

Challenge History Fiscal Year (FY) Issued: 2005	Actions Accomplished (Green Status) during Past 4 FYs		
		06-0	07-0
Remaining Recommended Actions for FY 2009			Status at end of FY 2008
1. Develop and take steps to provide reasonable assurance that agencies are providing adequate basic and continuing education training to contracting personnel on small business contracting procedures.			Orange
2. Develop and implement a program that promotes accurate contractor certifications and ensures that contracting personnel review contractor certifications.			Yellow
3. Develop and implement a plan that ensures that Federal agencies accurately report the number of contracts they award to small businesses.			Green ↑
4. Issue regulations that require firms to meet the size standard for each specific order they receive under a GSA schedule and Governmentwide Acquisition Contract (GWAC) and show that the regulations are being followed.			Orange

Green-Implemented Yellow-Substantial progress Orange-Limited Progress Red-No progress

Challenge 2. Information systems security needs improvement.

The confidentiality, integrity, and availability of SBA's information systems are vital to the continued successful operation of the Agency. While information technology (IT) can result in a number of benefits, such as information being processed more quickly and communicated almost instantaneously, it can also increase the risk of fraud, inappropriate disclosure of sensitive data, and disruption of critical operations and services. SBA's computer security program operates in a dynamic and highly decentralized environment and requires management attention and resources as weaknesses are identified.

In FY 2008, SBA continued to improve the security of its information systems. SBA centralized administration of its network accounts, strengthened controls over access granted to contractors, established an Enterprise Change Control Board (ECCB), and standardized change control requests. SBA implemented standard baseline configurations for its Windows operating system servers and implemented end user encryption tools. Additionally, SBA improved the tracking of security weaknesses, performed periodic service continuity testing, centralized and implemented the tracking of IT security training, and demonstrated that technical training for individuals with significant security duties has improved. SBA is also to be commended for implementing 28 of 40 OIG audit recommendations. To show further progress, SBA will need to: (1) implement a process to more timely mitigate system risks that are identified as "medium" and "high" and ensure all security weaknesses identified in risk assessments are included in the Plan of Actions and Milestones; (2) identify and remove unnecessary accounts from the general support systems and major applications; and (3) identify users of the Loan Accounting System who have incompatible system access rights, demonstrate the full deployment of end user security controls at the program office level, and address open OIG audit recommendations.

Challenge History Fiscal Year (FY) Issued: 1999	Actions Accomplished (Green Status) during Past 4 FYs			
	04-4	05-2	06-2	07-2
Remaining Recommended Actions for FY 2009				Status at end of FY 2008
1. Access controls are in place and operating effectively.				Yellow
2. System software controls are in place and operating effectively. <i>(Previously action #3)</i>				Yellow ↑
3. Segregation of duty controls are in place and operating effectively. <i>(Previously action #4)</i>				Yellow
4. Service continuity controls are in place and operating effectively. <i>(Previously action #5)</i>				Green ↑
5. The Plan of Actions and Milestones (POA&M) accurately reports all computer security weaknesses and corrective actions. <i>(Previously action #7)</i>				Yellow
6. SBA ensures adequate and up-to-date computer security program training. <i>(Previously action #8)</i>				Green ↑

Green-Implemented **Yellow**-Substantial progress **Orange**-Limited Progress **Red**-No progress

Challenge 3. Effective human capital strategies are needed to enable SBA to successfully carry out its mission and become a high-performing organization.

Between 2001 and 2006, SBA's staffing (excluding Disaster) decreased by more than 25 percent while virtually all of its programs grew significantly. For example, the number of loans made to small businesses doubled and the Agency's oversight responsibilities over government contracting to small businesses increased as the value of these Federal contracts rose by more than 50 percent. In response to budget cuts, SBA restructured key Agency operations, reengineered its largest loan programs, and downsized personnel through attrition and directed transfers. While these actions transformed the way SBA does business, the Agency did not adequately analyze priorities and allocate resources consistent with those priorities and its new business processes. As a result, there was no assurance that sufficient resources—in terms of both number of staff and the knowledge and skills possessed by staff—were available and appropriately deployed to perform critical functions. For example, audits showed that inadequate staffing of key functions resulted in limited oversight of lenders and inadequate monitoring of 8(a) program requirements.

The 2002, 2004, and 2006 Federal Human Capital Surveys (FHCS), which were administered by the Office of Personnel Management (OPM), illustrated SBA's serious human capital challenges. These surveys measured Federal employees' perceptions about how effectively agencies have managed their workforces. For example, in the 2006 survey, positive responses to 36 of 80 questions were far below the government-wide average, and 7 items trended significantly downward since the previous survey. Out of 36 agencies, SBA ranked near the bottom on all four human capital indices: Leadership and Knowledge Management (33rd); Results-Oriented Performance Culture (32nd); Talent Management (35th); and Job Satisfaction (34th). SBA's scores were particularly low related to the adequacy of job-related knowledge and skills, the reasonableness of workload, sufficiency of information needed to go a good job, and employee morale.

