

**SBA BUDGET REQUEST  
AND  
PERFORMANCE PLAN**

**FY 2003  
CONGRESSIONAL SUBMISSION**

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EXECUTIVE SUMMARY

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## **EXECUTIVE SUMMARY**

Small business is the foundation of our Nation's economy. It remains the swiftest and surest way of achieving the American Dream, regardless of one's beginnings. Small businesses serve as market laboratories for conceiving, testing, and proving new ideas, accounting for more than half of all innovation. The number of small businesses has increased 49 percent since 1982, and almost a quarter of U.S. households now are starting a business, own a business or are investing in someone else's business.

Small businesses:

- Represent 99 percent of all employers and 51 percent of the private workforce,
- Employ 38 percent of the private workers in the hi-tech field,
- Provide three-quarters of all net new jobs,
- Provide 50 percent of all private sector output, and
- Represent 96 percent of all exporters.

In FY 2003, SBA will celebrate its 50<sup>th</sup> Anniversary. Many of our Nation's business success stories (e.g. Intel, FedEx, Ben & Jerry's, etc.) were built on the foundation of varying forms of SBA assistance (e.g. capital access, technical assistance, procurement assistance and disaster relief). In its continuing effort to transform itself into a more efficient and effective organization the Agency will be guided by The President's Management Agenda, which includes the following:

- Strategic Management of Human Capital  
SBA will restructure its workforce to adapt to the changing needs of small businesses and the marketplace, reducing layers of management where necessary and relying upon private partners where appropriate.
- Competitive Sourcing  
SBA will continue to identify and outsource, as warranted, those activities that are not inherently governmental in nature.
- Improved Financial Performance  
SBA will build upon its sound financial management system through modernization and the integration of its Loan Monitoring System.
- Expanded Electronic Government  
SBA will play a leading role in the government-wide initiative to offer electronic services to citizens and small businesses.
- Budget and Performance Integration  
SBA will continue to become more transparent and accountable by focusing on results and managing its resources accordingly.

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While The President's Management Agenda will provide guidance, SBA's mission emanates from the Small Business Act , which charges the Agency to:

*"...aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts or subcontracts for property and services for the Government...be placed with small business enterprises, to insure that a fair proportion of the total sales of Government property be made to such enterprises, and to maintain and strengthen the overall economy of the Nation."*

### **SBA's Mission and Strategic Framework**

A more vibrant small business sector is the product of the strategic implementation of the SBA mission and is of critical importance to our national economic growth and health. In pursuit of this mission, SBA will pursue three major strategic goals:

1. Champion Small Business Interests
2. Empower Entrepreneurs
3. Streamline Disaster Lending

#### **Strategic Goal 1: Champion Small Business Interests**

Small business is the foundation that supports the Nation's productive capacity, stimulates innovation, and creates jobs. The SBA's success rests upon its ability to stimulate economic growth while breaking down the barriers to free competition. The SBA commits to listen to small business concerns and the message from its varied partners through small business trade association conferences and roundtables, through local, county, and state conferences as well as statewide economic development summits. SBA will act on behalf of small business needs and interests and serve as a powerful voice in the policy arena. One of SBA's objectives is to reduce the onerous legal and regulatory burden that impacts the country's small businesses. The Agency will continue to pursue and support legislation and regulations conducive to equity and fairness and a strong small business community, including issues such as access to capital, contract opportunities, entrepreneurial development, pension reform, tax reduction, and health care.

#### **Strategic Goal 2: Empower Entrepreneurs**

Americans are the world's most prolific entrepreneurs. However, much of this productive talent lies dormant without tools such as capital, technical assistance, counseling, a solid business framework, and a workable business plan. Together with its resource partners, SBA will continue to provide these tools through a full range of responsive programs for small businesses to start and expand. SBA will leverage the resources of each partner to create a synergistic approach to increasing capital access and to encouraging more business start-ups to help expand the business playing field.

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### **Strategic Goal 3: Streamline Disaster Lending**

SBA has long been a major provider of disaster relief in the form of access to capital. The September 11<sup>th</sup> attacks have heightened SBA's awareness of the need to continue to act in a more creative, responsive, and efficient way. These tragic events challenged SBA to evaluate its ability not only to provide assistance within a defined geographical region, but also to respond to the widespread adverse economic impact to this country's small business community. SBA met this challenge not only by working through its resource partners (including the Small Business Development Centers, SCORE and Women's Business Centers) to provide New York with additional disaster assistance in less than 72 hours, but also through an unprecedented nationwide expansion of its Economic Injury Disaster Loan (EIDL) program. SBA will continue to innovate by providing an electronic loan application process, streamlining the credit review process, and expediting loan processing.

### **Managing for Results**

Realizing the importance of transparency and accountability for its results, SBA will deploy its resources in a way that increases its impact on the small business community. SBA will not simply count the activities that it undertakes; it will measure and monitor those program outputs (i.e., the intermediate product of the Agency's activities) that have demonstrable connections to service outcomes (i.e., the final impact that citizens and small businesses seek). The graphic on page six illustrates this connection between program results (i.e., outputs) and performance goals (i.e., outcomes).

This illustration depicts a general production process whereby the results of the Agency's activities lead to the achievement of the Agency's goals for small business. The Agency first sets its performance goals by identifying the desired impact it seeks to have on small business. It then identifies the managerial outputs (i.e., results) that lead to the desired service impacts. The required output levels determine the activity the Agency must undertake to achieve its goals. For example, in our logic model, based on available data, every \$33,000 in loans to small businesses leads to one job created. With this information, we can reasonably extrapolate the number of jobs created (our performance goal) from our loan dollar volume disbursed (the program result).

While it is difficult to infer direct causal links between SBA program results and performance outcomes, taken in the aggregate, SBA activities can indeed be shown to contribute to the success of small business. This is done, in part by conducting surveys that validate program impacts and charting how business sustainability and job creation relate directly to the availability of capital, credit and procurement opportunities.

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**STRATEGIES AND MEANS FOR ACHIEVING PERFORMANCE GOALS**

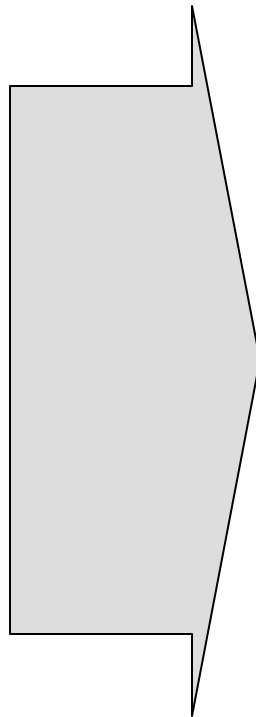
**SBA PROGRAM OUTPUTS      CONTRIBUTE TO      THESE PERFORMANCE GOALS**

**Strategic Goal 1: Champion small business interests through being a voice for small business.**

Small business advocacy  
Small business research  
Regulatory impact analyses  
State conferences and roundtables  
Ombudsman hearings  
Federal regulatory reviews  
Electronic information and assistance

**Strategic Goal 2: Empower entrepreneurs through access to capital and credit, procurement opportunities and entrepreneurial development assistance.**

Business loans  
Equity financings  
Surety bond guarantees  
Export credit  
Certification of small disadvantaged businesses  
Certification and development of 8(a) firms  
Federal small business procurement  
SBIR grants  
Education  
Counseling  
Training

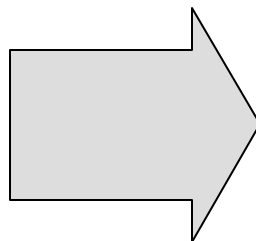


**Impacts On Small Business**

Regulatory savings  
Reduced legal and regulatory burden  
Increased regulatory enforcement fairness  
Strengthened small business sector  
Increased customer satisfaction  
Increased small business jobs  
Increased small business ownership diversity and growth in economically distressed areas  
Increased number of start-ups  
Increased client firm survival rates  
Increased share of Federal procurement to small businesses and targeted groups  
Increased small business export sales  
Improved 8(a) firms success rate  
Increased commercialization rate of SBIR projects

**Strategic Goal 3: Streamline disaster lending.**

Disaster loans to families  
Disaster loans to businesses  
Timely response  
Reduced application & approval time



Restored housing & businesses  
Jobs retained  
Increased survival of businesses  
Customer satisfaction

*U.S. Small Business Administration  
FY 2003 Budget Request and Performance Plan*

EXECUTIVE SUMMARY

The Performance Scorecard shown below maps the Agency's performance indicators to its strategic goals, summarizes its progress made over the past 3 years, and presents the goals for the current and subsequent fiscal years. SBA pledges to identify innovative and cost effective solutions to improve its service delivery. The President's Management Agenda will serve as the primary guide in this improvement process, with a greater emphasis on expanding Internet applications, outsourcing service delivery, modernizing loan monitoring, and further integrating budget allocation and performance.

## SBA's STRATEGIC GOALS AND PERFORMANCE INDICATORS

Description	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Target	FY 2003 Target
<b>Strategic Goal 1: Champion Small Business Interests</b>					
1. Regulatory cost savings to small businesses	\$4.3B	\$3.6B	\$4.4B	\$3.5B <sup>1</sup>	\$3.0B
<b>Strategic Goal 2: Empower Entrepreneurs</b>					
2. Start-ups receiving 7(a) and 504 financing	16,120	16,630	14,283	16,194	15,480
3. Start-ups receiving 7(a) and 504 loans viable 3 years after receiving loan	69%	69%	69%	70%	71%
4. 7(a) and 504 loans that go to minority-owned firms	12,127	12,120	12,009	12,009	12,900
5. Export sales through SBA assistance	\$349M	\$675M	\$608M	\$537M	\$550M
6. 8(a) firms viable 3 years after graduation	68%	65%	TBD	70%	70%
7. Jobs created by 7(a) and 504 borrowers	373,143	379,481	374,441	408,172	302,720
8. Jobs created/sustained by SBIC clients	120,000	160,000	120,000	148,571	142,857
9. Jobs created by SBDC clients	70,398	60,395	N/A	50,000	52,500
<i>Federal prime contract dollars:<sup>2</sup></i>					
10. To small businesses	23.1%	22.3%	22.0%	23.0%	23.0%
11. To women-owned firms	2.3%	2.3%	2.0%	5.0%	5.0%
12. To small disadvantaged-owned firms	6.5%	6.5%	6.0%	5.0%	5.0%
13. To service disabled veteran-owned firms	N/A	N/A	0.1%	3.0%	3.0%
14. To HUBZone-certified firms	N/A	0.3%	0.5%	2.5%	3.0%
<b>Strategic Goal 3: Streamline Disaster Lending</b>					
15. Homes restored to pre-disaster conditions	28,811	23,070	43,519	31,853	30,618
16. Businesses restored to pre-disaster conditions	7,365	5,148	5,275	7,011	6,116
17. SBA field presence within 3 days	100%	100%	100%	98%	100%
18. Loan applications processed within 21 days	60%	91%	94%	80%	85%
19. Customer satisfaction	N/A	81%	N/A	80%	80%

<sup>1</sup> The decline in savings suggests success on the part of the Office of Advocacy because it is operating on a smaller and smaller regulatory universe.

<sup>2</sup> Year-end data for FY 2001 are not yet available. Actual figures are estimates.

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## **HIGHLIGHTS**

The President's FY 2003 Budget request for SBA encourages entrepreneurial activity and growth while providing improved customer service and savings to the taxpayer. Combining \$35 million from anticipated carryover balances and recoveries in the Disaster Loan Programs account with a budget request of \$798 million, which includes \$18 million for pension benefits previously funded through OPM, SBA will be able to offer more than \$17 billion in capital and credit assistance to small businesses and to disaster victims. This budget request also includes funds to provide management and technical assistance as well as procurement support to the small business community. Finally, the FY 2003 budget request includes funding to implement the President's core management initiatives to create an SBA that is citizen-centered, market-based, and results-oriented.

### **Presidential Initiatives**

The President's FY 2003 Budget request contains several specific program initiatives that represent his agenda for small business.

- To complement the celebration of SBA's 50<sup>th</sup> Anniversary in FY 2003 and to solicit small business input into the Agency's policy and program agenda, the Administration is proposing to initiate a series of conferences that will culminate in a national celebration of small business. SBA has requested \$1.5 million in funding to support involvement with these events starting in FY 2003.
- To support one of the President's 23 E-Government initiatives to create a Government that is more citizen-centered, SBA is requesting \$5 million to lead the Federal Government's interagency effort to build a portal that reduces the burden of laws and regulations on small business. This Business Compliance One-Stop on the Internet will build upon SBA's *BusinessLaw.gov* and help small entrepreneurs find, understand, and comply with Federal, state, and local laws and regulations. The new tool will also offer access to online licensing and permitting.
- To specifically address the small business needs of Native Americans, especially those living on reservations, SBA is requesting \$1 million to encourage and train entrepreneurs to start, grow and expand small businesses within these communities. This will support the stimulation of these local economies through job creation.
- To link resources more closely to results, SBA is requesting \$850,000 to evaluate its program services to ensure they are meeting the needs of small business customers and that these services are being delivered in the most cost effective and efficient manner. With the continuing emphasis on tying resources to results under the Government Performance and Results Act, SBA must ensure that its key delivery programs, especially those that rely on private-sector partnerships, produce value for the taxpayer.



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- To restructure its workforce and ensure competitive sourcing, SBA is requesting \$15 million. In FY 2002 SBA will further refine its 5-year modernization plan and initiate selected pilot projects to test and quantify the costs and benefits of various programs to improve delivery of services to its customers. This will position SBA to make the necessary changes to its programs and delivery network. In FY 2003 SBA will implement the successes of the pilot program. The \$15 million will fund costs including expansion of telecommuting, consolidation of loan servicing centers, relocating and retraining employees, and reconfiguration and reduction of office space. These expenditures will result in significant cost savings in the out years.
- SBA is requesting \$3.55 million to upgrade its infrastructure in support of all of its programs and services and to ensure increased security over Federal computer systems. Included in this request is \$750,000 to implement an e-documents management system to retain and administer SBA's electronic records and \$2.8 million to increase system security and improve the infrastructure.

### **Additional Proposals**

- **Budget authority of \$85.36 million for 7(a) loan program.**

The SBA has changed its subsidy rate calculation method for the 7(a) loan program to more accurately reflect changes in the program over time. The new calculation method, which weights Preferred Lender loans in proportion to participation in the program, produced a subsidy rate estimate of .88 percent - a 20 percent decrease. However, P.L. 107-100 subsequently reduced the fees paid by borrowers and lenders for a two-year period beginning in October 2002, causing the recently reduced subsidy rate to double to 1.76 percent. With the requested appropriation of \$85.36 million for FY 2003, this results in a 7(a) program level of \$4.85 billion in lending.

While this statutory change ostensibly poses a significant challenge to SBA in meeting increasing loan demand, SBA believes that other recent legislation may help it meet this challenge. The combined budget authority for the 7(a) program in FY 2002 is \$175 million, which includes SBA's annual appropriation of \$78 million, the supplemental appropriation of \$75 million, and carryover from FY 2001 of \$22 million. While the supplemental 7(a) program is executed at a different subsidy rate than the regular program (1.67 percent versus 1.07 percent, respectively), the total 7(a) loan volume for FY 2002 equates to \$13.84 billion. Adding this amount to the FY 2003 program level of \$4.85 billion produces a two-year program level of \$18.69 billion, or an annual average of \$9.34 billion, which is consistent with historical levels.

Consistent with its strategic goal of empowering entrepreneurs, SBA believes that 7(a) resources can be strategically targeted to serve those small businesses that have the greatest

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need. SBA will explore creative adaptations to make the 7(a) program more efficient and effective. Some adaptations SBA is considering include the increased use of the 504 program to finance larger loans for real estate and long term capital equipment investment, targeting smaller loans, and leveraging resources through the support of state-based Capital Access Programs (CAP).

- **Save taxpayers \$37 million by eliminating redundant and duplicative programs.**

SBA is not seeking funding in FY 2003 for the Program for Investment in Microenterprise (PRIME), funded in FY 2002 at \$5 million; the Business Learning-Investment-Networking and Collaboration (BusinessLINC) program, funded in FY 2002 at \$2 million and congressional initiatives funded in FY 2002 at \$30 million. These changes will free \$37 million allowing SBA to focus on providing a greater level of service through its proven core programs. SBA services will be improved through the elimination of programs that duplicate other Federal, state, local or private-sector services to small business.

In summary, SBA's request of \$798 million represents a responsible and responsive funding level to appropriately serve the needs of America's small businesses in FY 2003. This budget builds on the President's tax proposal and other policies to revitalize the economy, invest in human capital, increase customer satisfaction through expanded electronic tools, and increase government transparency and accountability. This is what the President demands and small business deserves.

# **FY 2003 PERFORMANCE PLAN**

*U.S. Small Business Administration  
FY 2003 Budget Request and Performance Plan*

PERFORMANCE PLAN FOR FY 2003 – Strategic Goal 1: Champion Small Business Interests

## FY 2003 PERFORMANCE PLAN

### Strategic Goal 1: Champion Small Business Interests

#### Means and Strategies:

SBA has three major strategies to champion small business interests. First, SBA is a voice for small business, reaching out to small businesses to ask what they need and want. The Agency raises small business concerns to the highest levels of Government, and acts as an advocate in the legislative and regulatory areas to break down barriers to small business success. SBA speaks out on issues of major concern to small business, e.g., pension reform, tax reduction, health care, legal and regulatory redress, and barriers to international trade.

Second, SBA encourages Federal agencies to treat small businesses equitably and fairly. Examples include the National Ombudsman's efforts to make Federal agencies consider the impact of their regulatory enforcement and compliance processes on small businesses.

Third, SBA is committed to serving the needs of the Nation's 25 million small businesses by providing information, program services/transactions, and knowledge through the Internet. With more than 2 out of 3 small business owners using the Internet, SBA is expanding its 24/7 access through Internet tools that are solution-driven.

