U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
Washington, DC 20416

AUDIT REPORT
ISSUE DATE: DECEMBER 4, 2000
REPORT NUMBER: 1-01

TO: Jane Butler, Associate Administrator, Office of Financial Assistance
Theodore R. Wartell, Director, Office of Policy

Robert G. Seabrooks

FROM: Robert G. Seabrooks,
Assistant Inspector General for Auditing

SUBJECT: Audit Report - Results Act Performance Measurement for the 7(a) Business Loan Program

Attached is a copy of the audit report. The report contains two findings and four recommendations. You concurred with each of the recommendations. We have synopsized your comments in the report and included them as an attachment.

The findings in this report are the conclusion of the Office of the Inspector General Auditing Division based upon the auditors testing of the auditee's operations. The findings and recommendations are subject to review and implementation of corrective action by your office in accordance with existing Agency procedures for audit follow-up and resolution.

Please provide your management response to the recommendations within 30 days from the date of this report on the attached SBA Form 1824, Recommendation and Action Sheet.

Should you or your staff have any questions or wish to discuss the issues further, please contact Garry Duncan, Director, Credit Programs Group at 202-205-7732.

AUDIT REPORT

RESULTS ACT PERFORMANCE MEASUREMENT FOR THE 7(a) BUSINESS LOAN PROGRAM

AUDIT REPORT NUMBER 1-01

December 4, 2000

The finding in this report is the conclusion of the OIG's Auditing Division based on testing of SBA operations. The finding and recommendations are subject to review, management decision, and corrective action in accordance with existing Agency procedures for follow-up and resolution. This report may contain proprietary information subject to the provisions of 18 USC 1905 and must not be released to the public or another agency without permission of the Office of Inspector General.

AUDIT REPORT
RESULTS ACT PERFORMANCE MEASUREMENT
FOR THE 7(a) BUSINESS LOAN PROGRAM

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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 audit assesses whether SBA effectively implemented the performance measurement requirements of the Results Act for the 7(a) loan program. 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 Results Act, executive agencies must prepare multiyear strategic plans, annual performance plans that include performance indicators, and performance reports. Our audit objective was to determine if SBA is effectively implementing the performance measurement requirements of the Results Act for the 7(a) loan program. To answer this objective, we determined if: (1) program goals and performance indicators aligned with the mission, (2) the performance indicators focused on the results of the program in terms of efficiency and effectiveness, and (3) reliable supporting data exists.

Overall, we found that (i) SBA had not fully implemented the performance measurement requirements of the Results Act for the 7(a) loan program, and (ii) some of its underlying performance data was not reliable. Specifically, the program did not have performance indicators to determine the extent to which it is accomplishing its mission under the Small Business Act. Also most 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. Furthermore, some of the program's performance data was not reliable, due primarily to the lack of effective data verification and validation strategies and methods.

We recommend that the Associate Administrator, Office of Financial Assistance in coordination with the Director, Office of Policy: (i) develop appropriate program performance indicators and goals, (ii) institute a strategy to verify and validate performance measurement data, and (iii) require managers to attest to the accuracy and completeness of performance data.

SBA management concurred with the recommendations. Their response included both short-term and long-term plans to implement the recommendations. We have attached the full text of the response as Appendix C.

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 contained within annual plans and are an integral part of annual reports. The Act also requires agencies to prepare annual reports on their performance for the previous fiscal year.

Section 7(a) of the Small Business Act of 1958, as amended, authorizes SBA to provide financial assistance to small businesses. SBA provides this financial assistance primarily by guaranteeing loans made by participating lenders to small businesses. To obtain the SBA guarantee, a lender must have continuing ability to evaluate, close, service, and liquidate loans in accordance with SBA requirements. A Loan Guaranty Agreement between SBA and the lender requires the lender to abide by SBA regulations and procedures and allows the lender to request SBA purchase of defaulted loans.

