and other assistance through the provision of business development, and management and technical assistance.

MED provides business development support to program participants through: (1) annual reviews and development of business plans that establish targets for sustainable growth; (2) identification of procurement opportunities and marketing assistance; and (3) assistance in negotiating provisions and awards of sole source and limited competitive Federal contracts, pursuant to Section 8(a) of the Small Business Act. Through these tools, MED provides a logical, systematic approach to market access and enterprise growth to small businesses owned and controlled by socially and economically disadvantaged individuals. Section 8(a) firms participate in this program over a maximum 9-year period, during which their progress is planned and monitored.

Under Section 7(j) of the Small Business Act, MED provides specialized training, professional consultant assistance, and high-level executive development to 8(a) program participants, other small disadvantaged businesses, and small businesses in labor-surplus areas.

TECHNOLOGY

Program Description

The SBA's Small Business Innovation and Research (SBIR) program was created in 1982 to meet the research and development needs of the Federal Government while providing small innovative companies with opportunities to compete for research and development awards and to commercialize the resulting new technology. The program was reauthorized by Congress in 1992 and also included approval for the Small Business Technology Transfer (STTR) program. The STTR program encourages small businesses and research institutions to cooperatively propose innovative solutions to agency high tech initiatives.

Ten Federal agencies presently participate in the SBIR program and five Federal agencies participate in the STTR program. Since 1982, these agencies have made more than 46,000 awards through the SBIR program, totaling more than \$7.5 billion to small business concerns. The STTR program, in its first 4 years of operation, made 1,133 awards worth \$126.3 million.

SIZE STANDARDS

Program Description

Small business status is required for a business to be eligible for any of the SBA assistance programs (except physical disaster loans) and for a business to receive small business set-aside contracts from Federal agencies. Size standards define what businesses are eligible for SBA assistance. They are usually stated in terms of number of employees or gross revenues, with small business's status eligibility limited to those firms at or below one applicable size standard. The SBA's size standards are also used by other Federal agencies and state and local governments for various small business programs. There is a separate size standard for each industry in the economy as defined under the Standard Industrial Classification system. For several programs, a separate size standard has been established, such as the Surety Bond Guarantee Program and the Small Business Innovation and Research Program.

HUBZone

Program Description

The HUBZone Empowerment Contracting Program (HUBZone) was enacted into law as part of the Small Business Reauthorization Act of 1997. The program provides contracting preferences in Federal procurements to qualified small businesses that are located in a “historically underutilized business zone” or HUBZone, and that hire employees who live in a HUBZone. Ultimately, these Federal contracting opportunities will help build viable small businesses, create jobs, attract private investment and empower these HUBZones. SBA has been charged with regulating and implementing the program. On April 2, 1998, SBA published its proposed rules for the HUBZone Program, 63 Fed. Reg. 16148. After the close of the public comment period, SBA published its final regulations for the program, 63 Fed. Reg. 31896 on June 11, 1998.

SMALL BUSINESS ADVOCACY

Program Description

Established by P.L. 94-305 of 1976, the general mission of the Office of Advocacy (OA) is to examine the role of small business in the economy and its contribution to competition; evaluate financial markets and the credit needs of small business; measure the costs and effects of Government regulation on small business; develop programs/services that address market imperfections and make public policy recommendations that promote the development and growth of small business. The OA has three sections:

- **The Office of Interagency Affairs** monitors the regulatory activity of all Federal regulatory agencies to ensure compliance with the Regulatory Flexibility Act (RFA), as amended by the Small Business Regulatory Enforcement Fairness Act (SBREFA). The office comments on agency analyses of regulatory impacts on small business entities and of regulatory alternatives considered and rejected by agencies. The regulatory issues reviewed range from environment to taxes to health and safety to securities to telecommunications to banking, etc. The office provides staff support for Advocacy's participation in OSHA's and EPA's Small Business Advocacy Review Panels mandated by SBREFA to review regulatory proposals having significant impacts on small business entities. Staff maintains a continuous dialogue with small business trade associations and small entities throughout the country on public policy issues. Staff also responds to congressional requests for information and comments from a small business perspective on legislative proposals.
- **The Office of Economic Research** has sole statutory responsibility to generate and publish studies and reports on small business characteristics and trends in the economy. These studies provide information invaluable to congressional and administrative policy makers. The office also contracts with independent researchers for studies on emerging issues, bank lending trends and job generation by small business. In addition, it analyzes the impact of specific regulation on small business, as part of the office's responsibilities under Regulatory Flexibility Act. Unique small business data, by firm size, is maintained by the Bureau of Census for the office of Advocacy and is updated annually. The data is made available by Advocacy to regulatory agencies to help them evaluate the economic impact of regulations and policies on small entities. The information the office generates would not otherwise be available in the marketplace or to policy makers.
- **The Office of Information** works in collaboration with the other Advocacy offices to produce and publish information that addresses the concerns of the Nation's small businesses. Two primary publications are the monthly Small Business Advocate and the annual State of Small Business: A Report of the President.

ACRONYMS

<p>APIC – America’s Private Investment Corporation BIC – Business Information Centers CBD – Commerce Business Daily CDC – Certified Development Company CDSI – Computer Data Systems Incorporated CFO – Chief Financial Officer CLP – Certified Lender Program CMR – Commercial Market Representatives COC – Certificate of Competency CODS – Central Office Duty Station COSO – Committee of Sponsoring Organizations of the Treadway Commission D&A – Description and Analysis DFC – Denver Finance Center EC – Enterprise Community EFT – Electronic Funds Transfer EIDL – Economic Injury Disaster Loan EWCP – Export Working Capital Program EZ – Empowerment Zone FCRA – Federal Credit Reform Act FFS – Federal Financial System FMFIA – Federal Managers Financial Integrity Act FTE – Full Time Equivalent GAO – General Accounting Office GC – Government Contracting GL - General Ledger GPRA – Government Performance and Results Act HUBZone - HUBZone Empowerment Contracting Program IG – Inspector General MAP – Management’s Assessment Process MARS - Management and Administrative Reports System MED – Minority Enterprise Development OA – Office of Advocacy ODA – Office of Disaster Assistance OIG – Office of the Inspector General OIT – Office of International Trade OMB – Office of Management and Budget ONAA – Office of Native American Affairs</p>	<p>OPAC – On-line Payment and Collection OSCS – One Stop Capital Shop OVA – Office of Veterans Affairs OWBO – Office of Women’s Business Ownership PCR – Procurement Center Representative PLP – Preferred Lender Program QSR – Quality Service Review RFA – Regulatory Flexibility Act S&E – Salaries and Expenses SBA – Small Business Administration SBDC – Small Business Development Center SBG – Surety Bond Guarantee SBIC – Small Business Investment Company SBIR – Small Business Innovation and Research SBREFA – Small Business Regulatory Enforcement Fairness Act SCORE – Service Corps of Retired Executives SDB – Small Disadvantaged Business SSBIC – Specialized Small Business Investment Company STTR – Small Business Technology Transfer Program TBIC – Tribal Business Information Center TOPs – Treasury Offset Programs USEAC – U.S. Export Assistance Center WBC – Women’s Business Center Program WNET – Women’s Network for Entrepreneurial Training</p>
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FINANCIAL STATEMENTS



INTRODUCTION

These financial statements have been prepared to report the financial position and results of operations pursuant to the CFO Act of 1990. While the financial statements have been prepared from the books and records of the Agency, they are different from the financial reports used to monitor and control budget execution.

The responsibility for the accuracy and propriety of the information contained in the principal financial statements and the quality of internal controls rests with management.

Liabilities not covered by budgetary resources cannot be liquidated without an enactment of an appropriation by the Congress. This subject is further described in footnote 9.

U.S. SMALL BUSINESS ADMINISTRATION
STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 1998
(Rounded to Thousands)

ASSETS	
Intragovernmental Assets:	
Fund Balances with Treasury (Note 2)	\$8,196,084
Investments (Note 4)	283,185
Accounts Receivable, Net (Note 5)	349,436
Advances (Note 6)	4,380
Governmental Assets:	
Accounts Receivable, Net (Note 5)	50,674
Credit Program Receivables and Related Foreclosed Property, Net (Note 7)	6,934,955
Cash and Other Monetary Assets (Note 3)	2,147
General Property and Equipment, Net (Note 8)	686
Advances (Note 6)	89,532
Total Entity Assets	\$15,911,079
Total Non-Entity Assets	\$0
Total Assets	\$15,911,079
LIABILITIES	
<i>Liabilities Covered by Budgetary Resources:</i>	
Intragovernmental Liabilities:	
Accounts Payable	\$1,963,810
Debt (Note 9)	9,268,478
Other (Notes 10)	3,032,890
Governmental Liabilities:	
Accounts Payable	38,992
Liabilities for Loan Guarantees (Note 7)	1,473,296
Other (Note 10)	65,302
Total Liabilities Covered by Budgetary Resources	\$15,842,768
<i>Liabilities Not Covered by Budgetary Resources:</i>	
Intragovernmental Liabilities:	
Other (Note 10)	15,372
Governmental Liabilities:	
Other (Note 10)	28,527
Total Liabilities Not Covered by Budgetary Resources	\$43,899
Total Liabilities	\$15,886,667
NET POSITION	
Unexpended Appropriations (Note 11)	\$672,050
Cumulative Results of Operations	(647,638)
Total Net Position	\$24,412
Total Liabilities and Net Position	\$15,911,079

The accompanying notes are an integral part of this statement.

