

**HUMAN CAPITAL PLANNING IN SBA'S
OFFICE OF FINANCIAL ASSISTANCE**

AUDIT REPORT NUMBER 6-13

MARCH 2, 2006

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**U.S. Small Business Administration
Office of Inspector General
Washington, D.C. 20416**

MANAGEMENT ADVISORY REPORT

Issue Date: March 2, 2006

Report Number: 6-13

TO: James E. Rivera
Associate Administrator for Financial Assistance

FROM: **/S/ original signed**
Robert G. Seabrooks
Assistant Inspector General for Auditing

SUBJECT: Human Capital Planning in the Office of Financial Assistance

This memorandum is to notify you that the Office of Inspector General (OIG) has completed its survey of human capital planning in the Office of Financial Assistance (OFA) and has decided not to proceed with an audit at this time. However, we believe it would be helpful to provide a summary of the OIG's observations and concerns regarding OFA's human capital planning for your consideration during the current transformation process and the significant changes in OFA's operations, including the potential outsourcing of SBA's disaster loan servicing operations (A-76 competition).

Our objectives in conducting the survey were to (1) assess whether OFA has determined the skills, competencies and staffing levels it needs to achieve its current and projected programmatic results; (2) determine whether OFA developed strategies to address the gaps identified, and whether OFA has taken appropriate action to build the capability to support its workforce planning strategies and staffing plans; and (3) assess whether OFA periodically monitors and reevaluates its human capital needs and goals in light of SBA's changing strategic and program goals, transformation strategy and human capital plan. The OIG chose OFA for special consideration because of its relative size in the Agency, in terms of staffing and program funding, and because of the vital role it plays within the Agency in meeting its overall mission. A draft staffing plan provided by OFA, dated July 2005, represents that OFA had 302 total staff, including 56 contractor staff. The plan also shows that OFA was servicing 132,000 disaster home and business loans with a total outstanding balance of \$3.5 billion as of July 2005. SBA's Performance and Accountability Report for FY 2005 shows that OFA funded 100,255 loans (consisting of 7(a), 504 and Micro Loans) totaling approximately \$19 billion.

The observations and concerns set forth in this memorandum are based on reviews of the information available regarding the competencies and staffing levels necessary for OFA to carry out its work and to achieve its current and projected programmatic goals. The information we examined included SBA's transformation and human capital plans and OFA's draft staffing plan. Additionally, we interviewed the Associate Administrator for Financial Assistance, the Associate Deputy Administrator (ADA) for Capital Access, the directors of the loan processing and servicing centers in Sacramento, Little Rock and Fresno, selected staff members in the centers, the team leader of OFA's systems modernization and financial systems support program, and the Assistant Administrator for Financial Program Operations. Fieldwork was performed in Washington, DC during December 2005.

OBSERVATIONS AND CONCERNS

Our review identified several significant issues that warrant attention. Our overarching concern is that OFA is not operating with a current staffing plan or a documented training plan to ensure that its staff has, retains and builds the skills and competencies needed for OFA to achieve its current and future goals. We also observed that OFA does not routinely monitor or measure quality assurance in the operation of its loan processing and servicing centers. Lastly, we are concerned that the current ADA for Capital Access has not taken action to ensure that OFA operates with an updated and approved staffing plan.

OFA does not have a current staffing plan

Although OFA provided us a staffing plan prepared in July 2005, the staffing plan was accompanied with the following written and significant caveats: "the plan was prepared in July of this year (2005) at the request of the then Acting ADA for Capital Access. The plan was prepared as a pre-decisional document for approval for the then Acting ADA. The plan has not been approved either by the present ADA and it may or may not reflect his views and plans. The Compensation and Benefits Committee has also not approved (sic)." These caveats were verbally repeated to us by OFA management, leading us to conclude that OFA currently has no operational staffing plan despite the extensive work put into the apparently obsolete staffing plan we reviewed.

Without a documented staffing plan, staffing currently appears to be stopgap and not part of an organized effort to ensure that OFA has the right competencies, acquires the right skills, or develops the right strategies for it to meet its current and future performance goals. In developing its strategic human capital model, the Government Accountability Office (GAO) emphasized the importance of agencies developing human capital strategies that include hiring, training, staff development and performance management plans that can be implemented with resources that can be expected to be available.¹ Although GAO's human capital planning principles are meant to apply to entire agencies, they can also be applied to relatively large organizations within agencies, such as OFA. OFA needs to develop a current staffing plan in which the human capital required to meet its current and projected programmatic goals is identified. Mission-critical occupations and competencies also need to be identified and

¹ U.S. General Accounting Office, *Key Principles for Effective Strategic Workforce Planning*, GAO-04-39 (Washington, D.C., December 2003).

documented in a staffing plan so that information is provided for Agency management to develop strategies to recruit, develop and retain talent and skills needed to achieve OFA's current and future goals. Furthermore, OFA's staffing plan should be developed in accordance with the Agency's human capital plan and transformation plan to ensure that it is appropriately linked. Finally, the staffing plan should include active input, support and approval from the ADA for Capital Access.