#### Results and Resources

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
	Actual	Actual	Actual	Actual	Target	Target
<i>Results:</i>						
Regulatory cost savings to small businesses	\$3.2B	\$4.3B	\$3.6B	\$4.4B	\$3.5B	\$3.0B
<i>Resources (\$000):</i>						
Office of Advocacy	\$ 4,079	\$ 4,334	\$ 4,480	\$ 4,146	\$ 4,920	\$ 5,642
Advocacy Database & Research	790	800	1,140	1,297	1,100	1,100
National Ombudsman	351	524	514	554	500	500
Business Compliance 1-stop portal	0	0	0	0	200	5,000
Evaluations	0	0	0	90	0	850
White House/ State Conferences	0	0	0	0	0	1,500
Agency Support Cost Estimates	N/A	N/A	2,289	2,396	2,789	2,545
<b>Total</b>	<b>\$ 5,220</b>	<b>\$ 5,658</b>	<b>\$8,423</b>	<b>\$ 8,803</b>	<b>\$ 9,509</b>	<b>\$ 17,137</b>

#### Major Accomplishments in FY 2001:

- Legislative Changes. SBA's Office of Advocacy estimates it saved small businesses \$4.4 billion through its legislative and regulatory agenda. Activities that resulted in savings came from collaboration with the Departments of Labor and Interior, EPA, and OSHA.

- Regulatory Fairness. The National Ombudsman solicited comments from small business concerns regarding the regulatory enforcement practices used by Federal agencies. Information was used to provide feedback to Federal regulatory agencies on improving the enforcement and compliance environment.

### **Major Activities for FY 2003:**

- Impact Studies. SBA will continue to reduce the regulatory burden to small business encouraging agencies to analyze the impact of proposed regulations on small businesses before they are published and review and comment on proposed rules as they move through the Regulatory Flexibility Act and Administrative Procedures Act processes.
- Economic Research. SBA will continue to research the impact on small business of emerging issues such as a tight labor market, barriers to small companies providing health insurance, anti-competitive Internet practices, cyber-crime, the overall cost of regulations, small business growth patterns, and pension reforms.
- Analyze and Propose Legislative Changes. SBA will continue to analyze and advocate legislative initiatives from a small business perspective.
- White House and State Conferences. To serve small business well, SBA must listen to small business concerns. The recognition activities of SBA's conferences will increase the awareness of small business needs and encourage discussions on how to best improve assistance to small business in carrying out its role as the Nation's top job creator.
- Regulatory Fairness. SBA's National Ombudsman and the Federal Regional Regulatory Fairness Boards will convene hearings and roundtables throughout the country. The National Ombudsman will solicit testimony from small business concerns regarding the regulatory enforcement practices used by Federal agencies. Feedback from these hearings will be posted on the Ombudsman website and used to rate Federal agencies on their small business enforcement practices. Information will also be used to make the Federal regulatory enforcement and compliance environment more small business friendly.
- Business Compliance One-Stop. The primary goal in developing this Internet portal (*BusinessLaw.gov*) is to continue to help small businesses find, understand, and comply with laws and regulations. To avoid significant costs in time and penalties, the small business owner must figure out which laws and regulations apply to his/her business, understand what is required, and then act. It is a tedious and often costly task, complicated in part because the rules are imposed by numerous agencies at all levels of Government: Federal, state and local. The first phase of this portal was unveiled in December 2001. The second phase, is a multi-agency, intergovernmental effort managed by SBA as part of the Administration's QuickSilver E-Gov initiatives to create a client-centered government. These initiatives will enable small business to secure licenses and permits over the Internet.

- **Public/Private Partnerships.** The primary goal is to increase the leverage of SBA's programs and resources by acting as a catalyst and coordinator to promote public/private partnerships. Partners include Federal agencies, state, county, and local governments, financial institutions, large corporations, educational institutions, non-profit organizations, and business trade associations.

### **Cross-Cutting Issues:**

Serving as a voice for small business, reviewing agency regulatory proposals for small business impact, and serving as the guardian for regulatory fairness require close collaboration with major Federal regulatory agencies. In all, the Office of Advocacy monitors the regulatory proposals of Federal agencies, as well as administration policies and congressional initiatives that effect small business.

The Office of the National Ombudsman, by statute, works with the 34 Federal Regulatory agencies covered under SBREFA to effect changes in Federal regulatory compliance and enforcement processes to reduce their negative impact on small businesses.

### **Critical External Factors:**

Critical success factors for the Office of the National Ombudsman are successful integration into SBA field functions, active participation by the 50 Board members, more effective use of the Internet, and partnering with regulatory agencies. Other critical success factors for championing the interests of small business include developing productive public-private sector partnerships and a good collaborative relationship with trade associations.

## **Strategic Goal 2: Empower Entrepreneurs**

### **Means and Strategies:**

The SBA sponsors a number of programs that provide services directly to clients. The overarching goals for these programs empower entrepreneurs and help small business clients become viable in a competitive marketplace.

SBA has something to offer to *all* small businesses but seeks especially to reach those that need help the most. Major impediments to small business success include inadequate access to financing, limited management and technical assistance, lack of procurement assistance and certification and development assistance. SBA programs provide access to loans and equity; contract and procurement assistance; and counseling, education, information, and training. The outcomes of these programs are job creation, revenue generation, business longevity and contracting. The SBA accomplishes these goals through three principal program areas: Capital and Credit, Procurement, and Entrepreneurial Development.

### **I. Programs that support small business capital and credit needs:**

Small businesses cite inadequate access to capital and credit on reasonable terms as a serious impediment to start-up and growth. One of SBA's objectives is to expand the parameters within which a conventional lender can make a small business loan. As the Nation's preeminent "gap lender" for small business, SBA identifies and helps to fill the credit gap in the commercial marketplace. SBA guarantees funding for: longer terms; new start-up businesses in emerging industries; businesses with lower levels of collateral; and businesses with limited track records, all of which are credit-worthy but not readily served in the conventional credit marketplace.

One way that SBA measures the performance of these programs is by tracking the number of start-ups financed that survive for three years, and the growth of firms measured by job creation that have obtained SBA debt or equity financing.

SBA delivers financial assistance programs through a network of field offices and lending partners, who work with small businesses on a one-to-one basis. SBA also processes many of its loans through centralized processing centers located in Sacramento, California and Hazard, Kentucky, relying on its lending partners for credit decisions.

SBA products currently include:

- General Business 7(a) Loan Guaranty Program. SBA guarantees small business loans of up to \$1 million (with a maximum loan size of \$2 million) for virtually every business purpose. The guaranty can be for as much as 85 percent on loans of \$150,000 or less and 75 percent on loans of more than \$150,000. Borrowers may have more than one SBA loan at a time, as long as the total amount guaranteed does not exceed the SBA's guaranty cap of \$1 million. The only

exceptions to these limits are for loans approved under the Export Working Capital Program (which receive a guaranty of up to 90 percent), and the Defense Loan and Technical Assistance (DELTA) Loan Program.

- 504 Certified Development Company (CDC) Loans. This program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings and long-life capital equipment. SBA fully guarantees (at 100 percent) debentures issued by the CDC for up to 40 percent of the project cost not to exceed \$1.0 million or \$1.3 million for projects that meet specific public policy purposes. The remaining 60 percent is provided by borrower injection (10-20 percent) and private capital sources.
- Microloans. These loans provide capital to small businesses that traditional lenders historically have not served. SBA makes loans up to \$750,000 to intermediaries who in turn make very small loans (\$35,000 and under) available to entrepreneurs traditionally considered unbankable because of inexperience with credit, lack of assets, or the need for technical assistance. A key component of the Microloan program is the intermediary's ability to provide technical assistance to the micro-business, through SBA grants.
- United States Export Assistance Centers (USEACs). SBA, the Department of Commerce, the Ex-Im Bank and the U.S. Department of Agriculture jointly staff these one-stop trade promotion and export finance assistance centers located in 19 cities across the country.
- Small Business Investment Company (SBIC) Program. SBICs serve one of the most important missions of the Agency- helping qualified small enterprises secure equity to start, maintain or grow a business. The SBIC program facilitates the formation of privately-owned and operated investment companies as sources of equity capital and long-term debt financing to new or expanding small businesses; and supplementing investment companies' private capital with funds made available through SBA guarantees. SBICs are licensed and regulated by the SBA. SBICs use their own funds, plus funds from borrowing with an SBA guaranty, referred to as "leverage," to make venture capital investments in small business. The entire private capital of an SBIC is placed at risk ahead of the funding guaranteed by the SBA.
- New Market Venture Capital (NMVC) Program. This program provides equity-type capital and operational assistance funds to small businesses located in defined low-income areas. The program is modeled on the SBIC program but also includes grant awards to the NMVC companies to allow for more intensive technical assistance.
- Surety Bond Guarantee Program. This program issues bid, payment and performance bond guarantees to surety companies for construction, service and supply contracts that do not exceed \$2 million. SBA's guarantees provide sureties necessary incentives to issue bonds to small contractors who could not otherwise compete in the contracting industry.



*U.S. Small Business Administration  
FY 2003 Budget Request and Performance Plan*

PERFORMANCE PLAN FOR FY 2003 – Strategic Goal 2: Empower Entrepreneurs

**Results and Resources**

*(Dollars in thousands based on net loan approvals<sup>1</sup>)*

	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Target</b>	<b>Target</b>
<i>Results:</i>						
Start-up firms obtaining 7(a) and 504 financing	16,640	16,120	16,630	14,283	16,194	15,480
Start-up firms with 7(a) and 504 financing surviving three years <sup>2</sup>	70%	69%	69%	69%	70%	71%
Export sales through financing & other SBA assistance	\$413,000	\$349,000	\$675,000	\$608,000 <sup>3</sup>	\$537,000	\$550,000
Jobs created by SBA 7(a) borrowers <sup>4</sup>	278,426	313,322	324,964	305,509	324,254	209,993
Jobs created by SBA 504 borrowers	53,288	59,821	54,517	68,932	83,918	98,903
Jobs created/sustained by SBIC	91,429	120,000	160,000	120,000	148,571	142,857
<i>Outputs:</i>						
Number of 7(a) loans approved	42,270	43,636	43,748	42,958	47,500 <sup>5</sup>	44,000 <sup>6</sup>
Number of 504 loans (gross)	4,930	5,284	4,565	5,213	6,480	7,600
Dollar volume of 7(a) loans (net)	\$8.5B	\$9.5B	\$9.7B	\$9.1B	\$10.5B	\$6.8B
Dollar volume of 504 loans (net)	\$1.8B	\$2.0B	\$1.8B	\$2.3B	\$2.8B	\$3.3B
Number of 7(a) & 504 loans to women	11,108	10,244	9,921	9,969	12,457	12,500
Number of 7(a) & 504 loans to veterans	5,915	5,477	5,215	5,099	5,099	5,676
Number of 7(a) & 504 loans to minorities	10,897	12,127	12,120	12,009	12,009	12,900
Number of 7(a) and 504 loans to start-ups	16,640	16,120	14,450	14,283	16,194	15,480
SBIC financing to start-ups	1,456	1,169	2,180	1,700	1,800	1,800
Dollars of 7(a) and 504 loans to start-ups	N/A	N/A	N/A	\$2.9B	\$3.3B	\$2.5B
Dollars of SBIC financing to start-ups	\$1.6B	\$1.8B	\$2.7B	\$2.0B	\$2.1B	\$2.3B
Number of 7(a) loans below \$150,000	26,002	26,464	26,227	27,107	25,900	28,000
Dollars of 7(a) loans below \$150,000	\$1.8B	\$1.9B	\$1.9B	\$2.0B	\$2.0B	\$2.1B
Number of Microloans	1,091	1,434	2,107	2,295	2,200	2,200
Number of Surety Bonds Guaranteed	13,305	9,399	7,034	6,320	6,300	7,000
Number of export loans	431	429	480	425	420	450
<i>Resources (\$000):</i>						
Capital Access Operating Expenses	\$ 19,002	\$ 20,943	\$ 24,391	\$25,395	\$25,276	\$27,104
Special Initiatives						
USEAC	2,831	3,100	3,065	2,579	3,100	3,100
Microloan Technical Assistance	14,094	19,148	19,243	18,385	17,754	17,500
PRIME Technical Assistance	0	0	0	15,000	5,000	0
New Market Venture Capital Technical Asst.	0	0	0	120	29,880	0

<sup>1</sup> Each year approximately 10 percent of the loan dollars approved are canceled prior to disbursement, freeing the funds for another borrowers. Therefore, net loan approvals are approximately 10 percent lower than gross approvals.

<sup>2</sup> Measure defined as the percentage of disbursed loans to startups that are current or paid in full at the end of three fiscal years later.

<sup>3</sup> Not reflected here is an additional \$904 million in export sales supported through SBA's non-finance programs.

<sup>4</sup> Job creation figures for 7(a) and 504 loans are based on the SBDC annual economic impact study, which revealed that 30 percent of loans that SBDC clients obtain made in FY 1999 and FY 2000 are SBA general business loans. The job coefficient for the 7(a) loans was \$32,382, meaning that this amount in lending leads to one job, on average. The job coefficient for the 504 loans was \$33,366 (based on 1998-2000 data). Job estimates were obtained by dividing gross original loan dollars by the coefficient. Job creation figures for SBIC are based on the Arizona Venture Capital Impact Study made by the Zermatt Group (1999), which estimates a job creation constant of one job for every \$35,000 invested in 1999.

<sup>5</sup> This figure includes an estimated 43,000 loan approvals from the regular 7(a) program and an additional 4,500 from the temporary authority provided by P.L. 107-117 to help small businesses following the September 11<sup>th</sup> attacks. The total is based on an estimate of \$10.5B in lending and the FY 2001 average loan level of \$242,000.

<sup>6</sup> This figure is based on the requested lending level of \$4.85B plus an expected carryover of budget authority that could provide \$2 billion in additional lending. The carryover is likely due to our aggressive FY 2002 projection of \$10.5 billion in lending falling short of a total available program level of \$13.8 billion. This figure also assumes an average loan size of \$172,000, which we will attain through proposed smaller loan size initiatives.

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	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Target</b>	<b>Target</b>
Loan Subsidies						
7(a) General Business	182,435	131,648	112,283	106,724	175,075	85,360
7(a) DELTA	1,037	762	285	32	346	302
Y2K	0	170	110	1	0	0
504 CDC	0	0	0	0	0	0
504 DELTA	38	43	3	0	21	22
New Market Venture Capital	0	0	0	0	21,952	0
SBIC Participating Securities	15,471	22,232	22,692	27,624	0	0
SBIC Debentures	8,955	4,858	0	0	0	0
Microloan Guaranty	298	92	96	159	163	168
Microloan Direct	1,111	1,369	2,323	2,668	1,730	3,465
Agency Program Support Cost Estimates	N/A	N/A	117,658	168,428	214,721	\$193,408
<b>Total</b>	<b>\$245,272</b>	<b>\$204,365</b>	<b>\$302,149</b>	<b>\$367,115</b>	<b>\$420,018</b>	<b>\$330,429</b>

**Major Accomplishments in FY 2001:**

*Loan and equity programs*

- 7(a) and CDC Loans. Approved 42,958 general business loans for approximately \$9.1 billion and 5,213 Certified Development Company loans for \$2.3 billion.
- Asset Sales. Continued the Agency's asset sales program by holding a third and fourth sale to the private sector in December 2000 and August 2001 of 18,756 and 31,068 loans. SBA realized \$674 million and \$884 million respectively in gross revenues from these sales.
- SBICs. Licensed 51 new SBICs with private capital of \$1.1 billion. Provided \$4.46 billion in equity investment through 4,277 small business financings, of which 12 percent went to companies owned at least 50 percent by minorities and 4 percent was to companies owned at least 50 percent by women; conducted exams on a cycle of 10.9 months for leveraged SBICs.
- Surety Bonds. Provided 6,320 bid and final bond guarantees, resulting in contracts valued at \$1.4 billion. Expanded oversight of the Surety Bond Program by completing 6 surety audits, 7 surety reviews and one area office review.
- Microloans. Approved 16 new Microloan intermediary lenders and approved 2,295 loans for \$31.8 million to new and existing microenterprises.
- Technical Assistance. Provided \$ 15 million in technical assistance grants to 86 PRIME program recipients.
- Export Loans. Provided 425 export loans worth an estimated \$167 million.

**Major Activities for FY 2003:**

- Lender Oversight. Improve lender oversight and portfolio analysis by using a risk management framework to analyze the performance and risk characteristics of individual lenders. SBA loan

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portfolio elements of the framework include evaluation of portfolio and financial performance measures, geographic and industry concentrations, growth rates, and related market trends. These objectives will be accomplished by: (1) implementing and refining the basic lender oversight and risk management components of the loan monitoring system (LMS); (2) expanding loan portfolio analysis activities; (3) continuing institutional analysis of individual SBA lenders using early warning indicators; (4) expanding the compliance review process to include operational or regulatory reviews of lenders' SBA activity; and (5) conducting safety and soundness reviews of non-bank lenders.

- 7(a). Develop creative adaptations to the program to make it more efficient and effective, enabling SBA to reach more small business clients.
- E-Lending. Anticipate the development of an online self-assessment tool to help a potential borrower understand what is required to qualify for an SBA guaranty.
- Relationship Management. Complete implementation of a new district-based lender program to streamline and improve interactions with SBA's key 7(a) lending partners, such as providing training and information on SBA loan products and procedures.
- Asset Sales. Continue the Asset Sales program with plans to hold 2 to 3 sales in FY 2003.
- Partnerships. Expand partnership alliances to provide lending and advisory services to veterans, Native Americans, women, other entrepreneurs and small business non-governmental organizations (NGOs).
- Surety Bonds. Increase contractor and surety participation and raise the total number of surety bonds issued for small businesses.
- Certified Development Company (CDC) Reform. SBA will make the necessary changes to increase the use of this program for plant and equipment capital investments.
- Microloan Program. Increase the number of intermediaries.
- USEAC. Increase export sales and the number of first time small exporters.

### **Human Capital:**

Over the past several years, technological advancement has greatly changed not only the small business environment but also the SBA environment. For SBA employees, one of the major changes has been to move from transaction processing to analysis, marketing and outreach. Automation and privatization of loan functions allow staff to shift attention from "retail" transaction processing to outreach, marketing, and analysis of programs, activities, and performance of SBA's partners.

SBA will provide training for employees in marketing and outreach, commercial credit analysis, lender oversight, lender relations, and basic and advanced liquidation procedures. The Agency will encourage leadership training and management training for middle management employees. SBA will also promote technology and computer skills enhancement as it continues to upgrade its systems.

Through its workforce restructuring initiative pilot SBA will also implement means to identify where the field resources can add value such as with lender and customer relationship management, resource partner oversight, and more effective use of technology to allow for telecommuting and distance training for SBA's staff and resource partners, and reduction in rent costs.

