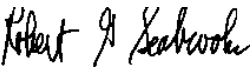




**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416**

AUDIT REPORT
Issue Date: September 25, 2000
Number: 0-26

To: Theodore R. Wartell
Director, Office of Policy

From: 
Robert G. Seabrooks
Assistant Inspector General for Auditing

Subject: Audit Report-Results Act Performance Measurement for the Surety Bond
Guarantee Program

Attached is a copy of the subject audit report. The report contains one finding and three recommendations.

The finding in this report is the conclusion of the Office of Inspector General's Auditing Division. The finding and recommendations are subject to review and corrective action by your office in accordance with existing Agency procedures for audit follow-up and resolution. Please provide your management decision for each recommendation on the attached forms 1824, Recommended Action Sheet, within 30 days.

Should you or your staff have any questions, please contact Robert Hultberg, Director, Business Development Programs Group at (202) 205-7204.

cc: Robert Moffitt, Associate Administrator, Office of Surety Guarantees

**RESULTS ACT PERFORMANCE MEASUREMENT
FOR THE
SURETY BOND GUARANTEE PROGRAM**

AUDIT REPORT NUMBER 0-26

SEPTEMBER 25, 2000

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**AUDIT REPORT
RESULTS ACT PERFORMANCE MEASUREMENT
FOR THE
SURETY BOND GUARANTEE PROGRAM**

Table of Contents

	Page
SUMMARY	i
INTRODUCTION	
A. Background	1
B. Objectives and Scope	1
RESULTS OF AUDIT	
Finding and Recommendations.....	3
Performance Goals and Indicators Need to be Developed	
• Performance indicators do not measure program purposes	3
• Needed performance indicators are omitted	4
o The program lacks program outcome; service quality; and cost indicators	4
• SBG performance indicator data is reliable	5
o Improvement in data collection	5
o Improvements in the presentation of performance data.....	6
Recommendations.....	6
APPENDICIES	
A- Definitions	
B- SBA Management’s Response	
C- Audit Report Distribution	

SUMMARY

In 1998, Congressional leaders requested that Inspectors General review how effectively their agencies are measuring performance under the Government Performance and Results Act of 1993 (Results Act) and the reliability of the underlying data. In response to these requests, the Office of the Inspector General initiated a series of audits to evaluate the performance indicators the Small Business Administration (SBA) developed for its major programs. This report examines whether the Surety Bond Guarantee (SBG) program meets the performance measurement requirements of the Results Act.

In enacting the Results Act, Congress intended to improve the efficiency and effectiveness of Federal programs by establishing a system to set goals for program performance and to measure results. To implement the Act, executive agencies must prepare multiyear strategic plans, annual performance plans that include performance indicators, and performance reports. SBA's Office of Policy (OP) has overall responsibility for implementation of the Results Act for all SBA programs. SBG program performance measures were developed by the Office of Surety Guarantees (OSG) based on direction provided by OP. To answer the objective of whether the SBG program meets the performance measurement requirements of the Results Act, we determined if: (1) program goals and indicators align with the mission, (2) performance indicators focus on the results of the program in terms of efficiency and effectiveness, and (3) reliable supporting data exists.

We found that the SBG program does not have performance goals and indicators to show that the program is meeting the intended purposes of the authorizing legislation. The performance indicators listed in SBA's Fiscal Year (FY) 2000 and 2001 Annual Performance Plans are activity-oriented and do not address Results Act priorities such as programmatic outcomes, service quality, or cost. While the performance data was reliable, we identified a few areas for improvement in data collection and presentation.

We recommend that the Director, Office of Policy in conjunction with the Associate Administrator, Office of Surety Guarantees ensure: (1) SBG program goals include program outcomes, service quality, and program costs, as appropriate; (2) SBG program indicators reflect the goals; and (3) SBG performance data is complete and accurately presented. SBA management agreed with the finding and recommendations.