Once OFA develops a staffing plan, it should include or be accompanied by a tool in which OFA periodically monitors and reevaluates its human capital needs and goals. Currently, OFA management monitors performance of its loan processing and servicing centers using a spreadsheet that contains various production benchmarks and goals. Using this spreadsheet, OFA management monitors the numbers of loans processed or serviced (among other measures) by its various centers. Based on our review of these spreadsheets, however, it was not evident to us that OFA monitors or measures the quality of the loan processing and servicing functions in the centers. Quality assurance should be an integral component of the centers' performance that is periodically monitored by OFA management.

OFA does not have a training plan to ensure that its staff has and retains the skills and competencies needed to achieve its goals

Based on our interviews with OFA management, staff training appears to be conducted in an ad-hoc, non-transparent manner and is extremely limited due to budgetary constraints. Little can probably be done to solve the problem of the limited availability of funds available for training, but this does not preclude the need for an explicit and documented training plan that is based on competency gaps identified in the staffing plan and anticipates probable workforce changes likely to result from current OFA initiatives such as ongoing centralization and A-76 competition.

Recommendation:

1. We recommend that the Associate Administrator for Financial Assistance develop a current staffing plan and training plan that take into consideration our observations outlined in this management advisory report.

SBA Management's Response and OIG's Evaluation of Management's Response:

OFA's response indicated general agreement with OIG's observations and concerns regarding human capital planning in OFA. OFA management stated in its response that it will develop staffing and training plans incrementally for the areas within the organization where transformation has been completed and will add them as it continues to further implement its transformation process. Appropriate timeframes for developing staffing and training plans will be determined during the audit resolution process. Management's response is included in its entirety as Attachment 1.

* * * *

The observations included in this memorandum are the conclusions of the OIG Auditing Division. The recommendation is 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 management decision for our recommendation within 30 days. Your management decision should be recorded on the attached SBA Form 1824, "Recommendation Action Sheet," and show your proposed corrective action and target date for completion.

Should you or your staff have any questions, please contact Robert G. Hultberg, Director, Business Development Programs Group at (202) 205-[FOIA Ex. 2].

Attachments

Attachment 1
Page 1 of 2U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

February 24, 2006

TO: Robert G. Seabrooks
Assistant Inspector General for Auditing

FROM: [FOIA Ex. 6]
James M. Kivera
Associate Administrator for Financial Assistance

SUBJECT: Human Capital Planning in the Office of Financial Assistance.

We acknowledge receipt of your draft management advisory report that you sent for our review and consideration on February 13. The Office of Financial Assistance (OFA) appreciates the opportunity to comment on your observations and recommendations.

OFA agrees with the need for a staffing plan and training plan for its organization. A preliminary plan was developed and shared with the Office of Inspector General as part of the audit. However, as you state in your memo, the OFA continues to undergo various transformation processes – we are in the final stages of:

- completing the A-76 process of the Disaster loan servicing operations that affect several of our centers;
- centralizing the remainder of the 7(a) loan processing;
- centralizing the 504 liquidation and the disaster loan liquidation.

As each of these initiatives are implemented, they will have a direct impact on our staffing and training needs. We will develop staffing and training plans incrementally for those areas where we have completed transformation and will add to them as we continue to expand our transformation and evaluation processes. As we do so, we will give strong consideration to your suggestions within available resources.

Our overall plan is to improve our service delivery processes so that we can better serve our customers. In order to accomplish this, we have developed an evaluation template and are conducting an assessment of our centers. The first evaluation was conducted, during the week of January 30 on the National Guaranty Purchase Center at Herndon, VA. The purpose of this review was to help us identify human capital requirements to meet current and projected programmatic goals, to help us find efficiencies in process delivery, and to find areas where possible use of technology might improve the process.

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Attachment 1
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We just finished doing a training need assessment for all of OFA's employees. This information will be used to help us categorize and identify areas of need. Our plans are to identify training dollars in order to provide this training either on-line or in person. We also will work with the Office of Human Capital to see if their training programs can help fulfill our needs.

We appreciate your interest in helping us. We will keep you informed of our progress. Please let us know if you have any further questions.

cc: Michael Hager, Associate Deputy Administrator for Capital Access.

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