The Office of Financial Assistance administers the 7(a) Loan Guaranty Program. The program provides both short and long-term loans to eligible small businesses that cannot obtain financing on reasonable terms through normal lending channels. Loans under the program are available for most business purposes, including the purchase of real estate, machinery, equipment, and inventory. The loans, however, cannot be used for speculative purposes. The SBA can guarantee a maximum of $750,000 under the 7(a) program. The guarantee rate is 80 percent for loans of $100,000 or less, 75 percent for loans greater than $100,000, and 90 percent for loans made under the Export Working Capital Program. Generally, the interest rate cannot exceed 2.75 percent over the prime-lending rate as published in the Wall Street Journal, except for loans under $50,000, where the rates may be slightly higher.

The largest SBA credit function is the 7(a) general business loan guarantee program. Based on data from SBA's Office of Advocacy, the total dollar volume of loans backed by SBA guarantees currently represents 11 percent of total outstanding loans to small businesses. Commercial and SBA small business guaranteed loans, in billions of dollars, for the four years ending in 1998 is shown in the following table.

Type of Small Business Loan	Year			
	1995	**1996**	**1997**	**1998**
Commercial and industrial loans	$98	$105	$112	$117
Commercial mortgages	$66	$67	$67	$71
Finance company loans	$82	$75	$78	$84
Total loans and financings by banks and finance companies	$246	$247	$257	$272
SBA outstanding guaranteed loans	$24	$26	$29	$30
SBA guaranteed loans as % of outstanding credit	10%	10%	11%	11%

Objectives and Scope

The objective of the audit was to determine if SBA is effectively implementing the performance measurement requirements of the Results Act for the 7(a) loan program. To fulfill this objective, we sought answers to five basic questions. Did performance goals relate to the statutory mission? Did indicators relate to the performance goals? Did the performance indicators include a balance of efficiency and effectiveness? Were performance indicators measurable? Did performance indicators have reliable supporting data?

To answer the mission alignment question, we reviewed SBA's strategic plan, the FY 1999 and 2000 Annual Performance Plans, and the draft FY 2001 Plan. We developed a logic model to identify the cause and effect relationships between the mission and purpose of the 7(a) program, its core business processes, key products, and desired program outcomes (see Appendix A). To evaluate the extent to which the performance indicators aligned with the statutory mission, we compared the indicators to the mission to ensure that each was addressed. If there was not a performance 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:

i) Outcomes
ii) Customer satisfaction
iii) Partner satisfaction
iv) Cost
v) Output/process

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

A matrix analysis tool was also developed to support classifying existing performance indicators into broad categories envisioned under the Results Act. This matrix was used to ascertain whether the 7(a) program included a balanced mix of efficiency and effectiveness performance indicators and met the intent of the Small Business Act.

We then traced reported performance measurement data for FY1999 back to original source documents located in SBA loan files to determine whether performance indicators were supported by reliable data.

Fieldwork was performed from September 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 1 Better Performance Goals and Indicators Need to be Established for the 7(a) Business Loan Program

Strategic goals and performance indicators of the 7(a) loan program

For FY 1999, SBA established two strategic goals for the 7(a) loan program, ***"Increase Opportunities for Small Business Success"*** and ***"Transform SBA into a 21st Century leading edge Financial Institution"***. The following ten performance indicators relative to small business loans were then developed to measure achievement of the goals:

- Number of loans
- Amount of loans
- Loans to minority-owned
- Loans to women-owned
- Loans to veteran-owned
- Loans to start-ups
- Export loans
- Charge-off rate
- Purchase rate
- Recovery rate

There were other indicators mentioned either in the annual plan or other documents, however, they do not conform to the definition of performance indicators as outlined in the Results Act. The Results Act states that performance indicators are used to measure the relevant outputs, service levels, and outcomes of each program activity. The "indicators" would be more aptly described as means or strategies that detail the specific processes, technologies, and types of resources that are needed to achieve the performance goals.