INTRODUCTION

A. Background

In 1993, Congress passed the Results Act with the objective to improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction. The Results Act is intended to improve the efficiency and effectiveness of Federal programs by establishing a system to set both long-term strategic and annual goals for program performance and to measure results. Performance indicators are values or characteristics used to measure results associated with annual goals and are an integral part of annual performance plans and reports. The Results Act requires agencies to prepare annual reports on their performance for the previous fiscal year.

The SBG program implements Part B of Title IV of the Small Business Investment Act of 1958, as amended. Congress created the program to help small businesses that have trouble getting bonds without a government guarantee. SBA guarantees bonds written by private sureties to make bonding more easily available to small businesses. Congress intended that long-run advantages would be gained by helping disadvantaged contractors enter the mainstream of the economic system and thereby be able to establish the required “track record” of successful performance ordinarily required by private surety companies, when it enacted the Housing and Urban Development Act of 1970. This was based on evidence that new, small, or minority-owned construction firms had trouble getting bonds.

For FY 1999, 34 surety bonding companies carried out the program. Sureties participate in the Prior Approval (PA) or Preferred Surety Bond (PSB) programs. In the PA program, SBA must approve each surety bond guarantee agreement. In the PSB program, sureties are authorized to issue, monitor, and service bonds without SBA’s prior approval. SBA reported in the FY 1999 Annual Performance Report that it guaranteed 9,399 bonds and PSB sureties wrote \$170 million in surety bonds. SBA reported in the FY 2000 Annual Performance Plan that it expects to guarantee 14,700 bonds and PSB sureties to write \$175 million in surety bonds. The number of bonds expected to be issued in FY 2000 was later reduced from 14,700 to 9,500 in the FY 2001 Annual Performance Plan.

B. Objectives and Scope

This report examines whether the SBG program meets the performance measurement requirements of the Results Act. To fulfill this objective, we sought answers to three basic questions. Do the program’s goals and performance indicators align with its mission? Do the performance indicators show the results of the program in terms of efficiency and effectiveness? How reliable is the supporting data?

To answer the mission alignment question, we reviewed the FY 2000 and 2001 Annual Performance Plans. We developed a logic model to identify the relationships between the mission and purpose of the SBG program, its core business processes, key products, and desired program outcomes. To evaluate the extent to which the performance goals and indicators aligned with the statutory mission, we compared the goals and indicators to each aspect of the

mission to ensure that all aspects were addressed. If there was not a performance goal and indicator for an aspect of the mission we considered this an area for improvement.

To determine whether the performance indicators addressed the Results Act requirements (program effectiveness and efficiency), we segregated the performance indicators into the following categories:

- Outcomes
- Service quality
- Cost
- Output/process

If a category did not have at least one performance indicator, we considered this an area for improvement.

To determine whether SBG performance indicators were supported by reliable data, we traced reported performance measurement data for FY 1999, back to supporting documents in the Office of Surety Guarantees, four PSB sureties and one SBG area office. We analyzed the underlying data to determine whether it was sufficient, relevant, complete, accurate, and consistently obtained over time.

Fieldwork was performed from December 1999 through May 2000. The audit was performed in accordance with generally accepted Government Auditing Standards. The outside consulting firm, Results, Inc., was retained to assist us in the audit.

RESULTS OF AUDIT

FINDING: PERFORMANCE GOALS AND INDICATORS NEED TO BE DEVELOPED

The SBG program did not have performance indicators linked to its intended purpose in the statutes. The indicators measured outputs rather than outcomes. Outputs measure the level of activity or effort that was realized. Outcomes assess the actual results, effects, or impact of a program activity compared to its intended purpose. Additionally, the program did not have service quality and cost indicators. While the performance data was reliable, we identified a few areas for improvement in data collection and presentation.

The SBG performance measures resulted from a joint effort of OP and OSG. OP has overall responsibility for implementation of the Results Act within SBA. OP requested OSG to develop performance measures for the SBG program and met with OSG to discuss information needed for the SBA annual performance plans. OP accepted the performance measures developed by OSG and included them in the FY 2000 and 2001 Annual Performance Plans. These performance measures are shown in the table below. We found that these performance measures did not comply with the Results Act requirements in the following areas.