U.S. SMALL BUSINESS ADMINISTRATION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 FOR THE PERIOD ENDED SEPTEMBER 30, 1998
 (Rounded to Thousands)

Net Cost of Operations	\$655,996
Financing Sources:	
Appropriations Used	834,059
Donations	253
Imputed Financing	16,566
Transfers-out	(559,633)
Net Results of Operations	(\$364,751)
Prior Period Adjustments	0
Net Change in Cumulative Results of Operations	(\$364,751)
Increase (Decrease) in Unexpended Appropriation	(123,198)
Change in Net Position	(\$487,949)
Net Position - Beginning of the Period	512,361
Net Position - End of Period	\$24,412

The accompanying notes are an integral part of this statement.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF BUDGETARY RESOURCES (Note 13)
 FOR THE PERIOD ENDED SEPTEMBER 30, 1998
 (Rounded to Thousands)

BUDGETARY RESOURCES	
<i>Budget Authority:</i>	
Appropriations	\$1,088,968
Borrowing Authority	626,554
Net Transfers, Current Year Authority	(41,413)
<i>Unobligated Balance:</i>	
Brought Forward October 1	6,756,285
Net Transfers Prior-Year Balance, Actual	(369,806)
<i>Spending Authority from Offsetting Collections:</i>	
Earned	
Collected	3,171,799
Receivable from Federal Sources	582,094
<i>Adjustments:</i>	
Recoveries of Prior Year Obligations	272,740
Temporarily Not Available Pursuant to Public Law	(33,263)
Permanently Not Available	
Cancellations of Expired and No Year Accounts	(41,093)
Capital Transfers and Redemption of Debt	(692,911)
Total Budgetary Resources	\$11,319,954

The accompanying notes are an integral part of this statement.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF BUDGETARY RESOURCES (Note 13)
FOR THE PERIOD ENDED SEPTEMBER 30, 1998
(Rounded to Thousands)

STATUS OF BUDGETARY RESOURCES	
<i>Obligations Incurred:</i>	
Category A, Direct	\$572,868
Category B, Direct	4,094,511
<i>Unobligated Balances Available:</i>	
Apportioned	20,633
<i>Unobligated Balances Not Yet Available:</i>	
Other	6,631,942
Total, Status of Budgetary Resources	\$11,319,954
OUTLAYS	
<i>Obligations Incurred:</i>	
Category A, Direct	\$572,868
Category B, Direct	4,094,511
<i>Less: Spending Authority from Offsetting Collections and Adjustments:</i>	
Earned	
Collected	3,171,799
Receivable from Federal Sources	582,094
Actual Recoveries of Prior Year Obligations	272,740
<i>Obligated Balance, Net – Beginning of the Period:</i>	1,925,902
<i>Less: Obligated Balance, Net - End of Period:</i>	
Accounts Receivable	(1,456,280)
Undelivered Orders	831,615
Accounts Payable	2,131,374
Total Outlays	
Disbursements	3,968,542
Collections	(2,908,603)

The accompanying notes are an integral part of this statement.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF FINANCING
 FOR THE PERIOD ENDED SEPTEMBER 30, 1998
 (Rounded to Thousands)

Resources Used to Finance Activities:	
<i>Budgetary</i>	
Budgetary resources obligated for orders and services to be received or benefits to be provided to others	\$4,667,379
Less: Offsetting collections, recoveries of prior-year authority	
Earned reimbursements	
Collected	3,171,799
Receivable from Federal sources	582,094
Recoveries of prior-year obligations	272,740
Net budgetary resources used to finance activities	\$640,746
<i>Non-Budgetary</i>	
Property without reimbursement	
Property received from others without reimbursement	133
Costs incurred by others for the entity without reimbursement	16,566
Net non-budgetary resources used to finance activities	\$16,699
Total resources used to finance activities	\$657,445

The accompanying notes are an integral part of this statement.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF FINANCING

FOR THE PERIOD ENDED SEPTEMBER 30, 1998

(Rounded to Thousands)

Relationship of total resources to net cost of operations: <i>Deduct resources used to fund items not part of the net cost of operations</i>	
Increase in budgetary resources obligated to order goods and services not yet received or benefits not yet provided	\$65,361
Budgetary offsetting collections that do not increase exchange revenue or decrease expenses	
Collections that decrease assets unrelated to exchange revenue	(1,143,180)
Credit program collections that increase liabilities for loan guarantees or allowances for subsidy	(678,816)
Other	(284,473)
Adjustments other than collections made to compute net budgetary resources that do not affect net cost of operations	
Recoveries of prior-year authority	(222,296)
Resources that fund expenses recognized in prior periods	6,389
Resources that finance the acquisition of assets or liquidation of liabilities	
General property, plant and equipment	1,319
Loans Receivable	1,065,263
Collateral Acquired	(19,012)
Other resources used to fund items not part of the net cost of operations	50,389
Total resources used to fund items not part of the net cost of operations	(\$1,159,056)
Resources used to finance the net cost of operations	\$1,816,501

The accompanying notes are an integral part of this statement.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF FINANCING

FOR THE PERIOD ENDED SEPTEMBER 30, 1998

(Rounded to Thousands)

<i>Components of net cost of operations that do not require or generate resources during the reporting period</i>	
Expenses or exchange revenue related to the disposition of assets or liabilities, or allocation of their costs over time:	
Expenses related to the use of assets	(\$708)
Gains or (losses) from revaluation of assets and liabilities	(12,127)
Decrease in exchange revenue receivable from the public	29,181
Interest revenue from amortization of credit program allowance for subsidy	(72,546)
Other	(897,184)
Subtotal	(\$953,384)
Expenses that will be financed with budgetary resources recognized in future periods	
Credit program subsidy expense from upward subsidy re-estimates	(535)
Other	(24,178)
Subtotal	(\$24,713)
Other net cost components that do not require or generate resources during the reporting period	(182,408)
Total components of net cost of operations that do not require or generate resources during the reporting period	(\$1,160,505)
Net cost of operations	\$655,996

The accompanying notes are an integral part of this statement.

U.S. SMALL BUSINESS ADMINISTRATION
CONSOLIDATED STATEMENT OF NET COST
 FOR THE PERIOD ENDED SEPTEMBER 30, 1998
 (Rounded to Thousands)

PROGRAMS	
Business Loans	(\$462,483)
Development Company	30,285
Disaster Loans	614,425
Small Business Investment Company	260,749
Surety Bond Guarantees	6,723
Minority Enterprise Development	29,172
Government Contracting	17,179
Entrepreneurial Development	119,479
Outreach, Marketing, and Training	45,058
Total Program Costs	\$660,587
Cost not assigned to programs	7,113
Less: Earned revenue not attributed to programs	(11,704)
Net Cost of Operations (Note 12)	\$655,996

The accompanying notes are an integral part of this statement.

FOOTNOTES TO PRINCIPAL STATEMENTS

September 30, 1998

NOTE 1. Significant Accounting Policies:

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Small Business Administration (SBA) as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of SBA in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin No. 97-01, and SBA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports, also prepared by SBA pursuant to OMB directives, which are used to monitor and control SBA's use of budgetary resources.

B. Reporting Entity

SBA was created by the Small Business Act of 1953. Its mission is to aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns to preserve free competitive enterprise, and to help businesses and families recover from disasters.