Performance goals and indicators did not measure achievement of the program's major mission

The primary mission of the 7(a) program as provided in the Small Business Act is to provide credit to small businesses that cannot obtain financing terms from commercial sources. SOP 50 10 4 further stipulates that the financing from non-Federal sources must be on reasonable terms. The established performance goals and indicators did not focus on this core purpose of the 7(a) program.

The Results Act sought to improve Congressional decision-making by obtaining 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. Establishing this link to the program's mission enables an agency to gain agreement on what it is trying to accomplish and how it will know if it is successful.

OMB Circular A-11, Part 2, states that performance goals and measures should be centered on a program's core purpose. In order to focus on the core purpose of the 7(a) program, officials need a performance indicator that monitors 7(a) guaranteed loans to ensure that they are made only to small business concerns that do not have credit available elsewhere. Otherwise, funds are diverted from eligible borrowers and SBA lenders attain an unfair advantage over non-SBA lenders.

An indicator such as ***increasing the number of loans to small businesses*** shows the program is providing credit to small businesses. However, this goal does not address the extent to which SBA is providing funds when and where they are needed. The established performance goals and indicators, neither individually nor collectively, show the extent to which SBA is accomplishing the mission of providing short or long term credit to small businesses that cannot obtain credit elsewhere.

A previous SBA Office of Inspector General (OIG) audit and a Price Waterhouse study indicated that loans had been made to businesses that could have obtained credit elsewhere on reasonable terms. The September 1995 OIG audit of "Sources of Credit Elsewhere" showed that, for a variety of reasons, SBA loan specialists and district office managers tolerated loans made to borrowers who could get credit elsewhere. The report estimated that in 1995, loans totaling $244 to $316 million were made to borrowers who could obtain credit from non-SBA sources. Additionally, in response to a February 1998 Price Waterhouse questionnaire, 56 percent of the businesses receiving SBA loans in 1990 indicated that they might have been able to obtain financing elsewhere.

Indicators did not fully address established performance goals

Performance indicators did not address each component of the two strategic goals applicable to the 7(a) Program. The FY 2000 Annual Plan included performance goals for each of the strategic goals. We matched the performance indicators against the performance goals to determine if all components of the performance goals were addressed. We found that the following components were not addressed: (i) increase number of jobs created by small businesses receiving SBA assistance, (ii) ensure strong internal controls, (iii) identify and manage risk, and (iv) ensure customer satisfaction. The following table is an illustration of the comparison.

"Increase Opportunities for Small Business Success"

Performance Indicator	**Does Performance indicator address the following performance goals?**			
	Increase aggregate number of 7(a) loans	Increase the number of start-ups receiving SBA assistance	Increase the number of jobs created by small businesses receiving SBA assistance	Focus distribution on new small business market
Number of loans to small businesses (SB's)	Yes	No	No	No
Amount of loans to SB's	Yes	No	No	No
Loans to minority-owned SB's	No	No	No	Yes
Loans to women-owned SB's	No	No	No	Yes
Loans to veteran-owned SB's	No	No	No	Yes
Loans to start-ups	No	Yes	No	No
Export loans	No	No	No	No
Charge-off rate	No	No	No	No
Purchase rate	No	No	No	No
Recovery rate	No	No	No	No
Is the performance goal addressed?	Yes	Yes	No	Yes

"Transform SBA into a 21st Century leading edge Financial Institution"

Performance Indicator	**Does Performance indicator address the following performance goals?**			
	Ensure strong internal controls	Identify and manage risk	Reduce Costs	Ensure customer satisfaction
Number of loans to small businesses (SB's)	No	No	No	No
Amount of loans to SB's	No	No	No	No
Loans to minority-owned SB's	No	No	No	No
Loans to women-owned SB's	No	No	No	No
Loans to veteran-owned SB's	No	No	No	No
Loans to start-ups	No	No	No	No
Export loans	No	No	No	No
Charge-off rate	No	No	Yes	No
Purchase rate	No	No	Yes	No
Recovery rate	No	No	Yes	No
Is the performance goal addressed?	No	No	Yes	No

SBA needs to develop indicators to address all of these strategic goal components in order to determine whether or not the program is achieving its established mission.