**Evaluations, Analyses and Surveys:**

Developing an econometric demand model for the 7(a) loan program is an objective of the risk management aspect of SBA's loan monitoring system. In FY 2000, a contract was awarded to: 1) carry out a literature survey of existing models and experience in estimating demand for loans; 2) suggest an approach to estimate demand; and 3) determine data availability for the suggested demand model. The contractor found that there was little literature and experience with estimating the demand for guaranteed loans, but that a step-wise approach using successively more sophisticated econometric models would provide insight into the demand for 7(a) loans.

For FY 2002 the agency has contracted with the Office of Federal Housing and Enterprise Development to develop an econometric model by FY 2004 to assist the Agency in predicting loan portfolio performance for 7(a) under a variety of economic scenarios.

**Cross-Cutting Issues:**

SBA is working with the United States Department of Agriculture, the National Federation of Community Development Credit Unions, state and local development agencies, and other groups interested in the Agency's programs.

In the international marketplace, 19 agencies under the Commerce-directed Trade Promotion Coordinating Committee (TPCC) offer both financial and business development assistance to small exporters. SBA meets regularly with these groups to discuss challenges, propose program initiatives, work on developing new products, and avoid duplication of effort in relation to meeting small business needs.

The U.S. Export Assistance Center (USEAC) network is a good example of Federal government interagency crosscutting. From its inception, this network of offices, comprised primarily of personnel from SBA, DOC and Ex-Im Bank, have been cross-trained in each other's programs for more seamless delivery of export assistance to small businesses. SBA/USEAC personnel deliver SBA's Export Trade Assistance Partnership (E-TAP) program to small businesses interested in

getting into exporting. A similar program called Global Diversity Initiative (GDI) is offered by DOC but focuses solely on minority companies. USEAC personnel from SBA and DOC frequently combine their efforts locally, offering a combined E-TAP/GDI program to their communities.

The Departments of Defense, Veterans Affairs and Labor and the National Veterans Business Development Corporation are also important partners in helping veteran and service disabled veteran-owned businesses succeed.

**Critical External Factors:**

Key to SBA's success in providing access to capital and credit is a cooperative working relationship with the various stakeholders, including, but not limited to, the National Association of Government Guaranteed Lenders (NAGGL), the National Association of Development Companies (NADCO), the National Association of Small Business Investment Companies (NASBIC), and the Association for Enterprise Opportunity.

Although the demographics, terms and conditions, and purposes of the 7(a), 504, Microloan, and SBIC programs vary significantly, economic conditions strongly affect the demand for these products.

Finally, Congressional support of the programs, particularly those elements that require legislative changes, is a critical success factor.

**II. Programs that support small business access to procurement:**

SBA's statutory mission is to ensure a fair share of Federal procurement goes to small businesses. The Agency is responsible for promoting the use of small businesses in the approximately \$200 billion Federal procurement marketplace. SBA's efforts help ensure that Federal agencies comply with statutory requirements to buy a portion of their goods and services from small businesses. SBA, working with Federal agencies, negotiates procurement goals, monitors performance, encourages the use of small business sources, and provides procurement training and technical assistance to small firms. Based on FY 2000 data, agencies are awarding approximately 38 percent of Federal procurement prime and subcontract dollars to small businesses. In addition, SBA certifies the small businesses' eligibility for procurement preference programs.

SBA's strategy to improve small business access to procurement opportunities has four key elements:

- Increase the number of opportunities for small businesses to perform Federal contracts at the prime and subcontract levels;
- Increase the economic viability of small and small disadvantaged businesses by providing contract opportunities and other business development assistance to those firms who qualify;
- Promote the economic development of HUBZones, and increase the economic viability of small businesses located in them; and

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- Facilitate commercialization of Federal research and development performed by small businesses.

SBA's programs currently include:

- PRO-Net. The Procurement Marketing and Access Network, PRO-Net, is one of SBA's key tools in ensuring that small businesses participate fully in the Federal market for goods and services. In accordance with statutory and regulatory requirements, PRO-Net is the authoritative database of firms certified under the 8(a) Business Development and HUBZone Empowerment Contracting Programs, and as small disadvantaged businesses. The Federal acquisition community, state and local governments, and prime contractors use PRO-Net in identifying small business vendors.
- Prime Contracting Program. Through the Prime Contracting Program, SBA works with Federal agencies to increase small business opportunities in the Federal acquisition process by reviewing their acquisition plans and making appropriate recommendations to set aside opportunities for small businesses. SBA provides small business sources to acquisition officials and counsels small businesses on how to sell to the Federal Government.
- Subcontracting Program. Under the Subcontracting Program, SBA works with the Federal Government's large prime contractors to ensure that small businesses receive a fair share of subcontracting opportunities. SBA accomplishes this by reviewing the subcontracting plans of large prime contractors and by bringing together large and small businesses to facilitate the formation of mutually beneficial private sector relationships.
- Women Business Owners' Program. The Federal Contract Assistance for Women Business Owners' Program encourages Federal agencies to develop long-term comprehensive strategies that expand opportunities for women-owned small businesses in order to meet the 5 percent women-owned small business goal.
- Natural Resources Sales Assistance Program. The purpose of the Natural Resources Sales Assistance Program is to aid and assist small business in obtaining its fair share of Federal property offered for sale or disposal by other means. Within this Government-wide program, our efforts have concentrated on Federal timber, royalty oil, coal leases, other mineral leases, and Federal surplus property.
- Certificate of Competency Program. The Certificate of Competency Program provides an appeal process to small businesses that have been denied contracts with the U.S. Government for a lack of "responsibility" or a perceived inability to perform satisfactorily.
- Size Standards. SBA develops small business size standards for Federal programs so that small business assistance is provided to its intended beneficiaries.

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- HUBZone Empowerment Contracting Program. The HUBZone Empowerment Contracting Program helps small businesses that are located in, and employ residents of, "historically underutilized business zones." The program provides for Federal contract set-asides, sole source awards, and price evaluation preferences in unrestricted procurements for qualified HUBZone small businesses. The government-wide statutory goal for this program is to award 3 percent of the total Federal procurements to such firms in FY 2003. Through this program, SBA seeks to increase employment, promote capital investment, and encourage economic development in these communities. To accomplish this, SBA certifies eligible firms, maintains a database of certified firms, and conducts random and targeted compliance reviews. SBA also uses its procurement assistance professionals to assist these firms in marketing Federal contract opportunities.
- 8(a) Business Development Program. The 8(a) Business Development Program assists firms owned and controlled by socially and economically disadvantaged individuals to enter and succeed in the economic mainstream. SBA helps eligible small businesses in a structured developmental process over a 9-year program participation term. SBA provides access to business development opportunities authorized under section 8(a) of the Small Business Act. Assistance includes access to sole source and limited competition Federal contract opportunities. We work with Federal acquisition agencies to develop contract opportunities for program participants, and assist firms with partnering, teaming, and joint venture arrangements in support of their business development plans.
- 7(j) Program. Under the 7(j) Program, SBA awards grants, contracts, and cooperative agreements for the development of training and technical assistance to companies owned and controlled by socially and economically disadvantaged individuals, or companies located in areas of high unemployment, and firms located in areas of low income.
- SBIR and STTR Programs. SBA encourages small business innovation by establishing government-wide policy for the SBIR and STTR Programs. Through award of research and development assistance grants, these programs promote the flow of innovative products and services from small businesses to Federal and commercial markets. Through the FAST Program, SBA will provide matching fund cooperative agreements to state organizations to strengthen the technological competitiveness of small businesses. The Rural Outreach Program provides cooperative agreements to approximately 25 states to increase participation in the SBIR Program.
- Small Disadvantaged Businesses. SBA certifies qualifying companies as Small Disadvantaged Businesses (SDBs). Certification enables eligible companies to obtain certain procurement preferences. This activity has been funded under Economy Act Agreements with the top 20 Federal procuring agencies.

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**Results and Resources**  
*(Dollars in Thousands)*

	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimate</b>	<b>Target</b>	<b>Target</b>
<b>Results</b>						
Share of Federal Prime procurement contracts:						
• To small businesses	23.4%	23.1%	22.3%	23.0%	23.0%	23.0%
• To women-owned businesses	2.2%	2.3%	2.3%	2%	5.0%	5.0%
• To small disadvantaged businesses	6.6%	6.5%	6.5%	6.0%	5.0%	5.0%
• To service disabled veteran-owned businesses	N/A	N/A	N/A	.1%	3.0%	3.0%
• To HUBZone-certified firms	N/A	N/A	0.3%	.5%	2.5%	3.0%
Share of all procurement to Small Firms	N/A	N/A	38%	38%	38%	38%
SBIR commercialization rate		39% <sup>1</sup>	39%	TBD	TBD	TBD
8(a) clients viable and competitive 3 years after graduation	N/A	N/A	65%	68%	70%	70%
Number of 8 (a) firms in program during fiscal year	6,098	5,969	6,383	6,942	6,500	7,500
Cumulative number of HUBZone firms certified	N/A	329	1,843	4,000	6,000	8,000
Number of firms registered in PRO-Net		183,750	204,148	210,000	212,000	212,000
<b>Resources (\$000)</b>						
SBIR Outreach	0	0	496	1,500	500	500
SBIR FAST	0	0	0	3,500	3,000	3,000
Government Contracting /Business Development	\$16,601	\$18,300	\$18,576	\$19,926	\$20,658	\$22,907
Operating Expenses						
Non-Credit Initiatives						
7(j) Technical Assistance	2,850	2,600	3,950	3,241	3,600	3,600
BusinessLINC	0	0	0	6,919	0	0
Pro-Net	232	363	454	450	TBD	500
Small Disadvantaged Business	10,409	9,750	8,643	1,796	1,516	1,500
HUBZone Program	2,000	2,000	1,978	1,791	TBD	2,000
Agency Support Cost Estimates	N/A	N/A	34,228	38,333	40,439	43,341
<b>Total</b>	<b>\$ 32,092</b>	<b>\$ 33,013</b>	<b>\$ 68,325</b>	<b>\$ 77,456</b>	<b>\$ 69,713</b>	<b>\$ 77,348</b>

TBD denotes "to be determined."

**Major Accomplishments in FY 2001:**

- **FAST.** Awarded approximately 30 cooperative agreements totaling \$3.5 million under the Federal and State Technology Partnership (FAST) Program to provide technical assistance to small high technology business concerns in the states to strengthen their technological competitiveness in the marketplace.

<sup>1</sup> SBA began implementing a new SBIR program reporting system in Spring 2001 that will measure the program's commercialization success. It will establish an initial baseline commercialization rate that may not be comparable to the findings of the 1999 study or previous surveys due to differences in methodology. Under the new system, firms participating in the program will provide information annually on sales and investments associated with their SBIR projects. Commercialization results will not be available until FY 2002 due to time required to acquire the database system resources and inform participating firms about the new reporting process.



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- SBIR and STTR Programs. Awarded approximately 25 cooperative agreements totaling \$1.5 million under the Rural Outreach Program to support state-wide outreach to small high technology businesses located in States that are underrepresented in awards under the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) Programs.
- HUBZone Empowerment Contracting Program. Implemented an enhanced electronic application for HUBZone certification to make on-line processing a reality, to include use of Geo coding mapping, and the HUBZone Contracting Opportunity search engine, which furthers the goal of making the HUBZone Program one of the Federal Government's first virtual/e-commerce programs.
- Government Contracting. Secured the largest small business set-aside in the Federal Government from the U.S. Navy, titled the "Defense Information Systems Network (DISN) Satellite Transmission Services - Global (DSTS-G)."

**Major Activities for FY 2003:**

- PRO-Net. Integrate PRO-Net into the electronic commerce network by expanding its capabilities and standardizing automated registration.
- 7(j) Management and Technical Assistance Program. Broaden the reach and increase the depth of the 7(j) Management and Technical Assistance Program to help SBA's 8(a) participants become viable firms.
- HUBZone Program. Intensify HUBZone Program outreach to the small business and acquisition communities to ensure broader use of the program as an economic development tool.
- Government Contracting. Develop strategies, including regulatory and statutory changes, to streamline small business procurement programs and ensure a balance between promoting contract efficiency and supporting small business needs.
- Procurement Goals. Continue to work aggressively with Federal agencies by securing commitment to statutory procurement goals (e.g., 23 percent procurement preference goals for Federal prime contracts including 5 percent Small Disadvantaged Business, 5 percent for Women Owned Small Businesses, 3 percent HUBZone, and 3 percent Service Disabled Veteran-Owned Small Businesses) and implementing specific strategies to achieve established procurement goals.
- 8(a) Business Development Program. Continue efforts to restructure the 8(a) Business Development Program by automating and streamlining the 8(a) application.

### **Evaluations, Analyses, and Surveys:**

In FY 2001 SBA began a study of the potential economic development impact of the HUBZone Program in distressed urban and rural communities.

### **Cross-Cutting Issues:**

SBA works with all major Federal Government agencies to ensure that small businesses receive a fair share of Government procurement contracts.

### **Critical External Factors**

SBA helps small businesses succeed by working with other Federal agencies to achieve the desired results. A critical success factor for reaching the procurement targets and the SBIR program target mandated by Congress is the active participation of Federal agencies.

The Administration's management reforms include, among other things, focusing on competitive sourcing and expanding electronic government. Agencies must complete public-private competitions or direct conversions on at least 5 percent of their commercial activities in FY 2002 and 15 percent in FY 2003. The use of small business procurement preference programs will help agencies meet their goals because OMB guidance in Circular A-76 (Performance of Commercial Activities) allows agencies to convert a commercial activity to contract performance without a cost comparison.

As the Federal Government expands the use of electronic government, small businesses must adapt to these changes. SBA, through its resource partners, must continue to provide outreach and training to educate small businesses on the Government's electronic procurement strategy. As of October 1, 2001, agencies were required to publish all procurement opportunities over \$25,000 in Federal Business Opportunities (FedBizOpps), the Government-wide single point of entry. FedBizOpps allows sellers and service providers to access and download information through commercial electronic means such as e-mail and other web-based technology, which improves the access of information on Federal procurements. In addition, the Government plans to use the Central Contractor Registration database as the Government-wide single point of vendor registration. SBA is working with the Defense Department to use Pro-Net as the official source to validate information on small businesses.

SBA is also working with an Interagency Acquisition Working Group and OMB's Office of Federal Procurement Policy to assess its small business procurement programs and develop strategies for streamlining the programs. In addition to streamlining our programs, SBA must also find alternative performance measures so that it can better measure the success of its programs. (See Section on Program Evaluation.)

### **III. Programs that support small business entrepreneurial development needs:**

Lack of management and technical assistance is often an impediment to small business success. Therefore, empowering entrepreneurs through counseling, education, training and information is one of SBA's principal objectives. SBA annually assists more than 1.3 million small businesses through a vast network of resource partners. Business development information, education and training are offered at over 1,100 locations nationwide. These include the Online Women's Business Center, SCORE Online, approximately 1,000 Small Business Development Centers (SBDCs), 11,500 Service Corps of Retired Executive (SCORE) volunteers, 78 Business Information Centers (BICs), 16 Tribal Business Information Centers (TBICs), 4 Veterans Business Outreach Centers, and 83 Women's Business Centers (WBC). The Agency is also continuing to create citizen-centered Internet applications that empower small entrepreneurs to easily access government information when and where they want. Based on the American Customer Satisfaction Index, with the Federal Government average being 69, SBA's Women's Business Centers and SCORE and clients rated satisfaction at 75 and 68 respectively in 2001.

- Paul D. Coverdell Drug-Free Workplace Program (DFWP). Funds SBDCs and intermediary organizations to provide financial and technical assistance to assist small businesses in implementing DFWP programs. Examples of services provided by intermediaries include drug free workplace policy development and training, drug testing, Employee Assistance Program services and general drug-free workplace education.
- Women's Business Centers (WBC). Provide grants to non-profit organizations to train and counsel women entrepreneurs. In addition, the Online Women's Business Center offers a 24-hour a day Internet site with information aimed specifically at women entrepreneurs.
- Service Corps of Retired Executives (SCORE). Through a network of 11,500 counselors and 389 chapter locations, SCORE provides counseling and training services to over 375,000 clients annually. E-mail counseling is the fastest growing outreach activity.
- Small Business Development Centers (SBDC). Provide management and technical assistance to small businesses through a network of nearly 1,000 service centers located throughout the United States, Puerto Rico, U.S. Virgin Islands, Guam and American Samoa.
- Business Information Centers (BICs). A network of 78 locations provides entrepreneurs access to computers and other business resource materials. Pre-business and in-business counseling and training are also available at BIC locations using SCORE volunteers.
- National Women's Business Council. Serves as an independent advisor to the President, Congress, and the Interagency Committee on Women's Business Enterprise on issues concerning women in business, and the effectiveness of Federal programs designed to foster women's entrepreneurship.

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- **Veterans Business Development.** Formulates, executes, and promotes policies and programs that help small businesses owned and controlled by veterans and service-disabled veterans. The office also ensures veterans access to capital through marketing and outreach efforts and no less than 3 percent of Federal prime and subcontracts.

**Results and Resources**

*(Dollars in Thousands)*

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
	Actual	Actual	Actual	Actual	Target	Target
<b>Results:</b>						
Jobs created by SBDC clients	53,541	70,398	60,395	N/A	50,000	52,500
<b>Outputs:</b>						
Customer satisfaction rate:						
Women's Business Centers	N/A	N/A	N/A	75	TBD	TBD
BICs	N/A	N/A	93%	88%	90%	90%
SBDC <sup>1</sup>	85%	86%	87%	87%	87%	87%
Veterans Business Opportunity Centers	N/A	85.6%	N/A	N/A	85%	85%
SCORE	N/A	N/A	N/A	68	TBD	TBD
SBDC clients counseled and trained	547,037	595,391	582,598	609,646	627,935	634,215
SCORE clients counseled and trained	354,239	384,854	377,524	387,938	399,576	403,572
BICs clients	108,918	123,527	134,358	142,148	146,412	147,876
TBIC clients	2,815	3,913	3,843	5,385	5,546	0
Women's Business Center clients served	9,000	30,630	45,223	60,767	62,590	63,,216
Veteran Business Opportunity Center clients	N/A	N/A	7,373	8,127	8,300	8,500
Small Business Classroom users (Internet)	N/A	N/A	191,000	200,000	TBD	TBD
<b>Resources (\$000):</b>						
Office of Veterans Business Development						
Veterans Business Outreach	371	733	615	0	750	750
Veterans Corporation	N/A	N/A	N/A	4,000	0	0
Office of Entrepreneurial Development	\$4,543	\$5,296	\$6,700	\$6,331	\$5,669	\$5,828
SBDC	71,561	89,817	84,074	85,993	90,010	88,000
Drug Free Workplace	0	0	3,469	3,498	3,000	3,000
SCORE	3,937	3,660	3,471	3,750	5,000	5,000
Business Information Centers	499	700	495	499	500	475
Women's Business Centers	4,292	8,000	8,926	11,989	12,000	12,000
National Women's Business Council	473	600	600	714	750	750
Survey of Women Business Owners	992	750	783	691	694	0
Native American Economic Development	607	0	0	0	0	1,000
Agency Support Cost Estimates:	N/A	N/A	45,953	50,349	49,755	53,067
<b>Total</b>	<b>\$89,957</b>	<b>\$111,923</b>	<b>\$155,086</b>	<b>\$166,995</b>	<b>\$167,551</b>	<b>\$169,278</b>

**Major Accomplishments in FY 2001:**

- **Paul D. Coverdell Drug Free Workplace Program.** In FY 2001, SBA awarded funds to 13 intermediaries and 8 SBDCs to help small businesses address the issue of drugs in the workplace.