The accompanying consolidated financial statements of SBA include the accounts of all funds under SBA control:

Fund Title	Fund Number
Salaries and Expenses (S&E)	0100
Office of Inspector General (OIG)	0200
Disaster Loans Program Account	1152
Business Loans Program Account	1154
Pollution Control Equipment Fund Liquidating Account (PCECGRF)	4147
Business Direct Loan Financing Account	4148
Business Guaranteed Loan Financing Account	4149
Disaster Direct Loan Financing Account	4150
Disaster Loan Liquidating Account (DLF)	4153
Business Loan Liquidating Account (BLIF)	4154
Surety Bond Guarantees Revolving Fund (SBGRF)	4156
Business Assistance Trust Fund (BATF)	8466

C. Budgets and Budgetary Accounting

Each SBA loan disbursement is financed by a combination of two sources: one for the long-term cost of the loan and another for the remaining non-subsidized portion of the loan. Congress provides 1 year, multi year, and no year appropriations, to cover the estimated long-term costs of SBA loans. The long term costs are defined as the net present value of the estimated cash outflows associated with the loans less the estimated cash inflows. The portion of each loan disbursement that does not represent long-term cost is financed under a permanent indefinite borrowing authority to borrow funds from the U.S. Department of the Treasury. Congress also annually adopts an appropriation bill limitation limiting the dollar amount of obligations that can be made for direct loans.

A permanent indefinite appropriation is available to finance the costs of re-estimates that occur after the year in which the loan is disbursed. A modification requires that budget authority for the additional cost is appropriated, or is available out of existing appropriations or from other budgetary resources.

D. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

E. Revenues and Other Financing Sources

The SBA receives the majority of the funding needed to support the accounts and funds through appropriations. The Agency receives 1 year, multi-year, and no year appropriations that may be used, within statutory limits, for operating expenditures. Additional amounts are obtained from fees for guarantees provided. Also, SBA receives gifts from donors and interest on fund balances with Treasury.

Appropriations are recognized as used at the time the related program or administrative expenses are incurred. Appropriations expended for property and equipment are recognized as used when the asset is consumed in operations. Revenues are recognized when earned, i.e., goods have been delivered or services rendered.

F. Fund Balances with Treasury and Cash

The SBA does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Department of the Treasury. Fund balances with Treasury and cash are comprised primarily of appropriated, revolving, and trust funds, which are available to pay current liabilities and finance authorized purchase commitments. Cash balances held outside the U.S. Treasury are not material.

G. Loans Receivable

Loans are accounted for as credit program receivables at the time funds have been disbursed. For loans obligated prior to October 1, 1991, loans receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on historical experience, present market conditions, and an analysis of outstanding balances. For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

Interest receivable is comprised of accrued interest on accounts and loans receivable and purchased interest on loan guarantee purchases. Interest income is accrued at the contractual rate on the outstanding principal amount and is reduced by the amount of interest income accrued to non-performing loans (those in excess of 90 days delinquent). Purchased interest is carried at cost. A 100 percent allowance is established for all purchased interest on non-performing loans.

H. General Property and Equipment

The buildings in which SBA operates are provided by the General Services Administration, which charges SBA rent that approximates the commercial rental rates for similar properties. Equipment is capitalized at cost if the initial unit acquisition cost is \$5,000 or more and service life is 2 years or more. Equipment with an acquisition cost of less than \$5,000 or less than 2 years of life is expensed when purchased. Equipment is depreciated using the straight-line method over useful lives which, for most equipment, range from 3 to 5 years.

I. Implementation of New Accounting Standards

SBA has implemented the provisions of three accounting standards for fiscal year 1998.

- Statement of Federal Financial Accounting Standards (SFFAS) No. 4, “Managerial Cost Accounting Concepts and Standards for the Federal Government,” which requires reporting of SBA programs on a full cost basis.
- SFFAS No. 7, “Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting.” SBA implemented Statement of Budgetary Resources and Statement of Financing as required by the standard.
- SFFAS No. 8, “Supplementary Stewardship Reporting.” SBA provided information on stewardship investment in human capital in the Required Supplementary Stewardship Information (RSSI) statement in accordance with the standard.

J. Advances

Advances are made to cover principal and interest due for debentures in SBA’s Section 503, Section 504, and SBIC programs, to subcontractors for goods to be delivered as part of SBA’s 8(a) program, and for travel expenses.

K. Investments in U.S. Government Securities

The 7(a) secondary market program is administered by an agent of the SBA. The agent receives collections from banks on 7(a) loans guaranteed by the SBA, and makes payments to secondary holders who have investments in pools of 7(a) guaranteed loans. The trust fund, used by the agent for the 7(a) cash flow, accumulated interest in excess of \$283 million since the inception of the program in 1986. This accumulated interest is the property of the SBA, but future payments, required to the holders of 7(a) secondary market securities, could exceed the principal amount of the trust fund. The interest, as well as the principal in the trust fund, is invested in short term Treasury securities. The SBA’s policy is to carry the value of the interest in the 7(a) trust fund as “securities” on its financial statements, offset by an equal amount of “deferred credits.” This accounting treatment recognizes the nature of the investment, and the existence of a possible future claim on interest invested in the securities.

L. Borrowings Payable to the Treasury

Borrowings payable to the Treasury result from loans from the Treasury to fund the credit reform financing accounts. These funds are required to make periodic principal payments to Treasury based on the collections of loans receivable.

M. Liability for Loan Guarantees

There are two components to the Agency’s liability for guaranteed loans: liabilities for losses on pre-1992 loans, and liabilities on post-1991 loans made under the Federal Credit Reform legislation. For pre-1992 guarantees, the amount is an estimate of losses on guarantees outstanding based on historical experience. For post-1991 loans, the liability is based on the present value of future cashflows on the loans.

N. Interest Payable to Treasury

The SBA is required to make periodic interest payments to Treasury based on its debt to Treasury. The credit reform financing accounts have interest payable to Treasury. For fiscal year 1998, the amount due to Treasury was \$23,491,054 for BLIF and \$575,329,252 for DLF. The SBA is also required to make periodic interest payments to Treasury based on interest collections on loans in our liquidating funds. For fiscal year 1998, the amount due to Treasury was \$61,490,097 for BLIF and \$59,218,670 for DLF.

O. Contingencies

The SBA is a party in various administrative proceedings, legal actions, environmental suits, and claims brought by or against it. In the opinion of SBA management and legal counsel, the ultimate resolution of these proceedings, actions, suits and claims will not materially affect the financial position or results of SBA operations.

P. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

Sick leave and other types of nonvested leave are expensed as taken.

Q. Federal Employees' Compensation Act Liability

The future workers' compensation estimates are generated from an application of actuarial procedures developed to estimate the liability for Federal Employees' Compensation Act (FECA) benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using the paid losses extrapolation method calculated over the next 23 year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value.

R. Retirement Plan

The majority of SBA's employees participate in the Civil Service Retirement System (CSRS), to which SBA makes matching contributions equal to 7 percent of pay. On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to SBA employees which automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay.

For most employees hired since December 31, 1983, SBA also contributes the employer's matching share for Social Security. The SBA does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management and the FERS.

S. Combined Statements

SBA's Statement of Budgetary Resources and Statement of Financing were prepared as combined statements. As such, intra-entity transactions have not been eliminated.

NOTE 2. Fund Balances with Treasury:

Fund Balances:

	Entity Assets	Non-Entity Assets	Total
(1) Trust Funds	\$1,040,821,157	\$0	\$1,040,821,157
(2) Revolving Funds	14,044,901	0	14,044,901
(3) Appropriated Funds	7,141,218,060	0	7,141,218,060
Total	\$8,196,084,118	\$0	\$8,196,084,118

NOTE 3. Cash:

The cash balance held outside the U.S. Treasury was \$2,146,832. This balance was composed primarily of cash on hand.

NOTE 4. Investments:

Investments are comprised of marketable Federal securities held by an agent of the U. S. Small Business Administration. These securities are valued on a cost basis and maintain a balance of \$283,185,031 as of September 30, 1998. Cost basis and market value are the same.

NOTE 5. Accounts Receivable:

Entity Assets	Account Balance Intragovernmental	Account Balance Governmental
Business Loan and Investment Fund	\$56,268,398	\$47,480,909
Disaster Loan Fund	290,486,758	567,829
Pollution Control	0	0
Surety Bond Guaranty Program	0	1,943,280
Business Assistance Trust Fund	0	0
Salaries and Expenses	2,054,876	681,116
Office of Inspector General	626,088	826
Total	\$349,436,120	\$50,673,960

Other Information:

Accounts Receivable - Intragovernmental represents reimbursements from other agencies and funds. The amounts shown for the Business Loan and Investment Fund and the Disaster Loan Fund are comprised entirely of interest due from Treasury on cash held by Treasury.

Accounts Receivable – Governmental primarily represents amounts due from participating financial institutions for guarantee fees. The balances in the Salaries and Expenses and the Office of Inspector General funds represent receivables due from Agency employees or vendors.

Based upon historical experience, an aggressive collection policy and the ability to offset against the participant’s share of loan collections, no allowance for unrecoverable accounts is provided. No allowance for unrecoverable accounts for administrative activity is necessary because employee accounts may be recovered through an offset process and vendor receivables are generally offset against disbursements made to the vendor.