SBA's current leadership has emphasized transparency and communication in implementing a "reform agenda" to prioritize agency goals, align resources with identified goals, and assess results. It has also been proactive in addressing the results of the FHCS, and an interim employee survey in 2007 showed substantial improvement in many areas. However, human capital management continues to be a significant challenge for SBA, requiring ongoing attention and commitment by senior leadership.

Challenge History Fiscal Year (FY) Issued: 2001 (Revised 2007)	Actions Accomplished (Green Status) during Past 4 FYs			
	04-1	05-0	06-0	07-0
Remaining Recommended Actions for FY 2009				Status at end of FY 2008
1. Allocate appropriate staffing toward Agency priorities – perform an analysis of Agency priorities and develop, communicate, and implement a comprehensive plan (including responsibilities, metrics, and timeframes) for allocating appropriate staffing (in terms of staffing levels and requisite knowledge, skills, and abilities) toward those priorities.				Yellow
2. Take steps to correct problems identified by the Federal Human Capital Survey (FHCS) – develop, communicate, and implement a corrective action plan (including priorities, responsibilities, metrics, and timeframes) to address the underlying causes of SBA's poor results on the FHCS.				Yellow
3. Plan for the future of SBA – develop and implement an effective succession planning program to ensure that there are qualified staff available to perform SBA's mission-critical functions and meet identified priorities for the foreseeable future.				Yellow

Green-Implemented Yellow-Substantial progress Orange-Limited Progress Red-No progress

Challenge 4. SBA's National Guaranty Purchase Center needs better controls over the 7(a) loan guaranty purchase process.

The majority of loans made under the 7(a) loan-guaranty program are made with little or no review by SBA prior to loan approval because SBA has delegated most of the credit decisions to lenders originating these loans. SBA's review of lender requests for guaranty purchases on defaulted loans is, therefore, the Agency's primary tool for assessing lender compliance on individual loans and protecting SBA from making erroneous purchase payments. However, OIG audits of early defaulted loans and SBA's guaranty purchase process have shown that reviews made by the National Guaranty Purchase Center (NGPC) have not consistently detected lender failures to administer loans in full compliance with SBA requirements and prudent lending practices, resulting in improper payments.

SBA has taken actions to correct many of the deficiencies identified by the OIG, such as reengineering the 7(a) loan guaranty purchase process to improve the efficiency of the program, increasing the staffing level at the NGPC, and issuing revised Standard Operating Procedures (SOPs) for lender loan processing. SBA has also developed a comprehensive operations manual for the NGPC and trained individuals responsible for making purchase decisions. Further, the Agency developed and implemented a statistical sampling methodology to identify improper payments in accordance with OMB requirements. While improvements have been made, additional actions are needed to strengthen guaranty purchase decisions and effectively reduce improper payments, such as ensuring corrective actions are taken when deficiencies in the purchase review process are identified. Also, the Agency needs to implement policies and procedures that are required in recommended action 4 below, including: (1) review of the entire lender loan file for early-defaulted loans; (2) verification of financial information; (3) identification of collateral at loan inception and after loan default; and (4) verification of borrower equity injections.

Challenge History Fiscal Year (FY) Issued: 2001	Actions Accomplished (Green Status) during Past 4 FYs			
	04-0	05-2	06-0	07-0
Remaining Recommended Actions Needed for FY 2009				Status at end of FY 2008
1. Devote adequate resources to the purchase process.				Green ↑
2. Determine the level of improper payments for the entire loan portfolio in compliance with the Improper Payments Information Act of 2002 and OMB guidance.				Green ↑
3. Establish a process to identify and address the risks of improper payments.				Orange
4. Implement effective policies and procedures governing the guaranty purchase process.				Yellow

Green-Implemented **Yellow**-Substantial progress **Orange**-Limited Progress **Red**-No progress

Challenge 5. SBA needs to further strengthen its oversight of lending participants.

Since its inception in 1953, SBA has loaned or guaranteed billions of dollars to finance and spur investment in small business concerns and over the years has shifted from being an organization that processes loans to one that relies on program participants to originate, service and liquidate loans. This reliance requires an effective participant oversight program to monitor participant noncompliance with SBA policies and procedures and take corrective action when material noncompliance is detected.

The Agency expanded its oversight process by establishing a Loan and Lender Monitoring System (L/LMS) that identifies potential and actual financial risks at the portfolio, lender, and loan levels. L/LMS uses internal and external information to develop credit scores for each loan, aggregates the scores by lender, and produces ratings that measure the level of lender risk. In September 2007, the rating categories were rescaled to reflect statistical groupings of raw lender scores and their associated purchase rates. In addition to the L/LMS, the Agency established the responsibilities, authorities, and staffing levels of the Office of Credit Risk Management (OCRM), established Portfolio Analysis and Lender Oversight committees to assess the portfolio and individual lender performance, commenced on-site reviews of participants with large SBA guaranteed loan portfolios, and established a corrective action process for lenders requiring improved performance. OCRM also issued guidance for on-site participant reviews, including fees to be charged to support the oversight process. However, OIG audit efforts disclosed weaknesses in the oversight process, most notably in the areas of: establishing acceptable levels of risk; assigning lender risk ratings; conducting onsite reviews; staffing oversight functions; setting guidance for the oversight process; and correcting unacceptable lender performance.