<sup>1</sup> Customer satisfaction results are based on an independent biennial study conducted by the Association of Small Business Development Centers: "Economic Impact of Small Business Development Counseling Activities in the United States," James Chrisman, Ph.D.

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During 2001, SBA estimates that 10,974 small businesses and 16,458 working parents were educated, and approximately 1,701 small businesses set up drug-free workplace programs.

- Women’s Business Centers. SBA opened 16 new women’s business centers, funded 7 sustainability centers and served 60,767 clients.
- Service Corps of Retired Executives. SCORE conducted 387,938 counseling and training sessions in FY 2001 and continued to expand the number of clients served through e-mail counseling.
- Small Business Development Centers. SBDCs counseled and trained 609,646 clients.
- Business Information Centers. SBA opened ten new BICs and served 142,148 clients.
- Tribal Business Information Centers. SBA’s network of 16 TBICs served 5,385 clients.
- Veterans Outreach. SBA provided operating funds to four Veterans Business Outreach Program Centers and entered into MOUs with the Departments of Veterans Affairs and Labor, the Association of Small Business Development Centers (ASBDC) and the Service Corps of Retired Executives (SCORE) to provide improved outreach to the Veteran population.

**Major Activities for FY 2003:**

- Paul D. Coverdell Drug-Free Workplace Program. SBA's intermediary grantees and SBDC partners educate small businesses on the benefits of a drug-free workplace. They also educate parents that work for small businesses on how to keep their children drug-free and provide financial assistance to small businesses as they set up drug-free workplace programs. Through these resource partners, it is estimated that approximately 1,500 small businesses will implement a drug free workplace program.
- Native American Economic Development Program. As a group, the nearly 2 million Native Americans residing in the United States are the poorest people in this country. The unemployment rate is 70 percent on some reservations and averages 45 percent. Furthermore, there are more than 555 Federally recognized Tribes in the United States. These tribes are extraordinarily diverse in language, culture, and natural resources. Small Business ownership is one of the most important economic tools available to Native Americans.

Through the Native American Economic Development Program, SBA will fund tribes currently engaged in economic development to help them create businesses and meet specific cultural needs of their individual communities. The Native American Economic Development Program will replace SBA’s Tribal Business Information Center (TBIC) program. In FY 2003, SBA will also work with grantees to make culturally sensitive information available 24 hours a day, 7 days a week via the Internet.

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- Women's Business Center Program. Providing continuing support to 49 new centers from previous years and 29 sustainability centers from previous years. The level of funding will also allow SBA to make new funding available to five new WBCs. The WBC program will also continue to expand the Online to provide services 24 hours a day 7 days a week.
- Service Corps of Retired Executives (SCORE). To provide increased support for client outreach, systems modernization, web site development, marketing and administrative expenses, SBA will continue to work with SCORE to expand email counseling available to clients at times most convenient to the small business customer.
- Business Information Centers (BICs). To continue to support SBA's network of approximately 80 Business Information Centers. Funding will also allow SBA to open between two and five new BICs in locations with a demonstrated need.
- Small Business Development Center Program. The SBDC program is SBA's largest resource partnership, serving over 600,000 clients each year through counseling and training. SBA provides funding to 58 lead centers, providing services at nearly 1,000 locations throughout the United States, Puerto Rico, U.S. Virgin Islands, Guam and American Samoa. In FY 2003, SBA will continue to encourage SBDCs to provide services to the small business client at times and places most convenient to its customers. SBA will also focus on expanding the training materials that are available via the Internet and work with the SBDC community to provide services more effectively and efficiently.
- Veterans Business Development. SBA will continue to improve agency data collection, enhance coordination of outreach and service delivery activities with the National Veterans Business Development Corporation and other resource partners, and develop a national web and community based Veteran Entrepreneur Training program (NET VET).

**Evaluation, Analyses and Surveys:**

SBA has contracted with the University of Michigan to conduct customer satisfaction surveys of its program clients. Using the American Customer Satisfaction Index (ACSI), SBA is able to measure customer satisfaction for each program client group over time. The Agency will continue to use customer satisfaction as a useful measurement to evaluate its program outcomes for resource allocations.

SBA conducted a review of the SBDC program. Historically, SBA has been inhibited in its effort to measure its overall effectiveness due to the lack of a system to validate and verify the impact data from the SBDC program. The SBDCs are an important component to the SBA network of partners, receiving 11 percent of SBA's total resources in this budget. While the SBA has conducted a program review of the SBDC network and has found anecdotal evidence that the program addresses local needs, the review recommended that the SBDC network work more as a network rather than as separate state organizations, increase the use of Internet technology in counseling, training, and answering FAQs, and evaluate and disseminate "best practices." Accordingly, SBA will seek to

more rigorously evaluate the effectiveness of these centers by developing reliable performance measures.

**Cross-cutting Programs:**

SBA provides management and technical assistance through partnerships with other Federal, state and local agencies and the private sector. For example, SBA and the Department of Commerce (DOC) provide different products and services to American minority businesses, and focus on different market segments. SBA provides counseling and technical/management assistance to help small firms write business plans, apply for loans, compete for federal contracts, and run their businesses. SBA focuses on long-term competency-based skills and institution building. DOC provides services to minority businesses, regardless of size, and seeks to enhance the continued development of these firms by increasing their access to resources and markets.

The Office of Veterans Business Development is working in conjunction with the Department of Veterans Affairs' Center for Veterans Enterprise, the Department of Labor Assistant Secretary for Veterans Employment and Training, the DOL Office of Disability Policy, the Association of Small Business Development Centers, the Service Corps of Retired Executives, the National Veterans Business Development Corporation and the organized veterans community to implement significant outreach to the veterans and service-disabled veterans small business community, including mobilizing significant private sector resources.

SBA is also working with the Department of Commerce (DOC), the National Institute of Science and Technology (NIST), the United States Department of Agriculture (USDA) and the Minority Business Development Agency (MBDA) of the DOC on E-Commerce outreach and training.

**Critical External Factors:**

No other SBA program exemplifies the importance of “shared outcomes” more than the “access to entrepreneurial development assistance” programs. With the positive and cooperative assistance from a host of business resource partners, SBA is able to reach more than a million small firms annually. A critical success factor is the active cooperation and support of SBA’s resource partners and the ability to identify means that increase the effectiveness and efficiency of service delivery through access to and training in the use of the Internet.

### **Strategic Goal 3: Streamline Disaster Lending**

#### **Means and Strategies:**

In the wake of physical disasters, SBA's disaster loans are the primary form of Federal assistance for non-farm, private-sector disaster losses for individuals and businesses. The disaster loan program is the only form of SBA assistance not limited to small businesses. SBA's disaster loans help homeowners, renters, businesses of all sizes, and nonprofit organizations fund rebuilding and recovery efforts.

SBA disaster assistance is a critical source of financial assistance in disaster-ravaged communities. It is crucial to respond to disaster victims as quickly and efficiently as possible. Agency strategies to help disaster victims include (1) developing a flexible infrastructure of resources that can be applied to a disaster area, (2) using the Internet to facilitate the disaster home loan application process, and (3) outsourcing disaster home loan servicing and carrying out asset sales.

Current interest rates charged to borrowers are determined according to statutory formulas: i.e., a lower rate, not to exceed 4 percent, is available to applicants without credit available elsewhere; and a higher rate, not to exceed 8 percent, is for those with credit available elsewhere. SBA offers physical disaster loans to individuals, physical disaster loans to businesses of any size, and economic injury loans to small businesses without credit available elsewhere. SBA also offers Disaster Loan assistance to (1) businesses that have essential employees who are reservists and National Guard members that are activated during a period of military conflict; and (2) eligible small businesses to fund specific projects to prevent disaster damage.

The dollar volume of approved loans varies from year-to-year, reflecting the inability to plan for and accurately forecast the next disaster. SBA's primary objective is to offer victims quality, timely, easy-to-access, and cost-effective help to rebuild their homes and businesses. Customer satisfaction is a key element of success for this program.

#### **Programs that support disaster victims :**

SBA operates a direct loan program to assist victims of physical disasters, and supports the servicing and collection of these loans after they have been made. The Agency makes disaster loans totaling approximately \$1 billion each year and has an active portfolio of about \$4 billion. In FY 2001, SBA included a large number of disaster loans in its Assets Sale Program.

Recent legislation was passed to establish two additional categories of economic injury disaster loans. The Pre-disaster Mitigation Pilot Loan Program is a 5-year program that provides financial assistance to small businesses located in designated communities participating in the Federal Emergency Management Agency's (FEMA) formal mitigation program to protect property from future disaster damage. The legislation authorizes SBA to use up to \$15 million of loan authority in each fiscal year. The Military Reservist Economic Injury Loan Program provides financial and other



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assistance to small businesses that are economically impacted because its owner(s) or employee(s) are called up for active duty in response to a military conflict.

**Results and Resources**

*(Dollars in Thousands)*

	<b>FY 1998 Actual</b>	<b>FY 1999 Actual</b>	<b>FY 2000 Actual</b>	<b>FY 2001 Actual</b>	<b>FY 2002 Target</b>	<b>FY 2003 Target</b>
<b>Results:</b>						
Homes restored to pre-disaster conditions	24,374	28,811	23,070	43,519	31,853	30,618
Businesses restored to pre-disaster conditions	5,780	7,365	5,148	5,275	7,011	6,116
SBA field presence established within 3 days	N/A	100%	100%	100%	98%	100%
Applications processed within 21 days	77%	60%	91% <sup>1</sup>	94%	80%	85%
Customer satisfaction rate	N/A	N/A	81%	TBD	80%	80%
<b>Resources (\$000):</b>						
<i>Disaster Assistance Operating Expenses:</i>						
Disaster Loan Making	\$79,116	\$85,926	\$83,929	\$88,190	\$124,933	\$81,093
Disaster Loan Servicing	25,012	30,808	29,523	29,019	30,056	30,694
Loan Program Subsidy	149,953	170,427	173,908	152,613	237,963	111,140
Agency Support Cost Estimates:	N/A	N/A	18,631	25,533	26,299	30,875
<b>Total</b>	<b>\$254,081</b>	<b>\$287,161</b>	<b>\$305,991</b>	<b>\$295,355</b>	<b>\$419,251</b>	<b>\$253,802</b>

**Major Accomplishments in FY 2001:**

- Disaster Lending. Approved 48,852 disaster loans totaling \$1.0 billion.
- Disaster Response. Processed 115,243—or 94 percent—applications within 21 days.

**Major Activity for FY 2003:**

- Continue development and implementation of the Disaster Assistance Credit Management Modernization (DCMM) Initiative: SBA will acquire the system in increments, with functional capabilities available to the office. SBA will join FEMA and the Department of Education in developing an integrated *disaster.gov* electronic gateway to help disaster victims access help in the most cost effective way possible.

**Human Capital:**

The agency will continue to coordinate staffing needs with FEMA and other Federal, state and local officials to establish field presence within three days of a declaration. The Agency will also continue the Disaster Personnel Reserve Corps to allow SBA to recruit, train, and have available personnel to assist the Agency in responding to disasters. SBA will continue to provide standardized loan-officer training. Increased use of technology for the disaster loan application process will facilitate operations at disaster regional centers.

<sup>1</sup> In FY 2000, the bulk of the loan activity occurred during the first three months of the fiscal year, enabling the program to exceed the loan processing goal due to low levels of activity in the remaining months.

### **Evaluation, Analyses and Surveys:**

SBA will continue to conduct quality reviews of its disaster loan underwriting and documentation process. Customer surveys will also be conducted to measure the effectiveness and delivery of disaster assistance.

### **Cross-Cutting Issues:**

Systematic coordination among Federal, state and local agencies is necessary before and during a disaster to ensure effective, efficient delivery of the array of recovery programs. The Federal Response Plan (FRP) describes the initiation, coordination and implementation of the wide array of Federal disaster programs that provide assistance directly to individuals and families and business owners attempting to recover from the effects of a presidential-declared major disaster. The Stafford Act assigns FEMA the coordination role, in which multiple Federal assistance programs are reviewed, initiated, implemented, and delivered to address the unique needs of a particular disaster area. Interagency coordination is critical to promote efficient, consistent Federal action. It also helps avoid *ad hoc* decision making, funding initiatives at cross-purposes, replicating efforts (e.g. multiple damage assessments, inspections, environmental reviews), and duplicating benefits.

Disaster assistance programs for individuals, families, and businesses often overlap in their coverage and purposes. Section 312 of the Stafford Act requires that no person, business concern, or other entity receive Federal disaster assistance for any part of a loss that has been covered by any other program, insurance, or any other source. FEMA has established a policy and procedure that outlines when duplication can occur, and describes procedures for preventing and rectifying duplication.

The following delivery sequence establishes the order for providing the major forms of assistance:

1. Voluntary organizations' emergency assistance and insurance proceeds, including additional living-expense benefits;
2. Disaster temporary housing assistance, including rental assistance, funds for minimal repairs, and provision for housing units;
3. SBA and United States Department of Agriculture disaster loans;
4. Individual and family grant awards; and
5. Additional assistance from voluntary organizations.

Regarding Disaster Assistance Loans for Reservists and National Guard members, SBA will coordinate with DOD and States Adjutant Generals and the National Veterans Business Development Corporation.

**Critical External Factors:**

The single most important external factor is the unpredictability of disasters. Helping businesses and families recover from disasters requires SBA to work closely with FEMA as well as other Federal, state and local agencies. SBA must coordinate closely with FEMA to establish disaster-assistance centers when physical disasters strike, provide expedited responses, reduce paperwork, and create ongoing partnerships with voluntary agencies, businesses, and industries in the disaster area.

# **SBA's CORPORATE MANAGEMENT STRATEGIES**

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## **SBA's CORPORATE MANAGEMENT STRATEGIES**

Similar to the private sector, SBA needs to increase the pace of change and reform. To reform and modernize the Agency, SBA has developed a set of corporate management strategies that are aligned with the Administration's Management Agenda. Its management strategies include improving credit program management because SBA is one of the five largest Federal credit program agencies, and improving IT capital management because the use of technology is an important factor in making the Agency more effective. These strategies are:

1. Integrate Performance with the Budget (link resources to results)
2. Manage Human Capital More Strategically (restructure the workforce)
3. Improve Financial Management Information
4. Increase Competitive Sourcing
5. Expand E-Government
6. Improve Credit Program Management
7. Improve IT Capital Management

### **Strategy #1: Integrate Performance with the Budget**

The Results Act requires Federal agencies to institute behavior changes, measure and declare the value of public sector programs, and improve internal management and decision-making. The core of the Results Act is the ability of a Federal agency to be transparent (i.e., define its work, its success, and its costs) and to be accountable (i.e., measure and report on progress). To manage for results, SBA must ensure that performance information is available, valid and verifiable, and that it has a cost allocation system that links resources to results achieved.

### **Major Accomplishments in FY 2001:**

- Developed guidance on the preparation of outcome-based performance indicators and the improvement of data quality.
- Developed an activity based budgeting process to link resources to strategic goals.
- Produced SBA's first Integrated Performance and Accountability Report in March 2001.
- Integrated FY 2002 annual performance plan with the budget request.
- Carried out customer satisfaction surveys (SCORE and WBC clients).
- Evaluated the Small Business Development Center Program.
- Conducted a preliminary study of how to develop an econometric approach to estimate the demand for 7(a) loans.

SBA'S CORPORATE MANAGEMENT STRATEGIES

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**Major Activities for FY 2003:**

- Use outside contractors to evaluate programs.
- Link individual success to organizational achievement through performance standards.
- Improve process and procedures for data validation and verification.
- Develop client surveys to determine impact of counseling and training.
- Improve activity-based budgeting and monitoring.
- Institute a Balanced Scorecard approach to performance management.

**Strategy #2: Manage Human Capital More Strategically**

An organization's workforce represents the single largest resource in most agencies and, therefore, needs to be managed strategically. This means assessing the current capabilities and skills of the workforce, developing employee performance plans, recruiting and developing new employees, creating viable succession and retention plans, modernizing the HR office with electronic processing, and reducing the number of organizational layers and moving more personnel into front line positions.

Human capital planning is more important than ever because technology, an increasing demand for small business information and training, and loan processing simplification will likely require significant changes in SBA personnel needs. SBA will have fewer employees involved in loan processing, more employees focused on providing small business technical assistance, and more Agency personnel proficient in using and applying new technologies.

Through interest-based discussions with union partners, SBA will restructure its workforce with the guidance of the President's vision for a government that is citizen-centered and results-oriented. Accordingly, it will reduce the distance between citizens and decision-makers through staff redistributions, contracting of loan servicing and processing, and centralizing other core functions. SBA will reduce the number of managers and organizational levels, increase the span of control of remaining managers, and strengthen the ability of the front-line employees to provide high-quality service. Through this restructuring, SBA seeks to emulate the small businesses it serves by creating an efficient and flexible workforce that provides a level of high-quality service that Americans have come to expect from their Government.

**Major Accomplishments in FY 2001:**

- Completed workload and staffing analysis of Headquarters.
- Provided 1,087 instances of training (i.e., one person taking one course).
- Completed competency models for the Agency's business development function and the lender oversight function.
- Continued with the leadership development curriculum by training 106 senior managers and supervisors.
- Drafted a plan to have a portion of its workforce involved in some form of telecommuting.

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- Conducted the first National Conference for District Office Veterans Affairs Officers.