Performance indicators do not measure program purposes

The Results Act sought to improve congressional decision-making by obtaining more information on the extent to which agencies were achieving statutory objectives. To provide this information, agencies need performance goals and indicators that reflect the purposes established in each program's enabling statutes. Office of Management and Budget (OMB) guidelines state that performance goals and indicators should be centered on a program's core purpose.

The SBG program's purpose intended by the statutes is to assist new, small, or minority-owned businesses obtain bonding that is not available without a government guarantee. Also, the program is designed to help contractors establish a job track record to enable them to obtain bonding without a government guarantee. For FY 2000 and 2001, the SBG program has the following goals and indicators:

	<i>2000</i>	<i>2001</i>
Goal	- Increase the number of surety bonds	- Issue 10,000 surety bonds
Indicator(s)	- Number of bonds issued to contractors - Dollar amount of bonds issued by sureties - Number of participating surety companies	- Number of bonds issued to contractors

These performance goals and indicators do not show that the program is fully achieving its intended purposes. More specifically, the goals and indicators do not identify the number of companies assisted and whether new and minority-owned companies are assisted. Also, the performance goals and indicators do not address whether contractors that receive SBA bonds establish the required track record to successfully obtain bonding in the long term without a government guarantee.

OSG program officials stated that although these numbers are not separately reported in the performance plans, the program provides bonds to new and small businesses and collects data on bonds made to minority-owned companies. OSG would like to increase outreach and marketing efforts, but has not received the requested funding. Another problem is that District Offices' internal performance goals do not contain specific goals to help new and minority businesses obtain bonding. Additionally, SBG officials remarked that it is difficult to measure a contractor's success in obtaining bonding after they have left the program.

Needed performance indicators are omitted

The Results Act provides information to agencies about the types of performance indicators they need to develop to effectively implement the Act. As evidenced by the legislative history for the Results Act, Congress believes that an Agency should develop a range of performance indicators including:

- outcome indicators linked to statutory objectives, the underlying purposes of a program;
- service quality indicators designed to provide information on the quality of services provided, as well as on the manner in which they are delivered; and
- cost indicators to tell how efficiently a program is operating.

A recent GAO report evaluating SBA's FY 2000 Annual Performance Plan faulted the plan's continuing focus on outputs rather than outcomes for all SBA programs.¹ Our analysis of the SBG program reached similar conclusions because the program's goals and indicators are also focused on outputs.

The program lacks program outcome; service quality; and cost indicators

The SBG program has three performance indicators for FY 2000 to be used to gauge program success under the Results Act (see table on page 3). All of them relate to activities of the program, but none of them address performance indicators such as program outcomes, service quality, or cost.

Program outcome indicators provide information about how well a program is accomplishing the purposes that it was given the responsibility and resources to achieve. For SBG, an example of an intermediate outcome would be the contract opportunities the program provides to new, small, and minority-owned businesses. The end outcome would be the impact that this assistance has on the development of the small businesses, e.g. businesses become bondable without an SBA guarantee.

Service quality indicators include measures of complaints, customer satisfaction levels, and responsiveness rates. An example of a service quality indicator would be the percentage of positive comments from a customer survey or Internet feedback site. Another service quality indicator would be a comparison of elapsed times for approving a bond against a set standard in the SBG program. SBG program officials stated that they have instituted measures to receive

¹ Managing for Results- Opportunities for Continued Improvement in Agencies' Performance Plans, (GAO/GGD/AMID-99-215, July 1999)

feedback from their partners, but do not report the results as a performance indicator. In addition, they do not solicit feedback directly from the small business assisted, but periodically assess the delivery of quality services to customers through audits and reviews of their partners.