To enhance the oversight program, among other things, the Agency needs to: (1) revise the lender rating process to ensure that it accurately reflects each lender's risk to SBA; (2) expand the onsite reviews to include medium size lenders; (3) revise the onsite review and examination process to appropriately assess the compliance risk posed by lenders; (4) issue and abide by guidance designed to achieve the objectives of the lender oversight process; and (5) develop specific performance measures that address the deficiencies noted in the lender corrective action plans.

Challenge History Fiscal Year (FY) Issued: 2001	Actions Accomplished (Green Status) during Past 4 FYs			
	04-7(A)-7 04-504-7	05-7(A)-0 05-504-3	06-7(a)-2 06-504-1	07-7(a)-0 07-504-1
Remaining Recommended Actions for FY 2009	Status at end of FY 2008		7(a)	504
1. Implement a process that effectively assesses the level of financial risk of the portfolio, of participants, and of loans.	Green ↑	Green ↑		
2. Improve the process for reviewing lenders and Certified Development Companies (CDCs) for compliance risks.	Yellow	Yellow		
3. Provide adequate personnel resources for the Office of Credit Risk Management.	Green ↑	Green ↑		
4. Implement guidance providing for effective oversight of lending programs. <i>(Previously action #5)</i>	Orange	Orange		
5. Ensure that effective corrective actions are implemented, monitored, and result in improvement in the performance of participants with unacceptable performance. <i>(Previously action #6)</i>	Orange ↓	Orange		

Green-Implemented Yellow-Substantial progress Orange-Limited Progress Red-No progress

Challenge 6. The 8(a) program needs enhanced business development processes, objectively defined eligibility standards, upgraded training and information systems, improved graduation procedures, and better oversight of contractor compliance with program regulations.

The SBA 8(a) Business Development (BD) program was created to assist eligible small disadvantaged business concerns to compete in the American economy through business development. An applicant firm must: (1) be a small business; (2) be unconditionally owned and controlled by one or more socially and economically disadvantaged individuals who are of good character and Citizens' of the United States; and (3) demonstrate potential for success.

Previously, the Agency had not placed adequate emphasis on business development to enhance the ability of 8(a) firms to compete, and did not adequately ensure that only 8(a) firms with economically disadvantaged owners in need of business development remained in the program. Companies that were "business successes" were allowed to remain in the program and continue to receive 8(a) contracts, causing fewer companies to receive most of the 8(a) contract dollars and many to receive none. The Agency was also challenged by an information system that impaired its ability to effectively manage the program.

The Agency has strengthened its internal controls to reasonably ensure that the business development needs of individual firms in the 8(a) BD program are identified and that assistance is provided to meet those needs. A new innovative Business Development Management Information System (BDMIS) has been implemented for the program that will automate the certification and annual review process, thus allowing for more timely and effective reviews. The system will also be able to perform internal analytics, create reports, and track business development activities. In addition, the Agency has modified existing procedures to enhance its ability to detect whether 8(a) firms are complying with regulatory requirements when they perform contracts.

Although SBA has made some improvements, many challenges remain. In particular, the Agency needs to develop clear and objective criteria for determining "economic disadvantage".

Challenge History Fiscal Year (FY) Issued: 2003	Actions Accomplished (Green Status) during Past 4 FYs			
	04-0	05-0	06-1	07-1
Remaining Recommended Actions for FY 2009				Status at end of FY 2008
1. Develop and implement a plan, including SOP provisions, which ensures that the 8(a) BD program identifies and addresses the business development needs of program participants on an individualized basis.				Orange
2. Develop and implement Regulations and SOP provisions to ensure that participants are graduated once they reach the levels defined as business success.				Yellow ↑
3. Establish objective and reasonable criteria that effectively measures "economic disadvantage", and implement the new criteria.				Red
4. Provide sufficient financial and analytical training to business development specialists (BDS) to enable them to evaluate a company's business profile and competitive potential.				Yellow
5. Determine data needs to support and manage the BD program and implement a management information system (MIS) that will support the program mission and objectives, provide useful information, and enable SBA to measure program results.				Green ↑
6. On a regular basis, conduct surveillance reviews of procuring agencies to ensure they are effectively monitoring and enforcing compliance with specified 8(a) BD regulations on the contracts they administer (<i>Previously action #7</i>).				Yellow ↑

Green-Implemented **Yellow**-Substantial progress **Orange**-Limited Progress **Red**-No progress