NOTE 6. Advances:

Entity Assets	Account Balance Intragovernmental	Account Balance Governmental
Sec. 503 Debentures	\$4,379,612	\$0
Sec. 504 Debentures		5,084,118
SBIC		77,245,098
8(a) Program Subcontractors		7,145,237
Travel Advances		57,779
Total	\$4,379,612	\$89,532,232

NOTE 7. Loans and Loan Guarantees, Non-Federal Borrowers:

A. SBA operates the following loan and/or loan guarantee programs:

- (1) Business, Direct
- (2) Business, Guarantee
- (3) Disaster, Direct
- (4) Disaster, Guarantee
- (5) Pollution Control, Guarantee
- (6) Surety Bond, Guarantee

Direct loan obligations or loan guarantee commitments made prior to FY 1992, and the resulting direct loans or loan guarantees, are reported net of an allowance for estimated uncollectible loans or estimated losses. Loss allowances represent estimates of what SBA does not expect to recover on its loans receivable obligated prior to FY 1992. These allowances are based upon historical experience, current market conditions and an analysis of individual assets. They are non-funded and merely attempt to reflect the anticipated unrecoverable loans receivable.

Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act. The Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the loan or loan guarantee is made.

An analysis of loans receivable, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the loans and loan guarantees is provided in the following sections.

B. Direct Loans Obligated Prior To FY 1992:

Liquidating Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
(1) Business	\$408,813,098	\$11,270,632	(\$143,466,644)	\$10,424,820	\$287,041,906
(2) Disaster	1,310,806,237	20,221,766	(127,583,180)	1,714,725	1,205,159,548
Total	\$1,719,619,335	\$31,492,398	(\$271,049,824)	\$12,139,545	\$1,492,201,454

C. Direct Loans Obligated After FY 1991:

Credit Reform Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Net Present Value of Assets Related to Direct Loans
(1) Business	\$139,267,795	\$1,552,931	\$466,906	(\$45,741,928)	\$95,545,704
(2) Disaster	5,614,070,915	39,433,981	1,252,283	(1,502,379,650)	4,152,377,529
Total	\$5,753,338,710	\$40,986,912	\$1,719,189	(\$1,548,121,578)	\$4,247,923,233

D. Defaults on Pre-1992 Guaranteed Loans:

Liquidating Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Defaulted Guaranteed Loans Receivable, Net
(1) Business	\$1,003,830,197	\$51,912,871	(\$482,450,039)	\$18,931,739	\$592,224,768
(2) Pollution	45,145,511	239,402	(30,304,701)	0	15,080,212
Total	\$1,048,975,708	\$52,152,273	(\$512,754,740)	\$18,931,739	\$607,304,980

E. Defaults on Post-1991 Guaranteed Loans:

Credit Reform Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Net Present Value of Assets Related to Defaulted Guaranteed Loans Receivables.
Business	\$754,443,251	\$22,050,268	\$25,668,123	(\$214,635,997)	\$587,525,645

F. Guaranteed Loans Outstanding:

Loan Programs	Outstanding Principal, Guaranteed Loans Receivable, Gross	Amount of Outstanding Principal Guaranteed
(1) Business	\$37,498,511,175	\$30,536,136,716
(2) Pollution	\$57,081,175	\$57,081,175

G. Liability for Loan Guarantees:

Loan Programs	Liabilities for Losses on Pre-1992 Guarantees Liquidating	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities for Loan Guarantees
(1) Business	\$30,504,841	\$1,435,664,348	\$1,466,169,189
(2) Pollution	7,126,756	0	7,126,756
Total	\$37,631,597	\$1,435,664,348	\$1,473,295,945

H. Subsidy Expense for Post-1991 Loans:

1. Current Year's Direct Loans

Loan Programs	Interest Differential	Defaults	Fees	Other	Total
(1) Business	\$896,815	(\$28,970)	\$2,487	(\$12,172)	\$858,160
(2) Disaster	78,059,468	52,553,453	35,266	(7,208,849)	123,439,338
Total	\$78,956,283	\$52,524,483	\$37,753	(\$7,221,021)	\$124,297,498

2. Direct Loan Modifications and Re-estimates

Loan Programs	Modifications	Re-estimates	Total
(1) Business	\$0	(\$1,404,808)	(\$1,404,808)
(2) Disaster	0	236,816,746	236,816,746
Total	\$0	\$235,411,938	\$235,411,938

3. Total Direct Loan Subsidy Expenses

Loan Programs	
(1) Business	(\$546,648)
(2) Disaster	360,256,084
Total	\$359,709,436

I. Subsidy Expense for Post-1991 Loan Guarantees:

1. Current Year's Loan Guarantees

Loan Program	Interest Supplement	Defaults	Fees	Other	Total
Business	\$0	\$543,383,895	(\$310,813,672)	(\$39,691,029)	\$192,879,194

2. *Loan Guarantee Modifications and Re-estimates*

Loan Program	Modifications	Re-estimates	Total
Business	(\$4,450)	(\$520,582,453)	(\$520,586,903)

3. *Total Loan Guarantee Subsidy Expenses*

Loan Program	Total
Business	(\$327,707,709)

J. Administrative Expense:

Direct Loans Loan Programs	Total
(1) Business	\$18,800,000
(2) Disaster	158,214,907
Total	\$177,014,907

Loan Guarantees Loan Program	Total
Business	\$82,037,751

K. Other Information:

The liability in Part G of this note, for pre-1992 business loans, relates to outstanding gross amounts guaranteed of \$3,803,635,520. Of this amount, the Agency's share is \$3,302,215,299. For Pollution Control Equipment Contract Guarantees, the outstanding guarantees total \$57,081,175. This amount is both gross and Agency share. For post-1991 loans, the gross amount guaranteed for business loans is \$33,694,875,655. The Agency's share is \$27,233,921,417.

The Foreclosed Property referred to in Parts B through E is comprised of \$54,164,466 of Real Estate outstanding on 325 loans and \$4,294,130 of Other Property outstanding on 64 loans.

NOTE 8. General Property and Equipment, Net:

Classes of Fixed Assets	(1) Depreciation Method	(2) Service Life	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
A. ADP Software	S/L	1-3 years	\$1,966,393	\$1,436,464	\$529,929
B. Equipment	S/L	2-5 years	1,920,922	1,764,888	156,034
Total			\$3,887,315	\$3,201,352	\$685,963

NOTE 9. Debt:

Liabilities Covered by Budgetary Resources:

	Beginning Balance	New Borrowings	Repayments	Ending Balance
A. Intragovernmental Debt:				
(1) Borrowing from the Treasury	\$8,932,492,677	\$626,554,193	(\$524,005,856)	\$9,035,041,014
(2) Borrowing from Federal Financing Bank	274,935,650	0	(41,498,298)	233,437,352
Total Intragovernmental Debt	\$9,207,428,327	\$626,554,193	(\$565,504,154)	\$9,268,478,366

NOTE 10. Other Liabilities:

A. Other Liabilities Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total Liabilities
1. Intragovernmental			
(1) Business Loan and Investment Fund	\$1,609,217,937	\$0	\$1,609,217,937
(2) Disaster Loan Fund	1,401,686,340	0	1,401,686,340
(3) Salaries and Expenses	0	(12,782)	(12,782)
(4) Pollution Control Guarantee Fund	21,998,356	0	21,998,356
Total	\$3,032,902,633	(\$12,782)	\$3,032,889,851
2. Governmental			
(1) Business Loan & Investment Fund	\$0	(\$2,417,397)	(\$2,417,397)
(2) Disaster Loan Fund	0	18,423,363	18,423,363
(3) Salaries and Expenses	0	13,609,201	13,609,201
(4) Office of Inspector General	0	407,901	407,901
(5) Surety Bond Guarantee Fund	36,092,302	(813,272)	35,279,030
Total	\$36,092,302	\$29,209,796	\$65,302,098

Other Information:

Amounts shown as Intragovernmental under “Non-Current Liabilities” consists primarily of the net assets of liquidating funds due to Treasury in the amounts of \$1,321,064,015 for BLIF, \$1,401,686,340 for DLF, and \$21,998,356 for the Pollution Control Guarantee Fund. A lesser amount of the BLIF balance consists of amounts due FFB.

The amount shown as Governmental under “Non-Current Liabilities” consists of contingent liabilities for the Surety Bond Guarantee Fund.