Performance indicators were not balanced

The 10 performance indicators identified to gauge the 7(a) program's success relates to activities of the program, but none address program outcomes or customer satisfaction. OPM Circular A-11, Part 2, states that agencies are strongly encouraged to include, as appropriate, measures of customer service and program efficiency. It also states that outcome goals should be included in the annual performance plan, whenever possible. The agency states in the FY 2000 Annual Plan that it can isolate several outcomes, such as increased numbers and growth of small businesses, which in turn produce net new jobs, revenues and taxes paid, and international competitiveness. However, the agency did not address any of these factors in its 7(a) performance indicators.

A recent GAO report evaluating SBA's FY 2000 Annual Performance Plan faulted the plan's continuing focus on outputs rather than outcomes.[1] Our analysis reached conclusions similar to GAO's finding. The Results Act offers an alternative when program goals cannot be expressed in objective, quantifiable and measurable form. Agencies may obtain authorization from the Office of Management and Budget to use an alternative of expressing performance goals or state why it is not feasible or practical to express a performance goal in any form. SBA did not pursue these alternatives.

○ ***The job creation performance indicator has flaws***

SBA's FY 2000 Annual Performance Plan, cites job creation as a major outcome of the Agency's loan programs. However, SBA does not measure the number of jobs created as a result of loans made to small businesses. Instead, jobs are determined by dividing the total dollar value of SBA guaranteed loans disbursed by $27,700 (the amount of a loan SBA believes is needed to create one new job). According to the FY 1999 Annual Performance Report, this figure is a job constant derived from a study of firms that received loans in 1990 and the consequent change in jobs in these firms from 1989 to 1994. Following this approach, SBA estimated that the 7(a) program created 261,653 jobs during FY 1999.

According to the Results Act, performance indicators provide a basis for comparing actual program results with established performance goals. Therefore, SBA's approach of measuring the jobs created by the 7(a) loan program does not satisfy Results Act requirements because theoretical effects were calculated rather than determining actual jobs created. Moreover, SBA's estimating technique of taking the average number of part-time and full-time jobs created from 1989 to 1994 and dividing by the average size of loans disbursed between 1993 and 1998 will not yield meaningful results. To treat different time frames as similar and then project from the past to the present is an inappropriate analytical practice because of the high-risk nature of assumptions about the extent to which past business operations and conditions resemble those of today. Additionally,

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

the results from the study included only those businesses that responded to the questionnaire, potentially skewing the results further.

o *Job creation data not utilized*

Accurate and reliable job creation data currently exists in Federal databases. The Bureau of Labor Statistics (BLS) in the Department of Labor maintains detailed employment records on every business in America. Each business has a unique Federal Employer Identification Number used to pay taxes, social security, and unemployment insurance. At least quarterly, each business reports specific information on the number of their employees, which is stored on the BLS database. Our preliminary discussions with the BLS disclosed that SBA could obtain access to information on the exact number of net new jobs created by entering into a joint memorandum of understanding. In addition, SBA would have the capability to develop the historical baseline and trend analysis data it needs to demonstrate how effectively programs perform over time. SBA has agreed to enter into a memorandum of understanding with the Bureau of Labor Statistics or other appropriate statistical gathering organization to obtain access to historical and quarterly information on the number of jobs created by small businesses receiving SBA loans over the past 5 years and in the future.

Job creation is one of several outcomes that could reflect the 7(a) program's impact. We recognize that while job creation is one way to measure the program results there is not necessarily a direct correlation between SBA assistance and job creation. External factors and the nature of the business can also have an impact.