Cost indicators measure the efficiency of program operations. In its report on the Results Act, the Senate Committee on Governmental Affairs stated that the indicators of unit cost are those most useful to agency staff in managing programs, rather than simply those indicators developed for financial management.² The Committee also expected agencies to assign high priority to the development of unit cost indicators. OSG program officials stated that while they do not have any cost indicators, the program is cost effective. Program fees, recoveries and refunds collected from the sureties and contractors at least cover claims paid. Although the program is cost effective overall, that does not eliminate the need for cost type performance indicators. The purpose of these indicators is to create a continuing focus on controlling costs over time. As envisioned under the Results Act, cost goals and indicators would allow the program to demonstrate its cost effectiveness and identify areas where further improvements are possible.

Congress recognizes that not all programs can have objective and quantifiable measurements. OMB may authorize an alternative form of measurement for programs where it is difficult to develop objective and quantifiable measurements. For programs where it may be impractical or infeasible to set performance measurements, OMB may authorize the agency to provide a brief explanation in the performance plan as to why this is the case.

SBG performance indicator data is reliable

While the performance data was reliable, we identified a few areas for improvement in data collection and presentation.

Improvement in Data Collection

Data collection should be improved to ensure the data is complete. The Management Information Summary (MIS) report, identified by the SBG program as the source of performance data, shows the number and dollar amount of bonds guaranteed by the program based on when a bond is reported to SBA. In the PSB program, a bond can be reported to SBA up to 10 days after the bond is effective. Accordingly, incomplete data results when bonds executed during the last month of the fiscal year are not reported to SBA and captured in the performance data until the next fiscal year. For three PSB sureties reviewed, we tested 27 of 140 bonds reported as executed during the first fifteen days of FY 1999, and found that 9 bonds had been executed in FY 1998.

OSG program officials stated that they made a management decision to collect the performance data in this manner. The bonds are counted in the fiscal year they are reported to SBA because this is when SBA's guarantee is effective and when the allotment is reduced for the

² Report of the Committee on Governmental Affairs United States Senate to Accompany S. 20, 103rd Congress, Report 103-58, June 16, 1993, page 30.

amount of the bond in the accounting system. Also, from one fiscal year to the next, the net effect of the timing difference is zero.

Improvements in the Presentation of Performance Data

Presentation of performance data should be improved to insure the data is not misleading to readers of the performance plans and reports. We found that the FY 1999 Annual Performance Report stated that the number of bonds issued to contractors as a result of the program was 9,399 and the dollar amount of bonds written in the PSB program was \$170M. The data, however, was not labeled to indicate that the number of bonds represented both the PSB and PA surety bond programs. To provide consistency among the numbers and show the total resources provided to small business concerns, the amount of bonds written should be shown for both programs. In addition, the number that was reported as the dollar amount of bonds written in the PSB program is actually the dollar value of contracts that were bonded in the program. Accordingly, future performance data should be clearly labeled to reflect the performance represented.

We also found that cancelled final bonds are being included in the performance data for both the number and amount of bonds written. For FY 1999, 30 final bonds of the 9,399 bonds guaranteed had been cancelled. Accordingly, although the performance data accurately reflects program activity, it does not represent the actual resources and benefits provided to the small businesses. Therefore, performance data should be clearly labeled to reflect the performance represented.

Additionally, bond increases made in FY 1999, to bonds executed in prior years, are captured in the performance data for the amount of bonds written in the program. For FY 1999, there was thirteen million dollars of these bond increases. Therefore, the performance indicator should state that the number reported includes both the dollar amount of bonds written during FY 1999 and bond increases made to bonds executed in prior years.

RECOMMENDATIONS

To improve the implementation of the performance measurement requirements of the Results Act for the SBG program, SBA should develop new performance goals and indicators.

We recommend that the Director, Office of Policy in conjunction with the Associate Administrator, Office of Surety Guarantees ensure:

- 1A. SBG program goals include program outcomes, service quality and program costs, as appropriate;
- 1B. SBG program indicators reflect these goals; and
- 1C. SBG performance data is complete and accurately presented.

MANAGEMENT'S RESPONSE

The Director, Office of Policy and the Associate Administrator, Office of Surety Guarantees agreed with the audit finding and recommendations and stated that they will work together to improve program performance measurement. See Appendix B for the full text of the response.

EVALUATION OF MANAGEMENT'S RESPONSE

The comments provided by SBA management are responsive to our recommendations.