B. Other Liabilities not Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total Liabilities
1. Intragovernmental			
(1) FECA – Workers Compensation Liability	\$0	\$15,372,000	\$15,372,000
2. Governmental			
(1) Accrued Unfunded Annual Leave	\$0	\$23,475,289	\$23,475,289
(2) Prior Liens – Real Estate	0	5,051,419	5,051,419
Total Governmental	\$0	\$28,526,708	\$28,526,708

NOTE 11. Unexpended Appropriations:

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated:				
a. Available	\$307,996,884	0	\$239,097,437	\$547,094,321
b. Unavailable	0	0	0	0
(2) Undelivered Orders	0	0	124,956,105	124,956,105
Total	\$307,996,884	\$0	\$364,053,542	\$672,050,426

NOTE 12. Gross Cost and Earned Revenue by Budget Functional Classification:

Functional Classification	Gross Cost	Earned Revenue	Net Cost
Commerce and Housing Credit	\$214,014,129	(\$191,592,957)	\$22,421,172
Community and Regional Development	1,273,876,257	(640,301,089)	633,575,168
Total	\$1,487,890,386	(\$831,894,046)	\$655,996,340

NOTE 13. Footnote Disclosures Related to the Statement of Budgetary Resources:

SBA had no available borrowing or contract authority at the end of the FY 1998 reporting period. Repayments of borrowings are made annually from collections received through SBA's credit reform portfolio. Borrowing repayments are calculated using the guidance provided by OMB. SBA has access to permanent indefinite appropriations for the purpose of funding liquidating fund obligations and upward subsidy reestimates.

Legend:	
BLIF	Business Loan and Investment Fund
DLF	Disaster Loan Fund
SBGRF	Surety Bond Guarantees Revolving Fund
PCECGRF	Pollution Control Equipment Contract Guarantees Revolving Fund
S&E	Salaries and Expenses
OIG	Office of Inspector General
BATF	Business Assistance Trust Fund

**U.S. SMALL BUSINESS ADMINISTRATION
STATEMENT OF FINANCIAL POSITION**

AS OF SEPTEMBER 30, 1998

ASSETS	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Intragovernmental Assets:								
Fund Balances with Treasury (Note 2)	\$2,557,277,181	\$5,361,684,749	\$42,359,670	\$14,044,900	\$218,565,168	\$1,850,223	\$302,227	\$8,196,084,118
Investments (Note 4)	283,185,031							283,185,031
Accounts Receivable, Net (Note 5)	56,268,398	290,486,758			2,054,876	626,088		349,436,120
Advances (Note 6)	4,379,612							4,379,612
Governmental Assets:								
Investments (Note 4)								
Accounts Receivable, Net (Note 5)	47,480,909	567,829	1,943,280		681,116	826		50,673,960
Credit Program Receivables and Related Foreclosed Property, Net (Note 7)	1,562,338,023	5,357,537,078		15,080,212				6,934,955,313
Cash and Other Monetary Assets (Note 3)	2,071,399				75,433			2,146,832
General Property and Equipment, Net (Note 8)					659,610		26,353	685,963
Advances (Note 6)	89,474,453				57,779			89,532,232
Total Entity Assets	\$4,602,475,006	\$11,010,276,414	\$44,302,950	\$29,125,112	\$222,093,982	\$2,477,137	\$328,580	\$15,911,079,181
Total Non-Entity Assets	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Assets:	\$4,602,475,006	\$11,010,276,414	\$44,302,950	\$29,125,112	\$222,093,982	\$2,477,137	\$328,580	\$15,911,079,181

The accompanying notes are an integral part of this schedule. Details may not add to totals due to rounding.

**U.S. SMALL BUSINESS ADMINISTRATION
STATEMENT OF FINANCIAL POSITION**

AS OF SEPTEMBER 30, 1998

LIABILITIES	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
<i>Liabilities Covered by Budgetary Resources:</i>								
Intragovernmental Liabilities:								
Accounts Payable	\$793,020,059	\$1,169,672,505	\$0	\$0	\$516,898	\$600,026	\$0	\$1,963,809,488
Debt (Note 9)	617,903,843	8,650,574,523						9,268,478,366
Other (Note 10)	1,609,217,937	1,401,686,340		21,998,356	(12,782)			3,032,889,851
Governmental Liabilities:								
Accounts Payable	30,896,788	334,463	2,885,627		4,810,565	64,818	109	38,992,370
Liabilities for Loan Guarantees (Note 7)	1,466,169,189			7,126,756				1,473,295,945
Other (Note 10)	(2,417,397)	18,423,363	35,279,030		13,609,201	407,901		65,302,098
Total Liabilities Covered by Budgetary Resources	\$4,514,790,419	\$11,240,691,194	\$38,164,657	\$29,125,112	\$18,923,882	\$1,072,745	\$109	\$15,842,768,118
<i>Liabilities Not Covered by Budgetary Resources:</i>								
Intragovernmental Liabilities:								
Other (note 10)					15,372,000			15,372,000
Governmental Liabilities:								
Other (Note 10)	4,934,654	116,766			23,434,826	40,463		28,526,709
Total Liabilities not Covered by Budgetary Resources	\$4,934,654	\$116,766	\$0	\$0	\$38,806,826	\$40,463	\$0	\$43,898,709
Total Liabilities	\$4,519,725,073	\$11,240,807,960	\$38,164,657	\$29,125,112	\$57,730,708	\$1,113,208	\$109	\$15,886,666,827

The accompanying notes are an integral part of this schedule. Details may not add to totals due to rounding.

**U.S. SMALL BUSINESS ADMINISTRATION
STATEMENT OF FINANCIAL POSITION**

AS OF SEPTEMBER 30, 1998

NET POSITION	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Unexpended Appropriations (Note 11)	\$117,693,532	\$100,615,672	\$307,996,884	\$0	\$144,377,181	\$1,367,157	\$0	\$672,050,426
Cumulative Results of Operations	(34,943,598)	(331,147,218)	(301,858,591)		19,986,093	(3,228)	328,471	(647,638,071)
Total Net Position	\$82,749,934	(\$230,531,546)	\$6,138,293	\$0	\$164,363,274	\$1,363,929	\$328,471	\$24,412,355
Total Liabilities and Net Position	\$4,602,475,006	\$11,010,276,414	\$44,302,950	\$29,125,112	\$222,093,982	\$2,477,137	\$328,580	\$15,911,079,181

The accompanying notes are an integral part of this schedule. Details may not add to totals due to rounding.

U.S. SMALL BUSINESS ADMINISTRATION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 FOR THE PERIOD ENDED SEPTEMBER 30, 1998

	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Net Cost of Operations	(\$219,264,974)	\$633,575,168	\$3,697,627	(\$4,363,072)	\$232,125,057	\$10,066,962	\$159,571	\$655,996,339
Financing Sources:								
Appropriations Used	299,001,622	282,807,453	9,738,640		232,409,700	10,062,763	39,451	834,059,629
Donations							253,385	253,385
Imputed Financing					16,565,985			16,565,985
Transfers-out	(550,102,010)	(9,531,279)						(559,633,289)
Net Results of Operations	(\$31,835,414)	(\$360,298,994)	\$6,041,013	\$4,363,072	\$16,850,628	(\$4,199)	\$133,265	(\$364,750,629)
Prior Period Adjustments	0	0	0	0	0	0	0	0
Net Change in Cumulative Results of Operations	(\$31,835,414)	(\$360,298,994)	\$6,041,013	\$4,363,072	\$16,850,628	(\$4,199)	\$133,265	(\$364,750,629)
Increase (Decrease) in								
Unexpended Appropriation	(51,439,304)	(79,302,470)	(6,238,640)	(4,363,072)	17,593,684	711,760	(160,072)	(123,198,114)
Change in Net Position	(\$83,274,718)	(\$439,601,464)	(\$197,627)	\$0	\$34,444,312	\$707,561	(\$26,807)	(\$487,948,743)
Net Position - Beginning of the Period	166,024,652	209,069,918	6,335,920	0	129,918,962	656,368	355,278	512,361,098
Net Position - End of Period	\$82,749,934	(\$230,531,546)	\$6,138,293	\$0	\$164,363,274	\$1,363,929	\$328,471	\$24,412,355

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF BUDGETARY RESOURCES (Note 13)
FOR THE PERIOD ENDED SEPTEMBER 30, 1998