Recommendations

We recommend that the Associate Administrator, Office of Financial Assistance in coordination with the Director, Office of Policy:

1.A Develop 7(a) program indicators to gauge mission effectiveness, key outcomes, and quality of services and the delivery processes.

1.B Ensure program goals address the entirety of the program’s mission.

Finding 2 Performance Indicator Data was not always Reliable

Data supporting some of the 7(a) program’s performance indicators or outputs were not reliable. Data is reliable if it is sufficiently complete and error free to be convincing for its purpose and context. Two onsite reviews of supporting data disclosed errors in minority, gender, and veteran codes and in the loan amount.

o *Data errors disclosed*

OIG visits to two SBA field offices (Arkansas and Fresno Servicing Centers) disclosed errors in the data used to support 7(a) performance indicators. Data contained in the SBA information system was compared to origination input forms contained in the loan files. We did not review the lender input forms so all errors may not have been identified.

We randomly selected 100 loan files from the Arkansas Service Center that is responsible for about 36 percent of the loans approved in FY 1999. We found borrower status coding errors on 9 of 100 files as follows:

- four veteran codes,
- three loan amounts,
- one minority code, and
- one gender code

We also reviewed 33 files for borrowers who received multiple loans with different minority, veteran, and gender codes. Generally, we found that loan file input sheets were incorrectly coded in the system due to different interpretations by the SBA staff as to how to record a loan. For example, one business was 90 percent Caucasian owned and 10 percent Hispanic owned. For the two SBA loans obtained by this business, one was entered into the system as Caucasian-owned while the other as Hispanic-owned. The agency criteria states that the business must be 51 percent owned or controlled by a minority owner to be counted as a minority loan. Therefore, both loans should have been coded as Caucasian. In total, we found 5 incorrect minority codes, 12 incorrect gender codes and 16 incorrect veteran codes among these 33 borrowers.

At the Fresno Servicing Center, we found data changes were made to the agency information system supporting three performance indicators. About 2,000 changes were made to minority, gender, and veteran code data for FY 1999 approved loans. We reviewed a random sample of 100 changes to determine the rationale for the modifications. The sample consisted of 50 code changes for minority, 42 for gender, and 8 for veteran. Of the 100 changes, loan file reviews showed that 76 were unsupported or incorrect as shown in the table:

Test of Changes to Gender, Ethnic, and Veteran Codes

Code Changed to	Number of Changes made	Unsupported or Incorrect Changes	Error Rate
51 percent or more Woman-owned	40	34	85%
50 percent Woman-owned	2	0	0%
Minority	23	16	70%
Non-minority (Caucasian, Multi-cultural, or Undetermined)	27	20	74%
Veteran	7	6	86%
Non-veteran	1	0	0%
Totals	100	76	76%

Our review indicates that control procedures did not ensure that the data underlying the performance indicators was reliable.

o ***Cost indicators could not be verified***

We were unable to verify the accuracy of the three indicators associated with loan costs: charge-off, purchase, and recovery. We requested information as to how SBA computed the three indicators but the rationale was not provided. Instead, the program office provided data to support the indicators. However, the provided information was different from what was presented in the FY 1999 Annual Performance Report.

Loan quantity indicators not a valid measure of loan output

SBA's loan quantity indicators are not true measures of the number of loans made to small businesses. SBA's indicators measure the number of loans approved, not made. This was not a true measure of loans made because a significant number of these loans were canceled or not disbursed.