**Major Activities for FY 2003:**

- Hire, develop and retain a diverse workforce with skills for mission accomplishment through recruitment flexibility, e.g., student loan repayment, tuition assistance, and expanded outreach to occupation specialty areas in targeted colleges and universities.
- Train and re-train our workforce in skills that best support our small business customers.
- Develop innovative training delivery methods through use of technology to ensure that training is cost effective, efficient and available on demand.
- Train managers and senior staff on leadership skills.
- Relocate employees to locations where they can best serve small business customers.
- Maximize SBA's family friendly programs through expanded transit benefits, telecommuting and comprehensive work-life wellness programs.
- Begin implementing 5-year Workforce Restructuring Plan.
- Continue workforce succession planning to close the gap between available candidates and potential and actual retirements in our management cadre through the Agency's candidate development programs including use of the new career intern program.
- Implement the results of the FY 2002 pilot projects. Specifically, during FY 2002, the Agency is testing various alternate District Office operating models and organizational schemes to determine those which are the most supportive of the President's goal of more direct governmental support of citizenry.
- Reduce the number of organizational layers in Headquarters.

**Strategy #3: Improve Financial Management Information**

Timeliness and accuracy of financial management information is essential for SBA. The Agency has a loan portfolio of approximately \$53 billion. The General Accounting Office has recognized SBA for its analytical work on loan subsidy rates, its work on establishing a comprehensive cost allocation system, its integration of the budget and planning processes, and its implementation of internal controls.

**Major Accomplishments in FY 2001:**

- Received its fifth consecutive unqualified audit opinion on its FY 2000 financial statements.
- Improved internal control framework through computer-based training and management assessments of all higher risk areas.
- Continued to develop and enhance subsidy rate analyses, including completing limited econometric analysis and developing a more robust asset sales valuation model.
- Implemented a web-based cost allocation survey and system to tie resources to activities and results. Began integration of cost accounting with the budget planning and execution processes.
- Completed implementation of a modern, integrated financial management system to serve as SBA's core financial management system

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- Increased the use of e-commerce for financial transactions with SBA employees and the public.

**Major Activities for FY 2003:**

- Accelerate the timeliness and usefulness of financial information, including producing quarterly financial statements, monthly budget/cost/performance reporting and analysis, and annual financial statements.
- Reconstitute the Loan Monitoring System (LMS) within the context of existing financial management infrastructure to obtain better lender oversight and risk management.
- Increase the use of e-commerce to move all financial transactions to web-based electronic payments and collections.
- Continue to oversee and monitor the level of erroneous/improper payments.
- Begin use of CCR vendor database for all SBA procurement actions.

**Strategy #4: Increase Competitive Sourcing**

Under the Federal Activities Inventory Reform (FAIR) Act, all Federal agencies must identify opportunities for competitive sourcing by determining the activities they perform and the associated Full-Time Equivalent staffing, by distinguishing between those that are inherently governmental and those of a commercial nature, and by analyzing the costs of different sources doing the activity. In accordance with The President's Management Agenda, 5 percent of the FTE's associated with the commercial activities is to be subjected to sourcing analysis during FY 2002, with 15 percent reviewed by the end of FY 2003. The analysis follows OMB's circular A-76 guidance, and is to determine if it is more efficient and cost-effective to retain the work within the government or contract it out to the private sector.

SBA has been a leader in sourcing major parts of its activities to the private sector. Banks make, service and liquidate a major part of SBA's loans (except disaster loans) while counseling and training is done through SBDCs, SCORE and Women's Business Centers.

**Major Accomplishments in FY 2001:**

- Completed the FAIR Act inventory that identified 66 percent of SBA's activities as commercial in nature.

**Major Activities for FY 2003:**

- Increase IT outsourcing. As SBA staff becomes more dependent on technology to do its work, telecommuting expands, and the workforce becomes more mobile, demands for "always-on" operations and customer service will likely increase. SBA will assess opportunities to outsource the operations of critical computer platforms to commercial hosting and application service provider firms under performance-based contracts.
- Increase competitive sourcing for not less than 15 percent of the commercial activities listed on the FAIR Act inventory.



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### **Strategy #5: Expand E-Government**

The Internet has become an important channel for outreach to small businesses. Most businesses are on-line. According to a study conducted for SBA in early 2001 by Access Markets International, about 5 million of the 7.5 million small businesses with employees (67 percent) are online. The Internet is rapidly becoming an important delivery channel for SBA. The average number of weekly "hits" at SBA's web sites have grown exponentially from less than 1 million in 1995 to 10 million in 2001.

#### **Means and Strategies**

SBA's electronic Government (E-gov) vision revolves around:

- Improving service to customers;
- Making SBA's products more tailored and more accessible to its customers;
- Expanding the quality and quantity of information and training;
- Reaching more customers more effectively;
- Connecting, leveraging and sharing agency resources across programs; and
- Increasing effectiveness and efficiency.

SBA's e-government strategies include the following functions:

- Conduct Transactions. At the core of SBA's Internet strategy is to the ability to conduct its business online: approving loan guaranties, providing eligibility and certifying minority businesses and applying for HUBZone preferences, providing answers online, and processing paperless disaster loans.
- Monitor Loans and Lenders. Substantively complete a systematic framework for lender oversight and risk management of SBA's lenders. The immediate benefits of the lender oversight and risk management components of LMS are two-fold. First, it will enhance lender oversight activities through strategic segmentation of SBA lenders by assigning each SBA lender into a risk category (low, moderate, and high) depending upon the individual risk assessment identified within LMS. Then, it will allow SBA to focus oversight resources on those lenders representing the highest risk to the Agency.
- Provide Access to Information. SBA is providing anytime, anyplace access to Government information and services through its own web site, the *U.S. Business Advisor*, and program specific gateways, e.g., Women's Online Business Center, SCORE online, and *BusinessLaw.gov*, which is being developed as a first intergovernmental legal and regulatory site for businesses.
- Access to Education and Counseling. SBA offers businesses online counseling, distance learning, online classrooms, and web-based tutorials to provide management assistance and solutions to business questions.

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- Participate in the Administration's Quicksilver Initiative. SBA is managing partner for the Business Compliance Assistance initiative. The initiative includes as participating partners the Departments of Interior, Transportation, Energy, and Labor; EPA, OSHA, IRS, and INS. SBA is also participating in six other Quicksilver initiatives:
  - E-loans
  - Eligibility assistance on-line
  - Federal asset sales
  - International trade process streamlining
  - Disaster assistance and crises response
  - Integrated acquisition portal

**Major Accomplishments in FY 2001:**

- SBA developed the *BusinessLaw.gov* website. The law affects every business from licensing requirements to product liability. Many small businesses fail because they do not seek legal help at critical development stages. Determining which laws and regulations apply, understanding what they require and complying with them are ominous tasks. These tasks are further complicated by the fact that the rules are imposed by numerous different agencies at all levels of government: Federal, state and local.

The primary goal in developing *BusinessLaw.gov* is to ease the burden of laws and regulations on small businesses by collecting Federal, state and local legal information and providing a central location where it can be accessed. In addition, the web site offers access to compliance assistance tools and electronic licenses and permits in selected locations. By providing greater access to important legal and regulatory topics in plain English, SBA will be helping small businesses identify potential problems early and take preventative action.

**Major Activities for FY 2003:**

- Implement performance-based service contracting techniques for contracts over \$25,000, using Performance-Based Service Contracting (PBSC) techniques for not less than 20 percent of total eligible service contracting dollars.
- Manage and Implement the Business Compliance Assistance Portal - a Quicksilver Initiative.

Complying with laws and regulations is burdensome for American businesses. SBA's Office of Advocacy estimates that the regulatory burden on citizens is more than \$800 billion, with nearly \$500 billion borne by small businesses in 2000. This translates to roughly \$7000 per employee in firms with less than 20 employees.

Businesses need a single point of access to all the laws and regulations that affect them. They also need online tools that will help them know if they are in compliance, as well as tools that will offer them compliance solutions. Because of the growing number of businesses with Internet access (67 percent of all firms with employees in early 2001), the Web is currently the most viable delivery channel for these services. A one-stop compliance site will significantly reduce the time (and cost) needed to find information.

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For these reasons, the Business Compliance assistance site was selected as one of 23 OMB-approved E-Government (“Quicksilver”) projects for the Administration’s E-Gov platform. The initiative will incorporate best practices from the private sector to build this tool; namely, SBA will build upon the experience gained in the construction of the gateway and transaction engine in the United Kingdom (e.g., cross-agency permitting). The Agency will also use private sector best practices for knowledge management -- (i.e., individualized packaging of information to offer quick access to the right information for appropriate solutions). SBA will focus on improved navigation, personalization, expert tools, and interactive problem solving.

While better portal capability and consolidation of information is needed, the site will provide real solutions to business problems within a local context in a minimal amount of time. Rules-based software, XML and other Web-based technologies make it possible to create a site with these core capabilities:

1. *Online transactions.* Businesses will be able to apply online for selected licenses and permits at the Federal, state and local level.
  2. *Quick access to laws and regulations.* Site users can access appropriate laws and regulations in three clicks or less.
  3. *Compliance Assessment Aids.* Online tools can help businesses determine what laws and regulations apply to them and whether they are in compliance.
- In conjunction with Federal Emergency Management Agency, develop a one-stop portal for Federal disaster assistance. There is currently no single place that disaster victims can turn for information on available disaster assistance at Federal, state and local levels and how to apply for it. It is also not possible to apply for SBA disaster loan on-line nor track whether a loan application is complete, if the property inspection is completed or being scheduled or if a decision has been made. Often the disaster victim must fill out multiple forms. With Internet expert help, victims will be able to apply for SBA disaster financial assistance on-line. (Funded from existing and future FedSim monies.)
  - In conjunction In conjunction with Department of Education, develop and implement e-lending applications for Federal loans at SBA.
  - Anticipate the development of an electronic certification process—with built-in decision logic for 8(a) businesses, as well as continue to improve the HUBZone Empowerment Contracting (HUBZone) Program certification process. By investing in program infrastructure, SBA will be able to operate a strong certification program more efficiently and effectively.

### **Strategy #6: Improve Credit Program Management**

SBA must maintain the financial safety and soundness of SBA’s approximately \$50 billion loan portfolio. As with financial institutions in the private sector, SBA has the fiduciary responsibility

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to make its loan guaranty decisions wisely and guard its current investments carefully. Risk management issues have become more critical as the business model has changed to partnering with banks, outsourcing its core processes and selling its assets. In FY 2000, SBA placed greater reliance on the credit decisions of its lending partners to originate approximately 75 percent of all business loans. Congress has required the Agency to test the feasibility of contracting with the private sector for the servicing of 30 percent of our disaster home loans through the end of FY 2002. In the past two years, the Agency implemented a highly successful asset sale program and will continue to strategically sell our loan portfolio.

As more of the loan-making, servicing and liquidation processes are outsourced and centralized, SBA's exposure on the loan guaranties becomes increasingly subject to the credit policies and actions of the participating lenders. To protect the taxpayers' interests and to ensure the long-term viability of our lending programs, the SBA has begun to build a system to identify, understand, and respond appropriately to the behavior of its lending partners in an effective and timely way. This is the Loan Monitoring System (LMS).

Federal guidelines now require Federal credit agencies to include lender oversight in their program management. OMB Circular No. A-129, "Policies for Federal Credit Programs and Non-Tax Receivables," requires Federal credit agencies to track and evaluate lender performance, including delinquency, default and claim rates. The Joint Financial Management Improvement Program (JFMIP) guidelines on Guaranteed Loan System Requirements similarly requires Federal agencies to monitor lender and servicer performance, identify lenders or servicers for regular or special review based on performance characteristics and periodically review lenders and servicers on-site.

### **Means and Strategies**

SBA needs to ensure that its lender partners are good stewards of the loans they fund that are guaranteed by the SBA. To achieve this goal, the Agency must continue to improve its ability to assess and forecast the credit risk in SBA's loan portfolios. A key component in SBA's efforts to improve credit program management is the Office of Lender Oversight (OLO). One of OLO's primary functions is to identify, quantify, assess and evaluate the credit and program risk in SBA's loan portfolio.

Key objectives in this area include:

- Expanding existing portfolio analysis to provide more detailed and timely information and related analysis of performance trends.
- Conducting loan and investment program analyses in order to understand the drivers of performance and to identify areas of program risk.
- Analyzing, revising and, as appropriate, expanding upon existing credit program performance measures to ensure that performance measures utilized reflect the risk characteristics of SBA's loan portfolios.

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- Conducting institutional analysis of SBA's lenders to provide meaningful input into decisions regarding lender's participation in SBA programs.
- Implementing an early warning system designed to identify lenders with high-risk characteristics and/or significant changes in performance indicators.
- Implementing a stress test approach to forecast portfolio performance under a variety of economic scenarios.
- Expanding safety and soundness examinations to include non-bank lenders in addition to Small Business Loan Companies (SBLCs).
- Expanding the existing compliance review process to include operational reviews of a lender's SBA activity.

SBA will develop an econometric model to forecast the performance of the Agency's loan programs under a variety of economic scenarios. This model will mainly support subsidy rate analyses and stress testing of the loan portfolio. Credit program management performance measures include currency rates, default rates, purchase rates and recovery rates. These are shown in the table below for our major loan programs.

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**Credit Program Performance Measures**

	<b>FY 1997</b>	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimate<sup>6</sup></b>	<b>Target</b>	<b>Target</b>
<b>CURRENCY RATE<sup>1</sup></b>							
7(a)	76.1%	89.4%	89.8%	90.4%	92.2%	90.6%	90.6%
504	97.5%	98.0%	98.0%	98.4%	99.6%	98.5%	95.5%
Disaster Home Loans	89.7%	90.8%	90.6%	89.6%	90.7%	89.6%	89.6%
Disaster Bus. Loans	80.9%	82.9%	85.0%	85.1%	89.4%	85.2%	85.2%
<b>DEFAULT RATE<sup>2</sup></b>							
Disaster Home Loans <sup>5</sup>	7.0%	5.9%	6.5%	7.4%	5.7%	7.2%	7.2%
Disaster Business Loans	14.7%	14.3%	12.1%	11.5%	7.5%	11.4%	11.4%
<b>PURCHASE RATE<sup>3</sup></b>							
7(a)	17.3%	16.0%	15.1%	14.4%	14.3%	13.9%	12.7%
504	18.8%	15.8%	13.3%	11.9%	11.1%	8.4%	8.3%
<b>RECOVERY RATE<sup>4</sup></b>							
7(a)	51%	51.7%	61.0%	60.5%	60.7%	60.3%	58.0%
504	44%	34.3%	31.1%	24.9%	31.3%	26.9%	20.0%
Disaster Home Loans	4.6%	4.6%	4.6%	4.6%	5.0%	4.5%	3.9%
Disaster Bus. Loans	11.9%	11.8%	11.8%	11.8%	19.4%	11.8%	9.2%

<sup>1</sup> The proportion of each year's disbursed dollars with on-time payments.

<sup>2</sup> The proportion of each year's disbursed dollars over 60 days delinquent.

<sup>3</sup> The proportion of each year's disbursed dollars purchased from lenders due to borrower default.

<sup>4</sup> The proportion of each year's purchased dollars recovered by SBA or lenders, net of expenses.

<sup>5</sup> Figures include ACS loan servicing.

<sup>6</sup> The currency rate is substantially for the 100 percent guaranteed 504 debenture to the investor, not the 504 loan to the small business concern. Currency is almost 100 percent because if the small business does not make sufficient payments to meet the semi-annual payments to the investor, SBA makes up the difference. The 504 loan currency rate is not available from SBA's system.

**Major Accomplishments in FY 2001**

- Developed and began testing a lender ranking model designed to identify lenders with high-risk financial condition characteristics.
- Started initial planning of the lender oversight and risk management components of the Loan Monitoring System (LMS) that will provide OLO with the tools to achieve the analytical objectives described above.
- Adopted a risk management approach to lender analysis. Conducted initial risk management analysis to identify those individual lenders representing the highest risk to the Agency in terms of loan volume and/or loan performance.
- Completed seven SBLC safety and soundness examinations during the third cycle of examinations. Utilized a risk-based approach to examinations by assigning levels of concern to each of the SBLCs. Based on the level of concern assigned, SBLCs are subject to examinations on a 12 to 24 month review cycle.
- Completed the third cycle of PLP compliance reviews as mandated by Congress and began the fourth cycle with programmatic changes to ensure that results are more meaningful and

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are available to program officials in a timely manner to make decisions regarding a lender's continued program participation.

- Provided lender oversight and lender review training for district office staff.
- Coordinated collection action on delinquent accounts with Treasury pursuant to Debt Collection Improvement Act of 1996. (At the end of calendar year 2001, SBA had \$240 million of accounts in Treasury's administrative offset program, and \$950 million of accounts in cross-servicing. During calendar year 2001, Treasury administrative offset collections amounted to \$1.8 million and cross-servicing collections aggregated \$7.7 million).

**Major Activities in FY 2003:**

- Substantively complete a systematic framework to provide a database of historical loan performance data for a 5-7 year period. This database will: allow SBA to conduct analysis of lender performance trends relative to SBA loans; obtain current information on a lender's SBA loan portfolio characteristics and status in a dynamic on-line system; and link SBA internal loan portfolio data with external financial data on SBA lenders.
- Implement liquidation authority (provided by statute) for qualified certified development companies. Until now, only PCLP CDCs and those CDCs participating in the liquidation pilot could liquidate their loans. Under recent statutory authority (12/00), more CDCs will be able to liquidate their own loans, thereby taking some of the burden off SBA. Conduct stress testing of the SBA loan portfolio.
- Enhance lender oversight activities through off-site institutional analysis and on-site lender reviews.
- Implement an off-site monitoring system for all non-bank lenders.
- Implement a risk-based lender review process for all SBA lenders.
- Provide lender oversight training for lender partners and field staff.

**Erroneous Payments Discussion as required by OMB circular A-11, section 57**

**1. Section 7(a) Loans**

The SBA's section 7(a) loan program guarantees up to approximately 85 percent on about \$9-\$10B in loans annually. If a borrower defaults, the participating lender may request SBA to honor its guaranty. SBA conducts a review of the purchase request, including reviewing the loan origination, use of proceeds, and diligence by the participating lender in servicing and liquidating the loan. If SBA determines that there has been a breach in any of the terms of the loan, the guaranty agreement or SBA regulations by the participating lender, SBA may modify the purchase request through a "repair" (that is a payment less than the full guaranteed amount), or may deny the purchase request in full.

The measurement of erroneous payments in this program logically rests with the guaranty purchase process, since the government makes "payments" only through this process.