RESOURCES	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
<i>Budget Authority:</i>								
Appropriations	\$584,428,718	\$234,038,887	\$3,500,000	\$0	\$257,000,000	\$10,000,000	\$0	\$1,088,967,605
Borrowing Authority	25,715,193	600,839,000						626,554,193
Contract Authority					(38)			(38)
Net Transfers, Current Year Authority	(41,498,298)				85,350			(41,412,948)
<i>Unobligated Balance:</i>								
Brought Forward Oct. 1	2,256,070,253	4,432,492,889	38,226,067	12,991,773	15,482,182	1,021,561		6,756,284,725
Net Transfers Prior-Year Balance, Actual	(370,091,872)				50,000		235,712	(369,806,160)
<i>Spending Authority from Offsetting Collections:</i>								
<i>Earned</i>								
Collected	1,374,358,612	1,520,033,576	4,618,851	1,151,457	271,000,912	502,034	133,264	3,171,798,706
Receivable from Federal Sources	77,660,925	505,434,922			(1,001,732)			582,094,115
<i>Adjustments:</i>								
Recoveries of Prior Year Obligations	36,855,765	154,351,067			80,585,399	938,367	9,194	272,739,792
Temporarily Not Available Pursuant to Public Law	(33,262,816)							(33,262,816)
Permanently Not Available Cancellations of Expired and No Year Accounts	(30,546,373)				(10,261,358)	(285,017)		(41,092,748)
Capital Transfers and Redemption of Debt	(17,791,915)	(675,118,994)						(692,910,909)
Total Budgetary Resources	\$3,861,898,192	\$6,772,071,347	\$46,344,918	\$14,143,230	\$612,940,715	\$12,176,945	\$378,170	\$11,319,953,517

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF BUDGETARY RESOURCES (Note 13)
FOR THE PERIOD ENDED SEPTEMBER 30, 1998

STATUS	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
<i>Obligations Incurred:</i>								
Category A, Direct	\$0	\$0	\$0	\$0	\$561,712,953	\$11,015,061	\$140,180	\$572,868,194
Category B, Direct	1,563,930,140	2,525,309,007	5,173,062	98,329				4,094,510,538
<i>Unobligated Balances Available:</i>								
Apportioned					19,621,346	1,018,116	(6,916)	20,632,546
Other								
<i>Unobligated Balances Not Yet Available:</i>								
Other	2,297,968,052	4,246,762,340	41,171,856	14,044,901	31,606,416	143,768	244,906	6,631,942,239
Total, Status of Budgetary Resources	\$3,861,898,192	\$6,772,071,347	\$46,344,918	\$14,143,230	\$612,940,715	\$12,176,945	\$378,170	\$11,319,953,517

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF BUDGETARY RESOURCES (Note 13)
FOR THE PERIOD ENDED SEPTEMBER 30, 1998

OUTLAYS	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
<i>Obligations Incurred</i>								
Category A, Direct	\$0	\$0	\$0	\$0	\$561,712,953	\$11,015,061	\$140,180	\$572,868,194
Category B, Direct	1,563,930,140	2,525,309,007	5,173,062	98,329				4,094,510,538
<i>Less: Spending Authority from Offsetting Collections and Adjustments:</i>								
<i>Earned</i>								
Collected	1,374,358,612	1,520,033,576	4,618,851	1,151,457	271,000,912	502,034	133,264	3,171,798,706
Receivable from Federal Sources	77,660,924	505,434,922			(1,001,732)			582,094,114
Actual Recoveries of Prior Year Obligations	36,855,765	154,351,067			80,585,399	938,367	9,194	272,739,792
<i>Obligated Balance, Net – Beginning of the Period</i>	624,051,595	1,131,496,282	3,605,450	350	165,695,417	957,863	95,357	1,925,902,314
<i>Less: Obligated Balance, Net - End of Period:</i>								
Accounts Receivable	(545,459,054)	(909,507,982)			(1,312,580)			(1,456,279,616)
Undelivered Orders	446,076,934	236,847,148			148,386,406	240,509	64,116	831,615,113
Accounts Payable	327,499,833	1,787,583,242	1,187,813		14,895,194	208,002	109	2,131,374,193
Total Outlays:								
Disbursements	1,845,347,333	1,882,096,892	7,590,699	98,679	222,660,740	10,586,046	162,118	3,968,542,507
Collections	(1,374,358,612)	(1,520,033,576)	(4,618,851)	(1,151,457)	(7,805,969)	(502,034)	(133,264)	(2,908,603,763)

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF FINANCING
FOR THE PERIOD ENDED SEPTEMBER 30, 1998

	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Resources Used to Finance Activities:								
<i>Budgetary</i>								
Budgetary resources obligated for orders and services to be received or benefits to be provided to others	\$1,563,930,140	\$2,525,309,007	\$5,173,062	\$98,329	\$561,712,953	\$11,015,061	\$140,180	\$4,667,378,732
Less: Offsetting collections, recoveries of prior-year authority								
Earned reimbursements								
Collected	1,374,358,612	1,520,033,576	4,618,851	1,151,457	271,000,912	502,034	133,264	3,171,798,706
Receivable from Federal sources	77,660,925	505,434,922			(1,001,732)			582,094,115
Recoveries of prior-year obligations	36,855,765	154,351,067			80,585,399	938,367	9,194	272,739,792
Net budgetary resources used to finance activities	\$75,054,838	\$345,489,442	\$554,211	(\$1,053,128)	\$211,128,374	\$9,574,660	(\$2,278)	\$640,746,119

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF FINANCING
FOR THE PERIOD ENDED SEPTEMBER 30, 1998

	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
<i>Non-Budgetary</i>								
Property without reimbursement								
Property received from others without reimbursement	\$0	\$0	\$0	\$0	(\$38)	\$0	\$133,264	\$133,226
Costs incurred by others for the entity without reimbursement					16,565,985			16,565,985
Net non-budgetary resources used to finance activities	\$0	\$0	\$0	\$0	\$16,565,947	\$0	\$133,264	\$16,699,211
Total resources used to finance activities	\$75,054,838	\$345,489,442	\$554,211	(\$1,053,128)	\$227,694,321	\$9,574,660	\$130,986	\$657,445,330
Relationship of total resources to net cost of operations:								
<i>Deduct resources used to fund items not part of the net cost of operations</i>								
Increase in budgetary resources obligated to order goods and services not yet received or benefits not yet provided	(47,863,336)	47,665,057			65,172,871	405,602	(19,392)	65,360,802

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF FINANCING
FOR THE PERIOD ENDED SEPTEMBER 30, 1998

	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Budgetary offsetting collections that do not increase exchange revenue or decrease expenses								
Collections that decrease assets unrelated to exchange revenue	(\$421,437,902)	(\$721,742,337)	\$0	\$0	\$0	\$0	\$0	(\$1,143,180,239)
Credit program collections that increase liabilities for loan guarantees or allowances for subsidy	(493,629,961)	(184,278,225)		(907,795)				(678,815,981)
Other	(279,881,298)	14,470	(4,618,851)		13,162			(284,472,517)
Adjustments other than collections made to compute net budgetary resources that do not affect net cost of operations								
Recoveries of prior-year authority	(18,287,372)	(127,838,109)			(75,222,782)	(938,367)	(9,193)	(222,295,823)
Resources that fund expenses recognized in prior periods	4,503,339		1,055,162		789,772	40,463		6,388,736

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF FINANCING
FOR THE PERIOD ENDED SEPTEMBER 30, 1998

	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Resources that finance the acquisition of assets or liquidation of liabilities								
General property, plant and equipment	\$0	\$0	\$0	\$0	\$1,318,672	\$0	\$0	\$1,318,672
Loans Receivable	469,356,383	598,946,527	(4,198,579)	1,158,725				1,065,263,056
Collateral Acquired	(16,656,168)	(2,355,564)						(19,011,732)
Other resources used to fund items not part of the net cost of operations	(3,380,550)	53,769,444						50,388,894
Total resources used to fund items not part of the net cost of operations	(\$807,276,865)	(\$335,818,737)	(\$7,762,268)	\$250,930	(\$7,928,305)	(\$492,302)	(\$28,585)	(\$1,159,056,132)
Resources used to finance the net cost of operations	\$882,331,703	\$681,308,179	\$8,316,479	(\$1,304,058)	\$235,622,626	\$10,066,962	\$159,571	\$1,816,501,462

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF FINANCING
FOR THE PERIOD ENDED SEPTEMBER 30, 1998

	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Components of net cost of operations that do not require or generate resources during the reporting period								
Expenses or exchange revenue related to the disposition of assets or liabilities, or allocation of their costs over time:								
Expenses related to the use of assets	\$0	\$0	\$0	\$0	(\$707,867)	\$0	\$0	(\$707,867)
Gains or (losses) from revaluation of assets and liabilities	(11,809,809)	(317,556)						(12,127,365)
Decrease or (increase) in exchange revenue receivable from the public	(225,497,583)	261,852,795	(4,618,852)	234,258	(2,789,702)			29,180,916
Interest revenue from amortization of credit program allowance for subsidy	(81,589,743)	9,043,922						(72,545,821)
Other	(526,350,292)	(370,426,165)		(407,793)				(897,184,250)
Subtotal	(\$845,247,427)	(\$99,847,004)	(\$4,618,852)	(\$173,535)	(\$3,497,569)	\$0	\$0	(\$953,384,387)