Additionally, SBA's loan indicators do not show how many small businesses actually benefit from SBA loans. The Agency's mission is to help small businesses succeed. Loan quantity indicators should provide the number of small businesses obtaining SBA loans, rather than how many loans were approved. Included in the loan total were multiple loans to single borrowers.

o ***Approved loans canceled without borrowers receiving funds***

Many of the FY 1999 approved loans were canceled or not disbursed at the time of our review. The FY 1999 Annual Performance Report showed 7(a) loans totaled 43,639. This represented the number of loans SBA *approved* during the year. Our review disclosed that a significant number of these loans were not disbursed. For example, as of March 24, 2000, 5,367 of FY 1999 loans had been canceled and 3,910 were committed but not disbursed.

o ***Multiple loans to single borrowers included in loan totals***

We identified 1,576 loans made in FY 1999 that were made to borrowers who had previously received an SBA loan during the year. For example:

- A borrower received 34 CAPLine loans approved during the fiscal year for varying amounts. These loans were made to help the small businesses meet short-term and cyclical working capital needs. Twenty-five of the loans were paid-in-full at the time of our audit with the remaining nine in a current status.

- One business had five PLP loans for $1.25 million that were approved during two days. Four of the five loans eventually were canceled because of a reported clerical error.

- Another business had five $100,000 LowDoc loans all approved on the same day. Subsequently, four were canceled because of a reported clerical error.

The 44 loans were included in the loan total reported on the annual performance report, even though only three borrowers were assisted. In our opinion, annual approved loan figures should not be inflated by including multiple loans to a single borrower or loans that were never made.

Each of the other quantitative indicators (dollar value and loans to minorities, women-owned businesses, and veterans) was also affected. The total reported for minority loans included 378 to borrowers with more than one loan. Further, there were 298 women-owned and 218 veteran-owned businesses with more than one loan.

SBA should use loan indicator data that is more useful. Reporting the number of businesses obtaining actual loan proceeds, along with or instead of the number of loans approved, would provide a more appropriate indication of how many businesses obtain credit needed for their business.

Recommendations

We recommend that the Associate Administrator, Office of Financial Assistance (OFA) in coordination with the Director, Office of Policy:

2.A Institute a strategy to verify and validate performance measurement data.

2.B Assert to the accuracy and completeness of performance data or if the data is not currently accurate and complete, explain how the program office plans to overcome any quality problems in the future.

Management's Response

OFA agreed with the recommendations and provided specify short-term and long-term efforts that will be taken.

Specifically, the recommendation will be implemented as follows:

Recommendations 1.A and 1.B. In the short-term, several draft indicators are being developed that place more focus on outcomes. On a longer-term basis, the data collection process will be redesigned to include additional data to enable the Agency to better analyze information regarding program outcomes. Program indicators and goals will be revised when this data becomes available.

Recommendations 2.A and 2.B. OFA relies to a great extent on data provided by lenders. To improve the reliability of this data, OFA will reemphasize to lenders the importance of accurately furnishing required data. Further, the Agency's FY 2001 Annual Performance Plan has been corrected to indicate the Agency's reliance on lender-provided data and to indicate the data limitation. The statement will be included in all future Performance Plans. Additionally, OFA will explore the feasibility of sampling lender-provided data to verify its accuracy. See Attachment C for the full text of the response.

Evaluation of Management's Response

The OFA comments are responsive to our recommendations. However, we want to stress that sampling of lender-provided data be, both at origination and after input into the agency information system, in order to assure accuracy.

Framework for Implementing the Government Performance and Results Act
Office of Financial Assistance
7(a) Program

Needs to tie back to purpose. (When end outcomes are difficult to identify or are not cost efficient, shift to intermediate outcomes.

These are the areas where performance is measured

Purpose	Process (Activities)	Products (Outputs)	Intermediate Outcomes A Customer Attitudes	Intermediate Outcomes B Behavior Changes	Intermediate Outcomes C Physical Condition	End Outcomes	Impact
Meet the varied short-term and long-term capital needs of small businesses that can not obtain financing on reasonable terms elsewhere	Application Processing · Loan application Loan analysis · Approval Disbursement Servicing	Loans made to small businesses · PLP, CLP and Regular Low Doc Other miscellaneous	. Timeliness . Right Amount . Ease of Use . Helpfulness of Government	· New Business Start-ups · Business Expansion · Business Improvements	· Business and Economic growth of community	· New jobs · Retained jobs · Higher sales Revenue · Higher taxes paid	Health of the small business sector

Areas where efficiency (relative to cost, time, labor hours) is measured.