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A January 3, 2000 Office of Inspector General (OIG) report provided the results of an audit of the 7(a) loan program that was conducted to determine whether loans were processed, disbursed, and used in accordance with SBA requirements. OIG concluded that 7(a) loans were not always made in accordance with SBA requirements. Based on a statistical projection of the limited sample results, OIG estimated that out of a portfolio valued at \$10.3 Billion, loans valued at \$405 million may have deficiencies that could result in some erroneous payments if SBA honors its guaranty on the loans.

As a result of the audit, OIG initially recommended that SBA centralize the guaranty purchase process for all loans. However, based on an agreement among OIG, the Office of Field Operations, the Office of General Counsel and the Office of Financial Assistance, program-wide centralization did not occur. Instead SBA took two separate actions designed to meet the spirit of the OIG recommendation. First, it centralized purchasing for loans made under the SBA Express program, which currently accounts for 28 percent of the number of 7(a) loans approved so far for FY 2002. Second, with the OIG's concurrence as to methodology, SBA established a process by which SBA centrally reviews a random sample of about 300 loan purchase decisions annually.

The SBA guaranty purchase review program was initiated to further strengthen the Agency's quality control and oversight of the 7(a) loan program. The initial findings from the review process indicated a "possible error" rate in recent guaranty purchases of 10.9 percent. This is a preliminary estimate based upon the early results of a small sample. SBA needs additional data from future reviews to validate this finding since records related to the level of errors in purchase disbursements have not existed prior to the newly initiated review process. In the absence of other specific data, we propose that an estimated error rate of 10.9 percent be established as SBA's baseline rate for FY 2001, without reference to FY1999-FY2000.

We further propose the following target rates for erroneous payments for FY2002-FY2003, based on our definition supplied above.

FY 2001 Baseline "error" rate	10.9%	\$44.1 million
FY 2002 Target "error" rate	10.0%	\$40.5 million
FY 2003 Target "error" rate	9.0%	\$36.4 million

Assessment and Action Plan:

SBA will continue this review process to determine if there is a reduction in the error rate. The review process includes examination of a random sample of purchase decisions made by SBA field offices by teams of financial and legal staff. The goal of the reviews is to identify problem areas in policy and procedures that may require clarification, revision or development of training in order to achieve consistency in purchase decisions, as well as reduction of possible erroneous disbursements. SBA plans to review approximately 300 guaranty purchases each year. The first



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recommendations from this review process will be issued during fiscal year 2002. Part of this process includes recovery of funds that are identified as being paid erroneously.

In addition, through the conduct of regular reviews of lenders participating with SBA, the Agency assures and measures compliance with laws, regulations, and agency procedures. Lenders who fail to appropriately follow these requirements will not be allowed to continue to participate with SBA in the 7(a) program. Problems identified are factored into SBA's future lender approval and review processes.

## **2. Certified Development Company Program (504)**

This asset based debenture program guaranteed approximately \$2.2B in loans in FY 2001. The participating Certified Development Company (CDC) issues debentures to private investors to finance the transaction with the small business borrower. SBA's guaranty covers no more than 40 percent of the project costs, with the primary lender covering a minimum of 50 percent of the project costs and retaining a first lien position on any real estate and collateral. Borrowers must contribute a minimum of 10 percent, and this contribution increases to 15-20 percent for start-up businesses and single purpose buildings. Upon default by the borrower, SBA must honor its guaranty to the investor. This is done through a single Central Servicing Agent (CSA) with a tightly controlled procedure. Upon payment to the investor, the Agency attempts to collect via a workout with the borrower or through the liquidation of collateral.

The majority of 504 loans are reviewed by SBA loan specialists as part of the approval process. Under the legislatively mandated 504 program structure, CDCs have no liability for any 504 loan failure except for loans processed through the Premier Certified Lenders Program (PCLP). However, SBA counsel reviews 504 loans after closing and SBA provides necessary training to a CDC to overcome any identified flaws in the CDC's loan practices. Consequently, the potential for erroneous payments is likely to be lower.

The measurement of erroneous payments in this program would be based on a review of defaults. Defaults amount to about \$60-70M annually. During FY 2002, the Agency will set up a procedure for measuring the amount of erroneous payments for 504 loans, subject to the availability of funds. This procedure will be similar to that used for the 7(a) program. A group of Headquarters and field personnel will review a sample of purchases made during FY 2001. The review will include an examination of the loan file and discussions with the loan officer handling the purchase if there are any discrepancies. Because the process is centralized in the loan servicing centers, we would anticipate that the performance is similar or slightly better than the 7(a) experience. Based on this, we estimate that erroneous payments are no higher than 10% or \$7 million annually.

The goal for FY 2002 is to establish the baseline performance level. Once this is established, the SBA will develop a plan for improving performance.

## **3. Small Business Investment Company (SBIC) Program**

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SBICs are privately owned and managed venture capital firms. SBA guarantees approximately \$2.5 billion in debentures and participation certificates (leverage) annually. The participating SBIC issues debentures and/or participation certificates to private investors to supplement the private capital raised by the fund. These funds are then used to finance investments in small businesses. The private capital is always at risk ahead of SBA. Upon default on payments by the SBIC for a debenture or participation certificate, SBA must honor its guarantee to the investor and attempt collection through working with the SBIC and the small business financed by the SBIC for a workout or through ultimate liquidation of collateral.

Unlike the 7(a) and 504 programs, the SBIC program has a very rigorous licensing process prior to issuance of any form of SBA leverage. Also, annual reviews of all leveraged SBIC participants are conducted to assure full compliance with all applicable laws, regulations and agency procedures. When a potential for default is identified, the SBIC is placed on a watch list and monitored extremely closely by SBA personnel. If a default does occur, the SBIC is reclassified into SBA's specific SBIC liquidation unit where a comprehensive review and analysis is undertaken to mitigate any ultimate loss to the government.

The SBA does not believe erroneous payments have been made to an SBIC. The actual disbursement to an SBIC requires the cooperation of two offices within the Investment Division and another independent party plus the disbursing agent prior to a payment being made.

However, SBICs may make investments in portfolio concerns that are in violation of the regulations governing their investments. SBICs are routinely examined (approximately once per year for leveraged SBICs) and potentially improper investments are reported by the examiners. These investments are oftentimes later found to be appropriate but the raw number is included below.

In the examination report the potential violations are referred to as "Findings." The Findings are resolved in a number of ways. After review, it is sometimes determined that no violation occurred. The terms and conditions of the investment may be amended to conform to the regulations. The terms may be approved by the Investment Division post investment. Alternatively, the SBIC may divest.

Although the Findings may, in fact, not be a violation, they can serve as a proxy for potential erroneous payments as the term is described in the OMB instructions. We have attempted to isolate those findings that potentially represent investments that should not have been made due to eligibility requirements or where funds were improperly disbursed, and not findings relating to purely structuring issues that are fairly easily corrected. The specific Findings are identified below (all references are to 13 CFR):

- Prohibited Conflicts of Interest (107.730 and 107.885)

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- Relending, Foreign, Passive or Other Prohibited Investments, Including Prohibited Real Estate Financings (107.720)
- Inappropriate Distributions, Including Improper Dividends and Excessive Expenditures (107.520; 107.585; 107.1520-1580; 107.50)

The reported number of findings on this basis, the percentage of total investments and the estimated potential dollar amounts are as follows:

Fiscal Year	# of Investments	Percent of Total Investments	Potential \$ Amounts
FY 99	32	1.03%	\$19,200,000
FY 00	35	0.75%	\$21,000,000
FY 01	28	0.65%	\$16,800,000

Our objective is to have these potential violations not exceed 1.0 percent of the total investments made by the SBICs. It is estimated that the dollar amounts related to these investments do not exceed \$600,000 on average. The average may vary depending upon the average size of investments made by SBICs.

### **Strategy #7: Improve IT Management**

#### **Means and Strategies**

SBA has undertaken a multi-year IT management improvement and systems modernization effort that upgrades its infrastructure, offers electronic access, and ensures timely and accurate information. In accordance with Administration strategies and SBA strategic goals, the Agency's future technology environment must be able to support:

- "Anytime, Anywhere" access to SBA services, products and information.
- Increased face-to-face communications, internally within the SBA and externally with resource partners and small businesses through use of electronic interactive communications.
- Enterprise-wide databases that transcend separate systems and office boundaries.
- A reliable, expandable, high-capacity and cost-efficient information technology and communications infrastructure based on acknowledged technical standards, to support the SBA's work processes, as well as public access to its products and services.
- Timely and relevant information made available to all employees.
- An empowered workforce that can realize the productivity gains made possible by well-designed information technology.
- Improved delivery of services, products and information to small businesses.

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Modernization efforts include:

- Implementing Enterprise architecture which is a blueprint for systematically and completely defining the organization's current (baseline) and desired (target) technology environment in support of its business goals.
- Developing an IT investment management guide as the Agency blueprint for selecting, controlling and evaluating IT projects within the Agency's IT projects portfolio.
- Implementing a formal investment process including an active investment review council, investment guidance, and the ITIPS automated reporting system.
- Improving systems security through institutionalizing its security program management procedures, developing an organizational framework for identifying and assessing risks and deciding what mix of policies and controls are needed, and regularly evaluating the effectiveness of IT security policies and controls, and act to address any identified weaknesses.

This performance goal is specified in terms of milestones. Goal achievement will be judged in terms of reaching these milestones.

**Major Accomplishments in FY 2001:**

- Implemented a pilot of electronic loan applications for loans processed through the PLP Center for a small set of test lenders.
- Implemented a new lender information system in the LMS: Partner Identification and Management Systems (PIMS).
- Continued implementation of Clinger-Cohen Act with implementation of new procedures such as the Information Technology Investment Manual (ITIM) and the development of other draft procedures such as IT Architecture maintenance, project management, and software acquisition.
- Completed SBA's Government Paperwork Elimination Act (GPEA) implementation plan.

**Major Activities for FY 2003:**

- Modernize systems, including (1) loan monitoring system, (2) financial management, and (3) disaster assistance.
- Continue infrastructure improvements (broadband, workstations, software licensing, and server architecture).
- Continue development and implementation of systems development and acquisition policies and procedures.
- Complete and maintain a survey of IT skills inventory and IT skills requirements.
- Acquire, configure and install the Disaster's DCMM systems for loss verification and disaster loan origination.

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- IT security and maintenance program: IT services and components to enable security and privacy-protection to SBA employees, resource partners, and customers, and to enable the Agency to meet GPEA and E-Sign requirements. Budget allows for completion of the Agency's PKI infrastructure, rollout of PKI services to remaining resource partners, acquisition and distribution of digital certificates and maintenance of PKI infrastructure.
- E-documentation and records management (\$750,000): Electronic records & selected electronic document management tools (ERM-EDMS) to support E-Gov applications IT Outsourcing (Potential candidates are e-mail, web production, web design and production, and client-server computers): Logical candidates for outsourcing selected IT operations. E-government infrastructure: There is a two-fold focus for this initiative. First, SBA must acquire (through outsourcing, if possible) a reliable e-commerce infrastructure that supports 24 hours access by the public. It includes the CRM and KM tools for SBA to obtain maximum benefit from available data and information. Second, SBA, like all Federal agencies, is in the process of improving IT management through architecture development and management, investment management processes, and modernizing policy and procedures.
- System Security and Infrastructure: SBA is requesting \$2.8 million to continue its security upgrades in order to comply with IT security laws and regulations.

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### **Budget Crosswalk**

The budget crosswalk table that follows illustrates the estimated resources to be devoted to achieving each of SBA's strategic goals in FY 2003. The table shows how the goals relate to specific and general program areas. Activities performed by an office often support the achievement of more than one goal. This is particularly true for support organizations such as executive direction and administrative offices. To present the full cost of achieving a particular goal, the costs of support offices are allocated to each goal. This crosswalk summarizes the results of an activity-based costing model as the basis for these cost allocations.

### **Explanation of Budget Crosswalk**

The first column of the crosswalk details SBA's offices and programs categorized by the goal that best relates to that office or program's mission. The offices and programs listed in this column devote the vast majority of their effort toward the goal under which they are listed. The non-credit program column shows resources specifically appropriated to SBA for these activities. The loan subsidy column shows the amount of budget authority used to subsidize loans. The Agency support column reflects the operating funds estimated to be used in support of these activities.

### **Cost Allocation Methodology**

The estimated allocation of FY 2003 resources presented in the crosswalk is based on the results of the SBA's FY 2001 cost allocation study. The SBA's cost allocation model provides an estimate of the resources consumed to produce key outputs. The first step in developing a cost allocation model is to identify the Agency's key activities. Through the budget formulation process, each office identifies the key activities that they perform to produce outputs. An activity is a process that converts resources (materials, labor, and technology) into outputs. Agency Support costs such as rent and telecommunications are allocated to activities based upon "drivers" such as the square feet of space occupied by program offices.

Personnel costs are assigned to specific activities through the use of a detailed survey instrument. SBA employees are asked in an online survey to estimate the amount of time that they spend on SBA's key activities, including those outside of their particular organization. This data is used to compute an estimate of the personnel costs for each activity. The FY 2001 survey was conducted at two distinct points in time—at the 6-month or mid-year point, and at the fiscal yearend. The combined results of these two surveys were used in the FY 2001 cost model.

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**BUDGET CROSSWALK**

*(FY 2003 dollars in Thousands)*

	Total	Non-credit programs	Loan Subsidy	Agency Support	Inspector General
<b><u>Goal 1: Champion Small Business Interests</u></b>					
Advocacy	7,685	0	0	7,685	0
Advocacy Database	1,100	1,100	0	0	0
Ombudsman	1,852	500	0	1,352	0
White House and State Conferences	1,500	1,500	0	0	0
<b>Subtotal</b>	<b>12,137</b>	<b>3,100</b>	<b>0</b>	<b>9,037</b>	<b>0</b>
<b><u>Goal 2: Empower Entrepreneurs</u></b>					
Loan Making/Servicing	252,661	0	89,317	163,344	0
Lender Oversight/Risk Management	11,154	0	0	11,154	0
Asset Sales Support	6,642	0	0	6,642	0
Surety Bond Guarantees	4,959	0	0	4,959	0
International Trade Program/USEAC	3,842	3,100	0	742	0
SBIC Debentures	5,406	0	0	5,406	0
SBIC Participating Securities	10,021	0	0	10,021	0
Microloan Technical Assistance	23,323	17,500	0	5,823	0
Rural Pilot Program	1,012	0	0	1,012	0
PRONet Program	766	500	0	266	0
Section 8(a) Program	38,347	0	0	38,347	0
Section 7(j) Program	8,488	3,600	0	4,888	0
HUBZone Program	3,387	2,000	0	1,387	0
SBIR	2,180	500	0	1,680	0
FAST Program	3,261	3,000	0	261	0
Rural Outreach Program	293	0	0	293	0
Government Contracting/Business Development	31,035	0	0	31,035	0
Veterans Outreach	3,790	750	0	3,040	0
SCORE	7,077	5,000	0	2,077	0
Women's Business Ownership	23,067	12,000	0	11,067	0
Small Business Development Centers	116,057	88,000	0	28,057	0
Drug-Free Workplace	3,000	3,000	0	0	0
Business Information Centers	13,023	475	0	12,548	0
Native American Outreach	2,394	1,000	0	1,394	0
National Women's Business Council	870	750	0	120	0
<b>Subtotal</b>	<b>576,055</b>	<b>141,175</b>	<b>89,317</b>	<b>345,563</b>	<b>0</b>
<b><u>Goal 3: Streamline Disaster Lending</u></b>					
Disaster Assistance Programs	233,281	0	111,140	121,641	500
<b>Subtotal</b>	<b>233,281</b>	<b>0</b>	<b>111,140</b>	<b>121,641</b>	<b>500</b>
Inspector General	15,011	0	0	0	15,011
Reimbursable Programs	4,761	4,761	0	0	0
<b>Total Obligations</b>	<b>841,245</b>	<b>\$149,036</b>	<b>\$200,457</b>	<b>\$476,241</b>	<b>\$15,511</b>



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**Summary of Budget Authority**

*(Dollars in Thousands)*

	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>Inc/(Dec)</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Request</b>	<b>vs FY 2002</b>
				<b>Estimate</b>
<b>Salaries and Expenses</b>				
Administrative Operating Expenses	\$ 154,541	\$ 161,482	\$ 217,831	\$ 56,349
Non-Credit Programs and Initiatives	256,094	176,994	144,275	(32,719)
Subtotal	\$ 410,635	\$ 338,476	\$ 362,106	\$ 23,630
<b>Business Loans Program Account</b>				
Direct Loans New Budget Authority	\$ 2,250	\$ 1,860	\$ 3,726	\$ 1,866
Guaranteed Loans Budget Authority	163,160	78,000	85,360	7,360
Supplementals, Contingencies	0	75,000	0	(75,000)
Administrative Expense	129,000	129,000	133,769	4,769
Subtotal	\$ 294,410	\$ 283,860	\$ 222,855	\$ (61,005)
<b>Disaster Loans Program Account</b>				
<b>Direct Loans</b>				
New Budget Authority	\$ 76,140	\$ 87,360	\$ 76,140	\$ (11,220)
Supplementals, Contingencies	60,000	75,000	0	(75,000)
Administrative Expense				
New Budget Authority	108,354	122,354	122,141	(213)
Supplemental Appropriation	40,000	0	0	0
Subtotal	\$ 284,494	\$ 284,714	\$ 198,281	\$ (86,433)
Surety Bond Guarantee Fund	\$ 0	\$ 0	\$ 0	\$ 0
Office of Inspector General	\$ 11,953	\$ 11,464	\$ 15,011	\$ 3,547
Appropriated Funds Rescinded	\$ (1,983)	\$ 0	\$ 0	\$ 0
<b>Total Budget Authority</b>	<b>\$ 999,509</b>	<b>\$ 918,514</b>	<b>\$ 798,253</b>	<b>\$ (120,261)</b>
Regular Appropriated Funds	\$ 899,509	\$ 768,514	\$ 798,253	\$ 29,739
Supplemental/Emergency Funds	\$ 100,000	\$ 150,000	0	\$ (150,000)