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. SMALL BUSINESS ADMINISTRATION
COMBINED STATEMENT OF FINANCING
FOR THE PERIOD ENDED SEPTEMBER 30, 1998

	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Expenses that will be financed with budgetary resources recognized in future periods								
Credit program subsidy expense from upward subsidy re-estimates	(\$271,996,245)	\$271,461,539	\$0	\$0	\$0	\$0	\$0	(\$534,706)
Other	(26,866,127)	2,688,410						(24,177,717)
Subtotal	(\$298,862,372)	\$274,149,949	\$0	\$0	\$0	\$0	\$0	(\$24,712,423)
Other net cost components that do not require or generate resources during the reporting period	42,513,122	(222,035,956)		(2,885,479)				(182,408,312)
Total components of net cost of operations that do not require or generate resources during the reporting period	(\$1,101,596,677)	(\$47,733,010)	(\$4,618,852)	(\$3,059,014)	(\$3,497,569)	\$0	\$0	(\$1,160,505,122)
Net cost of operations	(\$219,264,974)	\$633,575,168	\$3,697,627	(\$4,363,072)	\$232,125,057	\$10,066,962	\$159,571	\$655,996,339

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. SMALL BUSINESS ADMINISTRATION
REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION
 FOR THE PERIOD ENDED SEPTEMBER 30, 1998

Stewardship Investments in Human Capital	Cost For Fiscal Year
Service Corp of Retired Executives	\$8,617,876
Office of International Trade	6,178,363
Office of Women's Business Ownership	7,978,617
Office of Veteran Affairs	1,566,532
Office of Small Business Development Centers	79,735,870
One Stop Capital Shops	2,052,481
Business Information Centers	8,023,280
Small Business Innovation and Research	56,149
Office of Native American Affairs	392,713
Other Business Initiatives	4,943,556
Total	\$119,545,437

A detailed description of the programs may be found in the SBA Program Description and Analysis portion of this document.



**Office of Inspector General
Washington, DC 20416**

AUDIT REPORT
Issue Date: September 20, 1999
Number: 9-24

TO: Joseph P. Laddo, Acting Chief Financial Officer

Lawrence E. Barrett, Chief Information Officer

Bernard Kulik, Associate Administrator for
Disaster Assistance

FROM: John E. Dyer, Acting Assistant Inspector General for Auditing

SUBJECT: Audit of SBA's FY 1998 Financial Statements

Pursuant to the Chief Financial Officers Act of 1990, attached is the Independent Accountant's Audit Report (Attachment 1) issued by Cotton & Co., CPAs. They concluded that the financial statements present fairly, in all material respects, the financial position of SBA as of September 30, 1998, and its net costs, changes in net positions, budgetary resources, and financing for the year then ended in accordance with Federally prescribed accounting principles.

The section on SBA's internal control structure discusses problems related to (1) financial reporting process, (2) subsidy modeling and re-estimating process, and (3) information systems controls. The section on compliance with laws and regulations indicates SBA's financial management system was not in compliance with the requirements referred to in the Federal Financial Management Improvement Act of 1996. The report includes a disclaimer on information in the CFO's annual report, which was not subject to audit procedures. The auditors also noted other management and internal control issues that will be communicated in a separate management letter.

SBA officials stated they were concerned about the internal control findings in the audit report and agreed to implement actions to address the recommendations so the findings could be removed from future audits. The findings in this report are based on the auditor's conclusions and the report recommendations are subject to review, management decision, and action by your office in accordance with existing Agency procedures for audit follow-up and resolution. Please provide us your proposed management decisions on SBA Form 1824, Recommendation Action Sheet, also attached, within 30 days.

Should you or your staff have any questions, please contact Victor R. Ruiz, Director, Business Development Programs Group, on (202) 205-7204.

August 13, 1999

Inspector General
United States Small Business Administration

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

We have audited the Statement of Financial Position and Related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing of the U.S. Small Business Administration (SBA) as of and for the year ended September 30, 1998. These financial statements are the responsibility of SBA management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards: *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures relating to the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the accounting policies used by SBA to prepare these financial statements are in accordance with OMB Bulletin No. 97-01, *Form and Content of Federal Agency Financial Statements*, as amended, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SBA as of September 30, 1998, and its net costs, changes in net position, budgetary resources, and financing for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 1 to the financial statements, SBA implemented the following Statements of Federal Financial Accounting Standards (SFFAS), all effective October 1, 1997:

- No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*.

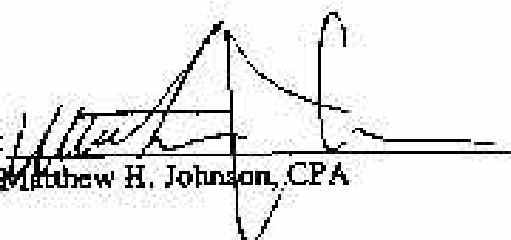
Page 84

laws and regulations.

The Required Supplementary Stewardship Information is not a required part of the basic financial statements, but is supplementary information required by OMB Bulletin No. 97-01, as amended. We applied certain limited procedures that consisted principally of inquiries of management regarding methods of measurement and presentation of supplementary information. We did not, however, audit the information and express no opinion on it.

The information in the Agency Overview and SBA Program Description and Analysis sections is not a required part of the basic financial statements, but is supplementary information required by OMB Bulletin No. 97-01, as amended. We reviewed this information to determine if it is materially inconsistent with the Statement of Financial Position. In our tests, we identified no inconsistencies. We did not, however, audit the Agency Overview and SBA Program Description and Analysis sections and, accordingly, express no opinion on them.

COTTON & COMPANY, LLP

By: 
Matthew H. Johnson, CPA

August 13, 1999

Inspector General
United States Small Business Administration

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL

We have audited the Statement of Financial Position of the U.S. Small Business Administration (SBA) as of September 30, 1998, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the year ended September 30, 1998, and have issued our report thereon dated August 13, 1999. We conducted our audit in accordance with generally accepted auditing standards, standards applicable to financial audits contained in *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered SBA's internal control over financial reporting by obtaining an understanding of the agency's internal controls, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal controls over financial reporting. Consequently, we do not provide an opinion on internal controls.

Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in our judgment, could adversely affect an agency's ability to record, process, summarize, and report financial data consistent with management assertions in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted certain matters discussed in the following paragraphs involving the internal control structure and its operation that we consider to be reportable conditions.

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- SBA's quality control process was not completely effective.
- SBA management did not dedicate enough resources to ensure timely completion of its financial statements.

As a result, SBA did not meet OMB's March 1 deadline for submitting its audited financial statements and, in fact, did not provide financial statements to its auditors until June 2, 1999. Further, the statements submitted to its auditors contained several significant errors and omissions. For example, SBA failed to report on its Statements of Changes in Net Position and Financing the amount of Imputed Financing as required by OMB Bulletin 97-01; several changes were necessary to its footnotes; and over \$80 million in projected errors were identified in SBA's financial statements.

SBA's comprehensive plan for preparing financial statements lacked sufficient detail. During the course of our audit of SBA's Fiscal Year (FY) 1997 financial statements, we reported that improvements were needed at SBA to ensure compliance with the Government Management Reform Act of 1994 (GMRA), which requires Federal agencies to submit audited department-wide financial statements to OMB by March 1. SBA did not meet the due date for FY 1998, because it had not sufficiently implemented needed improvements.

We recommended to SBA that it develop a comprehensive plan for financial reporting that identified the following, in detail:

- Procedures required for acquiring documentation and preparing financial statements according to an established timetable.
- Individual who will perform critical functions.
- Deadlines for each critical phase of the plan.
- A description of how each of the programs will consolidate into a consistent, agency-wide financial statement presentation.

SBA did prepare a plan—Comprehensive Plan for FY 1998 CFO Annual Report. This plan did not, however, provide detailed procedures for acquiring documentation and preparing financial statements or how SBA would consolidate its programs into an agency-wide financial statement presentation. Further, we noticed that SBA did not perform basic, routine analyses, such as aging of accounts receivable and comparison of prior- and current-year amounts.

SBA's quality control process was not completely effective. Although SBA's plan identified individuals responsible for quality control reviews of the financial statements, we found several errors and omissions on the statements. Errors occurred when those responsible for performing quality reviews also

for acquiring this information and preparing the statements. SBA did not, however, assign enough resources to this manual process, and deadlines were missed. For example, in its Comprehensive Plan for FY 1998, SBA established December 1, 1998, as the completion date for its general ledgers but did not submit all of its general ledgers to the auditors until June 2, 1999—6 months late.