Definitions

Outcomes - the results of a program activity compared to its intended purpose.

Outputs - the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner.

Performance goal - a target level of performance expressed as a tangible, measurable objective against which actual achievement can be compared, including a goal expressed as a quantitative standard, value, or rate.

Performance indicator - a particular value or characteristic used to measure output or outcome.



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

Appendix B

DATE: September 20, 2000

TO: Robert G. Seabrooks
Assistant Inspector General for Auditing

FROM: Theodore Wartell *Theodore Wartell*
Director, Office of Policy

Robert Moffitt *Robert Moffitt*
Associate Administrator, Office of Surety Guarantees

SUBJECT: Response to Draft Audit Report – Results Act Performance Measurement
for the Surety Bond Guarantee Program

Thank you for the opportunity to comment on your Draft Audit Report on SBA's implementation of the Results Act for the Surety Bond Guarantee program.

SBA is in its third full year of formal implementation of the GPRA and we are making adjustments and improvements each year as we create a culture of accountability. We appreciate the Office of Inspector General's (OIG) attention and constructive criticism regarding the implementation of the Results Act. We are providing general overall summary remarks, followed by our comments to specific findings and conclusions. First, a couple of minor points.

- The recommendations should be addressed to the Director of Office of Policy and the Associate Administrator for the Office of Surety Guarantees as the latter office must collect data and use performance measures to manage for results.
- It is important to distinguish between performance measures in SBA's Annual Performance Plan, and performance measures available and used by the Surety Bond program.

Congress, GAO and OMB have repeatedly emphasized the need to restrict the number of performance measures in the Annual Performance Plan and Report to those which provide vital information to its stakeholders and Congress. For example, a representative of the Mercatus Institute stated at an OPM seminar that SBA is a small agency and should not have more than 25 indicators in its performance report. However, while there should be few outcome oriented performance measures in the performance plan/report, this does not imply that there should not be an adequate number of performance measures available at the program level internally to facilitate managing for results

Discussion

The Results Act directs Federal agencies to develop and implement performance measures in order to manage their programs for results. The Act specifically suggests measuring outcomes, service quality, cost, and outputs.

Outcomes – A common problem with measuring outcomes is that these might be the result of several programs acting together or even be the result of external factors. Therefore it is important to analyze what outcome measures are meaningful at the program level and what are meaningful at the agency level where program interactions can be handled. In fact this is a general problem for many of SBA's programs.

Service quality – Generally a relevant measure. However, in the case where SBA does not provide a direct service and the bond company provides the bond to the contractor with or without an guarantee, it is hard to see how relevant this type of measure would be.

Cost – Captured in SBA's new activity based costing system which should provide costs by activity. As outputs can be associated with activities it should be possible to determine unit costs for most of SBA's programs in the future. Previously this capacity was not available.

Output/process – The SBG program only has output/process measures in its internal information system and in the Annual Performance Report. This measure, however, is needed to calculate unit costs as well as an indicator of program activity levels.

Specific Findings and comments

The OIG's Draft Audit has three findings for the Surety Bond Program:

- Performance indicators do not measure program purposes
- Needed performance indicators are omitted
- Surety Bond Guarantee performance indicator data is reliable

And recommends that SBA should develop new performance goals and indicators, ensuring that

- SBG program goals include program outcomes, service quality and program costs, as appropriate
- SBG program indicators reflect these goals, and
- SBG performance data is complete and accurately presented

Action to be taken

The Policy Office and Office of Surety Guarantees agree with the findings and recommendations of the IG report and will work together to improve program performance measurement.

Going forward, the Office of Policy and the Office of Surety Guarantees have agreed to work together to:

1. Improve the measures to be used in the Annual Performance Plan for FY 2002.
2. Develop a set of performance measures to be used by the program office to manage for results, including some program outcomes, service quality and program costs, as appropriate.
3. Determine what changes need to be made to current data collection and information systems.

Appendix C

Audit Report Distribution

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General Accounting Office.....	1

Appendix B