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SUMMARY OF RESOURCES

**Summary of Positions and Full Time Equivalents**

<b>ON BOARD POSITIONS</b>				
	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>Inc/(Dec)</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Request</b>	<b>vs FY 2002</b>
				<b>Estimate</b>
Salaries and Expenses – Regular Funds	2,736	2,610	2,610	0
Non Credit Programs and Initiatives	77	42	42	0
Subtotal	2,813	2,652	2,652	0
Disaster	1,328	2,084	1,300	(784)
Inspector General	108	124	144	20
Total	4,249	4,860	4,096	(764)
<b>FULL TIME EQUIVALENTS (FTE)</b>				
	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>Inc/(Dec)</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Request</b>	<b>vs FY 2002</b>
				<b>Estimate</b>
Salaries and Expenses – Regular Funds	2,793	2,709	2,618	(91)
Non Credit Programs and Initiatives	70	36	42	6
Subtotal	2,863	2,745	2,660	(85)
Disaster	1,085	1,652	1,060	(592)
Inspector General	108	120	130	10
Total	4,056	4,517	3,850	(667)

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**Summary of Non Credit Programs & Special Initiatives**  
(Dollars in Thousands)

	FY 2001 Actual	FY 2002 Estimate <sup>1</sup>	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
<b>Executive Direction</b>				
Advocacy Database and Research	\$1,297	\$1,100	\$1,100	\$ 0
National Ombudsman (inc. operations)	554	500	500	0
Veteran's Outreach	0	750	750	0
Veteran's Business Development Corporation	4,000	0	0	0
State Conferences	0	0	1,500	1,500
<b>Management &amp; Administration</b>				
Loan Monitoring System (LMS)	7,889	0	0	0
<b>Government Contracting/Business Dev.</b>				
7(j) Technical Assistance	3,241	3,600	3,600	0
BusinessLINC	6,919	2,000	0	(2,000)
PRO-Net	450	*	500	500
SBIR-Rural Outreach	1,500	500	500	0
SBIR – FAST	3,500	3,000	3,000	0
HUBZones Program (inc. operations)	1,791	*	2,000	2,000
<b>Entrepreneurial Development</b>				
Small Business Development Centers (SBDC)	85,993	90,010	88,000	(2,010)
Drug-Free Workplace	3,498	3,000	3,000	0
Service Corps of Retires Executives (SCORE)	3,750	5,000	5,000	0
Business Information Centers	499	500	475	(25)
Women's Business Centers	11,989	12,000	12,000	0
Census Reimbursement-SWOBE	691	694	0	(694)
Women's Business Council (inc. operations)	714	750	750	0
Native American Outreach	0	0	1,000	1,000
<b>Capital Access</b>				
US Export Assistance Centers operations	2,579	3,100	3,100	0
Microloan Technical Assistance	18,385	17,754	17,500	(254)
PRIME	15,000	5,000	0	(5,000)
New Market Venture Capital Tech Assistance	120	29,880	0	(29,880)
<b>Reimbursable Programs<sup>2</sup></b>	4,604	5,529	4,761	(768)
<b>Congressional Initiatives</b>	41,291	30,000	0	(30,000)
<b>Total</b>	<b>\$223,176</b>	<b>\$214,667</b>	<b>\$149,036</b>	<b>(\$65,631)</b>
<b>Newly Appropriated Funds</b>	<b>\$255,191</b>	<b>\$176,994</b>	<b>\$144,275</b>	<b>(\$32,719)</b>

\* To be funded in FY 2002, but source not identified.

<sup>1</sup> Includes use of carryover funds from FY 2001.

<sup>2</sup> Not appropriated funds but reimbursements under the Economy Act, other agreements, and other sources of funds.

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**Summary of Congressional Initiatives**  
*(Dollars in Thousands)*

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
AZ Dept. of Public Safety	\$ 850	\$ 0	\$ 0	\$ 0
Bronx Child Study Center	0	1,000	0	(1,000)
Brotherhood Bus. Dev. & Cap. Fund	983	0	0	0
Buckhorn Children's Foundation	590	0	0	0
Catskill Mountain Foundation	0	350	0	(350)
Chippewa Falls, Wisconsin	0	500	0	(500)
City of Chesapeake, VA	0	300	0	(300)
Durant, OK Rural Enterprises	197	200	0	(200)
East LA Community Union	983	500	0	(500)
Electronic Commerce Center, Scranton, PA	983	0	0	0
Gadsden State College, Ctr. For Econ. Dev.	246	0	0	0
George Mason University	0	1,000	0	(1,000)
Greenpoint Mfg. & Design Ctr.	983	500	0	(500)
Green Thumb, Inc.	0	1,000	0	(1,000)
Hamilton County, TN	0	1,000	0	(1,000)
Illinois Coalition	0	2,000	0	(2,000)
Infotonics Ctr. Of Excellence, Rochester, NY	0	400	0	(400)
James Madison University	0	1,000	0	(1,000)
Johnstown, PA Regional Industries Ctr.	246	500	0	(500)
Johnstown, PA Regional Industries Ctr.	246	0	0	0
Lewis and Clark College	0	300	0	(300)
Long Island Bay Shore Aquarium	983	150	0	(150)
Los Angeles Conservancy	0	2,000	0	(2,000)
Mont. Cty. KY Ed. & Train. Facility	344	0	0	0
MountainMade Foundation	0	1,100	0	(1,100)
Morehead State U Science Res. & Tech Ctr.	1,966	0	0	0
Moundsville, WV Economic Dev. Council	492	0	0	0
Museum of Science & Industry	786	0	0	0
N.VA Business Asst. Dev. Group	246	0	0	0
National Center for e-Commerce, Pol. Univ.	0	400	0	(400)
National Corr. And Law Enf. Trng. & Tech. Ctr.	0	400	0	(400)
National Museum of Jazz, New York, NY	983	0	0	0
New York Bronx Museum	2,458	0	0	0
New York Small Business Devel. Center	0	500	0	(500)
Nicholas Cty, KY Indust. Auth	344	0	0	0
NTTC @ Wheeling Jesuit University	2,458	500	0	(500)
NY City Parks & Rec., Bronx, NY	492	0	0	0
NY Public Library, Bronx, NY	492	0	0	0
Oakridge, TN Tech & Econ. Dev.	983	0	0	0
OK Dept. of Career & Tech. Ed.	492	500	0	(500)
OK State University	0	100	0	(100)
Old Sturbridge Village Arts & Tourism	197	0	0	0
Paintsville, KY Regional Arts & Tourism	1,966	0	0	0
Pike Cty, KY Interpretive Dev, Init.	492	0	0	0
Portage County, Wisconsin	0	150	0	(150)
Promesa Enterprises, Bronx, NY	1,966	0	0	0
Pulaski Cty, KY Emergency Training Ctr	1,278	0	0	0

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**Summary of Congressional Initiatives**  
*(Dollars in Thousands)*

	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>Inc/(Dec) vs FY 2002</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Request</b>	<b>Estimate</b>
Safer Foundation	983	0	0	0
Shenandoah University	0	1,500	0	(1,500)
Social Compact, Realizing the Dream	0	700	0	(700)
Software Productivity Consortium	0	1,000	0	(1,000)
Somerset, KY Center for Rural Dev	4,915	0	0	0
Soundview Comm. Action, Bronx, NY	983	1,000	0	(1,000)
Southern KY, Economic Development Corp.	4,915	1,500	0	(1,500)
Southern KY, Rehabilitation Industries	0	450	0	(450)
Southern KY, Tourism Development Assoc.	0	1,000	0	(1,000)
State University of NY, Inst. Of Entrep.	1,475	0	0	0
Union College, KY, Tech. & Media Ctr.	1,473	0	0	0
University of Montana	0	300	0	(300)
University of W. Florida	0	1,000	0	(1,000)
Upper Manhattan Empowerment Zone	0	1,000	0	(1,000)
Urban Justice Center, NYC	0	500	0	(500)
Vandalia Heritage Foundation	197	0	0	0
Western Carolina University	590	0	0	0
West Virginia High Tech Consortium	0	500	0	(500)
Yonkers, NY, Nepperhan Valley Tech Ctr	0	500	0	(500)
<b>Total Congressional Initiatives</b>	<b>\$ 41,291</b>	<b>\$ 30,000</b>	<b>\$ 0</b>	<b>(\$30,000)</b>

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**Summary of Credit Programs**  
*(Dollars in Thousands)*

	Program Level				Budget Authority <sup>1</sup>				Subsidy Rate			
	FY 2001	FY 2002	FY 2003	Inc/(Dec)	FY 2001	FY 2002	FY 2003	Inc/(Dec)	FY 2001	FY 2002	FY 2003	Inc/(Dec)
	Actual	Estimate	Request	vs FY 2002 Estimate	Actual	Estimate	Request	vs FY 2002 Estimate	Actual	Estimate	Request	vs FY 2002 Estimate
Microloan Direct	\$29,810	\$25,513	\$26,553	\$1,040	\$2,668	\$1,730	\$3,465	\$1,735	8.95%	6.78%	13.05%	6.27%
Total Direct	\$29,810	\$25,513	\$26,553	\$1,040	\$2,668	\$1,730	\$3,465	\$1,735	8.95%	6.78%	13.05%	6.27%
Guaranty												
Section 7(a) Guaranty	\$9,121,709	\$9,352,804	\$4,850,000	(\$4,502,804)	\$106,724	\$100,075	\$85,360	(14,715)	1.17%	1.07%	1.76% <sup>3</sup>	0.69%
Section 7(a) "Emergency"	0	4,491,018	0	(4,491,018)	0	75,000	0	(75,000)	N/A	1.67% <sup>2</sup>	N/A	N/A
Section 7(a) Guaranty – DELTA	1,711	20,000	20,000	0	32	346	302	(44)	1.87%	1.73%	1.51%	(0.22%)
Section 7(a) Y2K Loans	25	0	0	0	1	0	0	0	4.04%	N/A	N/A	N/A
Section 504 CDC Guaranty	2,268,758	4,500,000	4,500,000	0	0	0	0	0	0.00%	0.00%	0.00% <sup>4</sup>	0.00%
Section 504 CDC Guaranty - DELTA	0	2,500	2,500	0	0	21	22	1	0.89%	0.84%	0.88%	0.04%
Microloan – Guaranty	2,000	2,000	2,000	0	159	163	168	5	7.95%	8.17%	8.42%	0.25%
New Market Venture Capital	0	151,707	0	(151,707)	0	21,952	0	(21,952)	14.44%	14.47%	N/A	N/A
SBIC – Participating Securities	2,108,702	3,500,000	4,000,000	500,000	27,624	0	0	0	1.31%	0.00%	0.00% <sup>5</sup>	0.00%
SBIC – Debentures	486,714	2,500,000	3,000,000	500,000	0	0	0	0	0.00%	0.00%	0.00% <sup>6</sup>	0.00%
Total – Guaranty	\$13,989,620	\$24,520,029	\$16,374,500	(\$8,145,529)	\$134,540	\$197,557	\$85,852	(\$111,705)				
Total Business	\$14,019,430	\$24,545,542	\$16,401,053	(\$8,144,489)	\$137,208	\$199,287	\$89,317	(\$109,970)				
Regular Disaster	\$874,074	\$742,761	\$795,000	\$52,239	\$152,613	\$108,963	\$111,140	2,177	17.46%	14.67% <sup>7</sup>	13.98%	(0.69%)
"Emergency" Disaster	0	556,995	0	(556,995)	0	129,000	0	(129,000)	0	23.16%	0	(23.16%)
Disaster	\$874,074	1,299,756	\$795,000	(504,756)	\$152,613	237,963	\$111,140	(126,823)	N/A	N/A	N/A	N/A
Surety Bond Guarantee	\$261,411	\$1,672,000	\$1,672,000	\$0	\$0	\$0	\$0	\$0	N/A	N/A	N/A	N/A

<sup>1</sup> Includes use of carryover funds from prior years.

<sup>2</sup> 1.07 percent is current services rate; Defense Bill (P.L. 107-117)/Supplemental rate=1.67 percent.

<sup>3</sup> Original current service rate of .88 percent is changed to a rate of 1.76 percent as a result of P.L. 107-100.

<sup>4</sup> 0.00 percent is current services rate with fee from .410 to .425 percent.

<sup>5</sup> Fee changes from 1.376 to 1.311 to maintain 0 percent.

<sup>6</sup> Fee changes from .866 to .887 to maintain 0 percent.

<sup>7</sup> 14.67 percent is current services rate; Defense Bill (P.L. 107-117)/Supplemental rate=23.16 percent.

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**Justification of Changes from FY 2002 to FY 2003**

**(Excluding Disaster Assistance and Office of Inspector General)**

*(Dollars in Thousands)*

	<b>FY 2001 Actual</b>		<b>FY 2002 Estimate</b>		<b>FY 2003 Request</b>		<b>Increase/(Decrease) vs FY 2002 Estimate</b>	
	<b>Positions</b>	<b>Amount</b>	<b>Positions</b>	<b>Amount</b>	<b>Positions</b>	<b>Amount</b>	<b>Positions</b>	<b>Amount</b>
<b>Salaries and Expenses:</b>								
Compensation & Benefits	2,736	\$ 223,078	2,610	\$ 233,993	2,610	\$ 260,744	0	\$ 26,751
Travel and Transportation of Employees	0	5,043	0	3,835	0	7,939	0	4,104
Rents & Communication	0	33,414	0	34,432	0	36,185	0	1,753
Postage and Printing	0	2,958	0	2,549	0	2,755	0	206
All Other	0	40,511	0	28,527	0	56,831	0	28,304
Subtotal	2,736	\$ 305,004	2,610	\$ 303,336	2,610	\$ 364,454	0	\$ 61,118
Non-Credit Programs & Special Initiatives	77	218,572	42	176,994	42	144,275	0	(32,719)
Subtotal	2,813	\$ 523,576	2,652	\$ 480,330	2,652	\$ 508,729	0	\$ 28,399
Reimbursement and Carryover Funds	0	4,604	0	37,673	0	4,761	0	(32,912)
Total	2,813	\$ 528,180	2,652	\$ 518,003	2,652	\$ 513,490	0	\$ (4,513)

**FY 2003 Increase/(Decrease) vs FY 2002 Estimate**

Compensation & Benefits	To maintain the FY 2002 EOY of 2,652 employees; a 3.6% general pay increase in 1/03; annualization of the FY02 pay raise; normal within grade increases and promotions; and \$13,907 for pension costs normally paid by OPM.
Travel & Transportation	Includes a small increase to restore these funds back to a more normal operating level, plus costs of proposed employee relocations.
Rents and Communication	Includes a General Services Administration estimated rent increase.
Postage and Printing	Includes a small inflationary increase.
Other Services	Reflects a minimal increase to cover anticipated inflationary increases in all areas of operations; and additional funds for new initiatives as defined elsewhere in this document.
Reimb. & Carryover Funds	Reflects changes in carryover balances from FY 2001 into FY 2002, principally from NMVC and SBDC.

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**SUMMARY OF POSITIONS AND AMOUNT**  
*(Dollars in thousands)*

	FY 2001 Actual		FY 2002 Estimate		FY 2003 Request		Increase (Decrease) vs. FY 2002 Estimate	
	Positions	Amount	Positions	Amount	Positions	Amount	Positions	Amount
<b>Executive Direction</b>								
Administrator	22	\$ 3,241	23	\$ 2,837	23	\$ 2,920	0	\$ 83
General Counsel	70	7,852	70	8,171	70	8,438	0	267
Congressional and Legislative Affairs	10	951	10	983	10	1,011	0	28
Hearings and Appeals	11	1,074	11	1,162	11	1,196	0	34
Communications and Public Liaison	26	2,395	26	2,429	26	2,513	0	84
Field Operations	8	1,490	8	1,376	8	1,438	0	62
EEO and Civil Rights Compliance	19	1,809	19	1,844	19	1,907	0	63
Advocacy	35	4,146	45	4,920	45	5,642	0	722
Veterans Business Development	5	819	5	577	5	592	0	15
Chief Financial Officer	79	8,066	81	8,443	81	8,768	0	325
Subtotal	285	\$ 31,843	298	\$ 32,742	298	\$ 34,425	0	\$ 1,683
<b>Management and Administration</b>								
Immediate Office	7	\$ 695	7	\$ 577	7	\$ 594	0	\$ 17
Human Resources	54	5,066	54	5,231	54	5,427	0	196
Administration	47	8,133	47	7,375	47	7,867	0	492
Chief Information Officer	55	26,190	62	22,637	62	24,472	0	1,835
Subtotal	163	\$ 40,084	170	\$ 35,820	170	\$ 38,360	0	\$ 2,540
<b>Gov Contr and Min Enterprise Development</b>								
Immediate Office	4	\$ 905	4	\$ 444	4	\$ 457	0	\$ 13
Operations & Program Support	13	985	13	1,046	13	1,077	0	31
Planning & Policy Liaison	16	1,686	16	1,757	16	1,809	0	52
Business Development	53	3,678	53	3,707	53	3,815	0	108
Government Contracting	149	13,275	149	14,332	149	14,749	0	417
Subtotal	235	\$ 20,529	235	\$ 21,286	235	\$ 21,907	0	\$ 621