Recommendations. We recommend that:

- The Director of the Denver Finance Center develop a detailed comprehensive plan for preparing the FY 1999 financial statement report.
- Office of the Chief Financial Officer (OCFO) identify and obtain the resources necessary to ensure accurate and timely preparation of FY 1999 financial statements including adequate resources to conduct a thorough quality control review of the financial statements prior to submission to the auditors.
- OCFO obtain training for all staff assuming financial reporting responsibilities.

2. SUBSIDY MODELING AND RE-ESTIMATING PROCESSES

SBA's internal control functions governing credit reform subsidy modeling and re-estimating processes continue to need improvement. During our audit of SBA's FY 1997 financial statements, we noted that substantial errors in re-estimate calculations existed, and few controls governed the budget execution and re-estimate subsidy processes. We recommended that, at a minimum, SBA document its policies and procedures governing its credit subsidy process, develop a formalized quality review program, and ensure that adequate time and resources are available to effectively implement these controls.

Responsibility for accumulating and analyzing data, designing credit subsidy models, and calculating budget estimates and re-estimates lies with the OCFO. In response to our FY 1997 audit report recommendation, OCFO:

- Prepared a comprehensive policies and procedures document for preparing subsidy estimates and re-estimates, which includes an overview of the process, programs and assumptions, data, documentation and training requirements, and deliverables and a timeline for their completion.
- Developed and implemented a quality assurance process that, for re-estimates, included a peer review by an analyst not responsible for preparing the re-estimate under review and a supervisory review.

as noted last year. For example, SBA used incorrect data and incorrect cell references in several re-estimate spreadsheets. It also did not detect the failure to calculate interest on the Cohort 1998 re-estimate as the result of an error in the OMB-provided spreadsheet. Finally, SBA did not correctly treat chargeoffs consistent with the method established for FY 1997. These errors resulted in adjustments of more than \$195 million to the re-estimates submitted for the FY 1998 financial statement audit.

An effective quality review process is essential to ensure that the work of assigned staff is adequately supervised, reviewed, and approved, as required by GAO's *Standards for Internal Controls in the Federal Government*. SBA must ensure that the peer and supervisory reviewers have the experience, training, and time commensurate with the inherently high risk associated with the re-estimate process.

We also noted that SBA's disaster models produce a reliable budget execution estimate, but, in our opinion, do not produce a reliable re-estimate or comply with the OMB Credit Subsidy User's Guide (Chapter V, I.B.1). This occurs as the result of limitations with SBA's current method of accumulating cash flows. SBA obtained proxy data, which was the best data available at the time. In our opinion, however, the methodology used in applying the proxy data did not reflect projected program behavior and produced illogical results. Consequently, SBA adjusted its disaster re-estimates by \$453 million from a \$126 million downward re-estimate to a \$327 million upward re-estimate.

SBA recognized that its existing re-estimate models have limitations, and began working on new methods for accumulating disaster data and computing subsidy estimates and re-estimates in FY 1999. While we agree with SBA's decision to develop a new model, we do not think the existing model was subjected to sufficient scrutiny to ensure that it produced a reasonable outcome for the FY 1998 re-estimates in light of its known shortcomings.

Recommendations. We recommend that OCFO:

- Continue to refine its quality assurance process to ensure that peer and supervisory reviewers have the experience, training, and time to perform reviews commensurate with the inherently high risk associated with SBA's existing re-estimate process.
- Arrange for an independent review of the new disaster models and ensure that the new models produce reliable and reasonable re-estimates prior to submitting the re-estimates for audit.

3. INFORMATION SYSTEMS

Although Office of Chief Information Officer (OCIO) and OCFO have taken steps in FY 1998 to implement corrective actions within their areas of responsibilities, further improvements are needed to address the root causes of the general control weaknesses over SBA's information systems. During our audit of SBA's FY 1998 financial statements, we found that SBA needs to:

- Train security administrators and program managers.

The Office of Inspector General issued a separate report, *Audit of SBA's Information Systems Controls* (Report Number: 9-19), on September 2, 1999, which details our findings and recommendation.

Our consideration of internal controls over financial reporting would not necessarily disclose all matters in the internal control structure over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We consider the three reportable conditions described above to be material weaknesses.


In addition, we considered SBA's internal controls over Required Supplementary Stewardship Information by obtaining an understanding of SBA's internal controls, determining whether those internal controls had been placed in operation, assessing control risk, and performing tests of controls as required by OMB Bulletin No. 98-08, as amended. Our procedures were not designed to provide assurance on these internal controls. Accordingly, we do not express such an opinion.

Finally, with respect to internal controls related to performance measures reported in the sections titled Agency Overview and SBA Program Description and Analysis, we obtained an understanding of the design of significant internal controls related to existence and completeness assertions as required by OMB Bulletin No. 98-08, as amended. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and, accordingly, we do not express such an opinion.

We also noted other matters involving internal controls over financial reporting and its operation that we consider nonreportable conditions. We will communicate these matters to management in a separate letter.

This report is intended solely for the information and use of the management of SBA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. We caution that misstatements, losses, and noncompliance may occur and not be detected by the testing performed and that such testing may not be sufficient for other purposes.

COTTON & COMPANY, LLP

By: 
Matthew H. Johnson, CPA

August 13, 1999

Inspector General
United States Small Business Administration

AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have audited the Statement of Financial Position of the U.S. Small Business Administration (SBA) as of September 30, 1998, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the year ended September 30, 1998, and have issued our report thereon dated August 13, 1999. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* (1994 Revision), issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

SBA management is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of SBA's compliance with certain provisions of laws and regulations. Noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 98-08, including requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph exclusive of FFMIA that are required to be reported under *Government Auditing Standards* or OMB Bulletin 98-08.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin No. 98-08.

Test results disclosed instances, described below, in which the agency's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

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ability to prepare accurate statements and related disclosures.

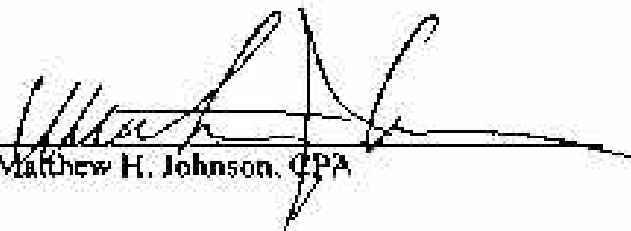
- **United States Government Standard General Ledger (SGL) at the Transaction Level:** SBA's financial systems did not capture information using the same descriptions and posting rules contained in the SGL. Specifically, SBA's loan accounting system does not adequately capture budgetary data in a manner that facilitates the preparation of its financial statements and reports. As a result, SBA developed a manual process whereby it develops balances for budgetary accounts based on summaries of various transactions. This manual process while effective for the preparation of required reports, does not comply with the SGL requirements at the transaction level.

For information required by OMB Bulletin No. 98-08 with respect to these noncompliance matters, please refer to the accompanying Independent Auditor's Report on Internal Control.

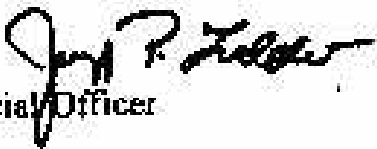
Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of the management of SBA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. We caution that noncompliance may occur and not be detected by the tests performed and that such testing may not be sufficient for other purposes.

COTTON & COMPANY, LLP

By: 
Matthew H. Johnson, CPA

TO: Victor Ruiz
Assistant Inspector General
for Auditing

FROM: Joseph P. Loddo 
Acting Chief Financial Officer

SUBJECT: Audit of SBA's FY 1998 Financial Statements

We have reviewed the draft audit report submitted by Cotton & Company including the opinion on SBA's fiscal year 1998 financial statements, internal control status, and compliance with applicable laws and regulations. We are pleased to note the unqualified opinion in the audit report for our third year in a row. The SBA is the only credit agency to receive an unqualified opinion for three successive years. We believe this speaks to the fiscal health of the SBA and we are proud of this accomplishment.

We are concerned, however, about the internal control findings in the audit report including (1) the financial reporting process, (2) the subsidy modeling and re-estimating process and (3) information systems controls. SBA feels it has made significant progress in addressing these previously reported findings. However we will implement actions to address the auditor's specific recommendations so that these findings will be removed from future audits. We ask that the OIG and Cotton & Company work closely with us to help make this happen.

We appreciate the opportunity to comment on this draft report, and look forward to your response to this request. Any questions may be addressed to John Kushman or Louise Wilson of my staff.