Areas where effectiveness (relative to customer satisfaction with the outcome and products generated) is measured.

Appendix B

Definitions

***Financing* -** financial assistance provided to a small business by a lender.

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

***Outputs* -** the tabulation, calculation, or recording of activity or effort that 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.

Verification - an assessment of data reliability considering data completeness, accuracy, consistency, and timeliness and the related control practices.

***Validation* -** the process for ensuring that measured values adequately represent performance as related to the achievement of the agency program goals.

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

MEMORANDUM

Date: November 27, 2000

To: Robert G. Seabrooks
Assistant Inspector General
for Auditing

From: Jane Palsgrove Butler
Associate Administrator
for Financial Assistance

Subject: Draft Audit Report: Results Act Performance Measurement for the 7(a) Business Loan Program

In regards to the recommendations made by the Office of Inspector General, Assistant Inspector General for Auditing, ("OIG") in the above-referenced draft report dated October 5, 2000, the Office of Financial Assistance ("OFA") acknowledges these comments and recommendations and herein provides responses for corrective action.

In the draft report, it was reported that most indicators measured outputs rather than outcomes, outputs measure the level of activity or effort that was realized and outcomes assess the actual results, effects or impact of a program activity compared to a program's intended purpose. The OIG recommended that OFA (i) develop appropriate program performance indicators and goals, (ii) institute a strategy to verify and validate performance measurement data, and (iii) require managers to attest to the accuracy and completeness of performance data.

Finding 1: Better Performance Goals and Indicators Need to be Established for the 7(a) Business Loan Program

Recommendation 1.A. Develop 7(a) program indicators to gauge mission effectiveness, key outcomes, and quality of services and the delivery process.

OFA Response: On a short-term basis OFA is developing several draft indicators that place far more focus on outcomes. On a longer-term basis, as part of its systems modernization project, SBA is redesigning its data collection system to include additional data that will enable the Agency to better analyze information regarding program outcomes. When that data is available, OFA will revise program indicators to better reflect its mission effectiveness.

Recommendation 1.B. Ensure program goals address the entirety of the program's mission.

OFA Response: On a short-term basis OFA is developing several draft indicators that place far more focus on outcomes. On a longer-term basis, as part of its systems modernization project, SBA is redesigning its data collection system to include additional data that will enable the Agency to better analyze information regarding program outcomes. When that data is available, OFA will revise program indicators to better reflect its mission effectiveness and that will ensure that program goals address the entirety of OFA's program mission.

Finding 2: Performance Indicator Data was not always Reliable

Recommendation 2A: Institute a strategy to verify and validate performance measurement data.

OFA Response: For most information, OFA must rely on the data provided by lenders. To improve the reliability of this data, OFA will reiterate to lenders the importance of accurately completing these data fields on the loan and loan reporting documents. SBA's Annual Performance Plan of 2001 has been corrected to indicate the Agency's reliance on lender-provided data and to indicate the data limitation. This statement will be included in all future Performance Plans. In addition, OFA will explore the feasibility of sampling lender-provided data to verify its accuracy.

Recommendation 2B: Assert to the accuracy and completeness of performance data or if the data is not currently accurate and complete, explain how the program office plans to overcome any quality problems in the future.

OFA Response: SBA's Annual Performance Plan of 2001 has been corrected to indicate the Agency's reliance on lender-provided data and to indicate the data limitations. This statement will be included in all future Performance Plans. In addition, OFA will explore the feasibility of sampling lender-provided data to verify its accuracy.

If you have further questions, feel free to contact Gregory L. Diercks, Assistant Administrator for Financial Program Operations, at 202-205-7538.

Appendix D

Audit Report Distribution

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