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SUMMARY OF RESOURCES

**SUMMARY BY ACTIVITY**

*(Dollars in thousands)*

	FY 2001 Actual		FY 2002 Estimate		FY 2003 Request		Increase (Decrease) vs. FY 2002 Estimate	
	Positions	Amount	Positions	Amount	Positions	Amount	Positions	Amount
<b>Capital Access</b>								
Immediate Office	5	\$ 717	5	\$ 635	5	\$ 654	0	\$ 19
Lender Oversight	6	2,659	6	1,265	6	2,317	0	1,052
Financial Assistance-HQ	44	3,401	53	4,370	53	4,511	0	141
Financial Assistance-Servicing Centers	105	7,724	105	7,468	105	7,712	0	244
Investment Division	92	8,771	92	9,393	92	9,696	0	303
Surety Guarantees	13	1,134	13	1,182	13	1,222	0	40
International Trade	14	989	14	963	14	992	0	29
Subtotal	279	\$ 25,395	288	\$ 25,276	288	\$ 27,104	0	\$ 1,828
<b>Entrepreneurial Development</b>								
Immediate Office	6	\$ 864	6	\$ 870	6	\$ 896	0	\$ 26
Small Business Development Centers	17	1,640	17	1,751	17	1,802	0	51
Business Initiatives	13	1,855	15	1,342	15	1,381	0	39
Native American Affairs	1	263	1	271	1	279	0	8
Women's Business Ownership	11	890	11	858	11	878	0	20
Subtotal	48	\$ 5,512	50	\$ 5,092	50	\$ 5,236	0	\$ 144
<b>Regional and District Offices</b>	1,726	\$ 136,281	1,569	\$ 141,801	1,569	\$ 150,384	0	\$ 8,583
Agency-wide (not distributed)		45,360		41,319		87,038	0	45,719
<b>Subtotal - Operating Budget</b>	<b>2,736</b>	<b>\$ 305,004</b>	<b>2,610</b>	<b>\$ 303,336</b>	<b>2,610</b>	<b>\$ 364,454</b>	<b>0</b>	<b>\$ 61,118</b>
<b>Non-Credit Programs &amp; Special Initiatives</b>	<b>77</b>	<b>223,176</b>	<b>42</b>	<b>214,667</b>	<b>42</b>	<b>149,036</b>	<b>0</b>	<b>(65,631)</b>
<b>Total Salaries and Expenses</b>	<b>2,813</b>	<b>\$ 528,180</b>	<b>2,652</b>	<b>\$ 518,003</b>	<b>2,652</b>	<b>\$ 513,490</b>	<b>0</b>	<b>\$ (4,513)</b>
<b>Disaster Direct Program</b>								
Loan Making	1,106	\$ 88,190	1,862	\$ 124,933	1,078	\$ 81,093	(784)	\$ (43,840)
Loan Servicing	222	29,019	222	30,056	222	30,694	0	638
<b>Total Disaster Direct Program</b>	<b>1,328</b>	<b>\$ 117,209</b>	<b>2,084</b>	<b>\$ 154,989</b>	<b>1,300</b>	<b>\$ 111,787</b>	<b>(784)</b>	<b>\$ (43,202)</b>
<b>Inspector General</b>	<b>108</b>	<b>\$ 12,367</b>	<b>124</b>	<b>\$ 12,458</b>	<b>144</b>	<b>\$ 15,511</b>	<b>20</b>	<b>\$ 3,053</b>
<b>Grand Total</b>	<b>4,249</b>	<b>\$ 657,756</b>	<b>4,860</b>	<b>\$ 685,450</b>	<b>4,096</b>	<b>\$ 640,788</b>	<b>(764)</b>	<b>\$ (44,662)</b>

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**Justification of Changes from FY 2002 to FY 2003**

*(Dollars in Thousands)*

	<b>FY 2002 Estimate</b>	<b>FY 2003 Request</b>	<b>Change</b>
<b>NON-CREDIT PROGRAMS/INITIATIVES:</b>			
<u><i>White House and State Conferences:</i></u>  SBA proposes a series of conferences to celebrate the success of small business over the past 50 years. Moreover, these activities will highlight emerging issues that face the Nation's 25 million small businesses.	\$0	\$1,500	\$1,500
<u><i>Program for Investment in Microenterprises (PRIME):</i></u>  PRIME was authorized in 1999 to provide technical assistance to small businesses and to the organizations that support them. Similar assistance is already provided through existing Federal, State, local, and private-sector programs, including SBA's Microloan program and Small Business Development Centers. PRIME duplicates existing programs and no funding is requested FY 2003.	5,000	0	(5,000)

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**Justification of Changes from FY 2002 to FY 2003**

(Dollars in Thousands)

	FY 2002 Estimate	FY 2003 Request	Change
<b>NON-CREDIT PROGRAMS/INITIATIVES:</b>			
<u>Business, Learning – Investment – Networking and Collaboration (BusinessLINC):</u>  The BusinessLINC program was established to facilitate the establishment of mentor-protégé relationships between large and small businesses. These relationships are already facilitated through existing Federal and private-sector programs, such as the Department of Defense mentoring program, National Aeronautics & Space Administration’s mentoring program, the Women’s Network, and the 8(a) program. The 7(j) management and technical assistance program also provides similar services as the BusinessLINC program. BusinessLINC duplicates existing programs and SBA proposes not to fund it in FY 2003.	\$2,000	\$0	(\$2,000)
<u>Survey of Women-Owned Businesses:</u>  SBA works closely with the Census Bureau to obtain information on women-owned business, gathered from the 5-year census process. In order to support this information gathering, SBA has been required to contribute annual funding to the Census Bureau to offset the costs of this element of the census survey. The Congress annually appropriates this amount, which is passed-through directly to the Census Bureau. For FY 2003, the Census Bureau estimated the SBA’s contribution to be \$1,057,484. The Administration has not included this request in SBA’s budget, and proposes that it be funded directly in the budget for the Census Bureau.	694	0	\$ (694)

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**Justification of Changes from FY 2002 to FY 2003**

*(Dollars in Thousands)*

	<b>FY 2002 Estimate</b>	<b>FY 2003 Request</b>	<b>Change</b>
<b>NON-CREDIT PROGRAMS/INITIATIVES:</b>			
<u><i>Native American Outreach:</i></u>  According to the 2000 Census, there are 2.5 million American Indians and Alaskan Natives. The average unemployment rate on reservations in 1999 was 43 percent. The SBA Office of Native American Affairs is dedicated to ensuring that all American Indians, and Native Alaskans and Hawaiians seeking to create, develop, and expand small businesses have full access to the necessary business development and expansion tools available through Agency programs. The current technical assistance programs operate in only six states. The SBA 2003 Native American Economic Development Program is a comprehensive initiative designed to meet the specific cultural needs and result in small business creation. This initiative will make funding directly available to tribes to assist in economic development and job creation.	\$0	\$1,000	\$1,000
<u><i>Congressional Initiatives:</i></u>  Each year as part of the congressional budget process, there are a number of program initiatives that are included in SBA's final appropriation. These initiatives are not authorized in the Small Business Act and, therefore, are not requested as part of the President's annual budget.	30,000	0	(30,000)
<u><i>Other Non-Credit Programs and Initiatives:</i></u>  The remaining programs and initiatives for small business assistance are proposed to be funded at the same level as FY 2002. The difference is \$2 million is funded for HubZones and \$500,000 for ProNet and a \$25,000 reduction in BICs.	139,300	141,775	2,475

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<b>Summary of Non-Credit Programs/Initiatives:</b>			
- <b>Direct Appropriation to S&amp;E</b>	<b>\$176,994</b>	<b>\$144,275</b>	<b>(\$32,719)</b>
- Not Appropriated			
- SDB Certifications	1,516	1,500	(16)
- Gainsharing	2,404	3,000	596
- Other reimbursables & carryovers	<u>33,753</u>	<u>261</u>	<u>(33,492)</u>
Summary of Non-Credit Prog/Init Availability	\$214,667	\$149,036	(\$65,631)

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**Justification of Changes from FY 2002 to FY 2003**

*(Dollars in Thousands)*

	<b>FY 2002 Estimate</b>	<b>FY 2003 Request</b>	<b>Change</b>
<b>OPERATING BUDGET:</b>			
<u><i>Restructuring and workforce transformation:</i></u>  SBA will implement the results of its FY 2002 pilot efforts. This effort will require an increased use of technology (\$2 million); the reconfiguration and movement of office locations (\$2.5 million), files (\$1 million) and personnel (\$5 million), enhanced skills training of our staff to meet the challenges of the new SBA (\$2 million), and additional contracting-out of commercial activities (\$2.5 million). These expenditures will result in long-term savings.	\$ 0	\$ 15,000	\$15,000
<u><i>E-Government Portal Business Compliance One-Stop:</i></u>  The Administration's initiative to be more citizen-centered and accessible to the public 24/7, includes SBA's selection to be the lead Agency to develop and implement a one-stop portal to provide small business information regarding laws and regulations. This website is called Business Compliance One-Stop.	\$ 0	\$ 5,000	\$5,000
<u><i>IT Security, Infrastructure, and other e-Government initiatives:</i></u>  In order to ensure sufficient security of its computer systems and to provide small businesses increased access to all of SBA's services 24/7, SBA needs to continue to support the upgrading of its information technology infrastructure (\$2.8 million). In addition, SBA will begin implementation of an e-documents management system to assist with the retention and administration of SBA's electronic records (\$750,000).	\$ 0	\$ 3,550	\$3,550

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**Justification of Changes from FY 2002 to FY 2003**  
 (Dollars in Thousands)

	<b>FY 2002 Estimate</b>	<b>FY 2003 Request</b>	<b>Change</b>
<b>OPERATING BUDGET:</b>			
<u>Program Evaluations:</u>  SBA will initiate selected evaluations and studies of key programs, especially those using private-sector partnerships, to ensure taxpayer funds are creating value and that appropriate results are being achieved consistent with SBA's mission and Administration objectives.	0	850	850
<u>Asset Sales Program Financial Advisor:</u>  To support SBA's continued efforts to sell loan assets, we contract with an expert program financial advisor.	\$ 0	\$ 1,500	\$ 1,500
<u>Pension Costs:</u>  SBA's estimate of pension costs previously paid by OPB. Legislation is requested to authorize this budgetary change governmentwide to reflect full costs of salaries and benefits.	\$0	\$13,907	\$13,907

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**Justification of Changes from FY 2002 to FY 2003**

(Dollars in Thousands)

<i>Other Operating Budget Changes:</i>	\$ 0	\$ 21,311	\$21,311
In FY 2003, SBA will maintain its FY 2002 end-of-year staffing level. The annualization of the FY 2002 pay raise and normal inflationary increases in areas such as employee pay, travel, rents, printing, and contracts will be funded within this level. This increase will re-establish an appropriate "current services" level of operations.			
<b>Summary of Operating Budget Funding:</b>			
- <b>Direct Appropriation to S&amp;E</b>	<b>\$161,482</b>	<b>\$217,831</b>	<b>\$56,349</b>
- Transfer from Business Loans	129,000	133,769	4,769
- Transfer from Disaster Loans	9,854	9,854	0
- Fee Income	3,000	3,000	0
<b>Summary of Operating Budget Availability</b>	<b>\$303,336</b>	<b>\$364,454</b>	<b>\$ 61,118</b>



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**Justification of Changes from FY 2002 to FY 2003**  
 (Dollars in Thousands)

	FY 2002 Estimate	FY 2003 Request	Change
<b>LOAN PROGRAMS:</b>			
<u>Section 7(a) General Business Loans:</u>  SBA's largest lending program provides government guarantees for loans made by participating lenders. In FY 2003, the request of \$85.36 million will be executed at a subsidy rate of 1.76 percent to provide a program level of \$4.85 billion.	\$100,075	\$85,360	(\$14,715)
<u>Section 7(a) "Disaster" Loans:</u>  In FY 2002, SBA received an appropriations of \$75 million to help respond to the needs of small businesses following the September 11 <sup>th</sup> attacks. This one-time appropriation, executed at a subsidy rate of 1.67, funds a program level of \$4.491 billion. Between the regular 7(a) program and this program, \$13.8 billion was provided in FY 2002.	\$75,000	0	(\$75,000)
<u>Microloans—Direct Loan Program:</u>  The Microloan program provides access to very small loans (up to \$35,000) to help meet the needs of small businesses through partnerships with microloan intermediaries. For FY 2003, we request a direct program level of \$26.6 million, with an increased subsidy rate from 6.78 percent to 13.05 percent, due to changes in the discount rate and average loan size resulting in an increased need for new appropriations. In addition, 7 percent of appropriation is transferred to S&E for microloan intermediary training.	1,730	3,726	1,735

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**Justification of Changes from FY 2002 to FY 2003**  
(Dollars in Thousands)

	FY 2002 Estimate	FY 2003 Request	Change
<b>LOAN PROGRAMS:</b>			
<i>Disaster Loans:</i>	\$237,963	\$111,140	(\$126,823)
<p>SBA's Disaster Loan Program provides long-term loans at subsidized interest rates to victims of natural disasters and loans to mitigate disaster damages. For FY 2002, SBA received two appropriations to this account: \$87.3 million with the initial annual appropriation, combined with carryover balances and recoveries of \$15.6 million (plus \$6 million of the emergency money) to fund a program level of \$743 million in lending at a 14.67 percent subsidy rate; and \$54 million carried over from FY 2001 (plus \$75 million as part of the FY 2002 emergency supplemental) to fund \$557 million in lending in response to the September 11 events at a 23.16 percent subsidy rate.</p> <p>For FY 2003, we request funding at a level of \$76.1 million, combined with a projected carryover from FY 2002 of \$25 million and \$10 million in recoveries, to fund a program level of \$795 million (the five-year average) at a 13.98 percent subsidy rate.</p>			
<b>Summary of Loan Programs:</b>			
- Appropriation for business loans	\$154,860	\$89,086	(\$65,774)
- Appropriation for business admin.	129,000	133,769	4,769
- Appropriation for disaster loans	162,360	76,140	(86,220)
- Appropriation for disaster admin.	122,354	122,141	(213)
Summary of Loan Program Appropriations	<b>\$568,574</b>	<b>\$421,136</b>	<b>(\$147,438)</b>
Summary of Loan Program Availability	\$592,239	\$312,244	(\$279,995)
<b>Inspector General-Appropriation</b>	<b>11,464</b>	<b>15,011</b>	<b>3,547</b>
<b>Inspector General Availability</b>	<b>12,458</b>	<b>15,511</b>	<b>3,053</b>
<b>Total SBA Appropriations</b>	<b>\$ 918,514</b>	<b>\$798,253</b>	<b>(\$120,261)</b>

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<b>Total SBA Availability</b>	<b>\$1,122,700</b>	<b>\$841,245</b>	<b>(\$281,455)</b>
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# **APPROPRIATIONS LANGUAGE AND DESCRIPTION**

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**SALARIES AND EXPENSES**

*For necessary expenses, not otherwise provided for, of the Small Business Administration as authorized by Public Law 106–554, including hire of passenger motor vehicles as authorized by 31 U.S.C. 1343 and 1344, and not to exceed \$3,500 for official reception and representation expenses, \$362,106,000: Provided, That the Administrator is authorized to charge fees to cover the cost of publications developed by the Small Business Administration, and certain loan servicing activities: Provided further, That, notwithstanding 31 U.S.C. 3302, revenues received from all such activities shall be credited to this account, to be available for carrying out these purposes without further appropriations: Provided further, That **\$88,000,000** shall be available to fund grants for performance in fiscal year **2003** or fiscal year **2004** as authorized by section 21 of the Small Business Act, as amended. In addition to amounts otherwise available from collections, 5 percent of such collections, not to exceed \$3,000,000, for qualified expenses of delinquent non-tax debt collection. (Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2002); additional authorizing legislation required.*

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**Salaries and Expenses Appropriation:**

The Salaries and Expenses (S&E) appropriation provides funding for non-credit programs and initiatives and for costs incurred by Headquarters and field staff in the administration and operation of SBA programs. Non-credit programs and initiatives include all SBA business assistance programs not related to loans, such as procurement assistance and business development assistance for women, minorities, and veterans and service-disabled veterans. They also include management and information technology initiatives that improve SBA's operations. Funding for administration and operation (hereafter referred to as the operating budget) pays for on-going personnel and support costs, including costs to support the administration and management of the non-credit programs. As such, the S&E account is instrumental in the achievement of SBA's performance goals to help small businesses succeed, assist disaster victims, and improve overall SBA management.

The FY 2003 President's Budget requests \$362.1 million in new budget authority for the S&E appropriation, an increase of \$23.6 million from the FY 2002 appropriated level. Of this amount, \$144.3 million is for non-credit programs (a reduction of \$32.7 million from the FY 2002 appropriation). For the operating budget, including fee income and transfers from the Business Loan appropriation and the Disaster Assistance appropriation for administrative expenses pursuant to the Federal Credit Reform Act of 1990, the request will provide \$364.5 million in total resources (an increase of \$61.1 million over FY 2002). A summary of the President's Request for Salaries and Expenses follows:

	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>Inc/(Dec)</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Request</b>	<b>vs FY 2002</b>
				<b>Estimate</b>
<b>Salaries and Expenses:</b>				
New Budget Authority	\$440,635	\$338,476	\$362,106	\$ 23,630
Transfer from Business Loans Program	129,216	129,130	134,030	4,900
Transfer from Disaster Loans Program	14,754	9,854	9,854	0
Transfers from Other Agencies	3,737	899	1,500	601
Offsetting Collections – Fees	3,348	3,000	3,000	0
Estimated Gainsharing	3,000	0	3,000	3,000
Carryover from Prior Fiscal Year	2,791	36,644	0	(36,644)
Recoveries	1,563	0	0	0
Returned to Treasury	(608)	0	0	0
Transfer to Other Accounts	(309)	0	0	0
Carryover into Next Fiscal Year	(36,644)	0	0	0
Rescinded Funds	(30,895)	0	0	0
Balance Expired	(2,408)	0	0	0
<b>Total Salaries and Expenses</b>	<b>\$528,180</b>	<b>\$518,003</b>	<b>\$513,490</b>	<b>(\$4,513)</b>

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***Non-Credit Programs and Initiatives (\$144.3 million)***

The FY 2003 request includes \$144.3 million for non-credit programs and initiatives. Of this amount, \$88 million is for the Small Business Development Centers to provide long-term counseling and training to small businesses throughout the country. The remaining funds will allow SBA to provide outreach and technical assistance to small businesses, especially women, veterans, and minorities, through programs such as 7(j), Microloan technical assistance, Women's Business Centers, and Veteran's Business Assistance. Other non-credit programs such as HUBZone Empowerment Contracting provide an advocate for small businesses in the government contracting area.

***Operating Budget (\$364.5 million)***

The total authority requested for SBA's operating budget is \$364.5 million, an increase of \$61.1 million from the FY 2002 enacted level. The FY 2002 appropriation did not sufficiently fund SBA's current services operating needs, causing employment levels to further decline and significant reductions in on-going activities and support services. The increase proposed will re-establish a sufficient level of resources to support current operations, including the maintenance of the FY 2002 yearend staffing level. The increase is primarily for the pension cost of SBA employees previously funded through OPM (\$13.9 million), the general salary pay raises of 3.6 percent in January 2003 (\$12.8 million), and for mandatory rate increases in rents, and other services that are passed directly to SBA by the General Services Administration, United States Postal Service (USPS) (\$8.5 million). In addition to funding on-going program administration and support, the operating budget account funds management and information technology initiatives to help transform SBA's workforce and modernize its infrastructure. The \$23.6 million increase is requested to upgrade systems, implement risk management techniques, improve internal controls, transition the workforce, and update technology infrastructure to help meet SBA's long-term goals; \$1.5 million is for the asset sales program financial advisor; and \$850,000 is for program evaluations.

The operating budget portion of the S&E appropriation funds five major types of costs: Program Support, Field Operations, Executive Direction, Management and Administration, and Agency-wide Costs. It does not include funding for disaster assistance direct expenses; these are covered under the Disaster Loan Appropriation. Descriptions of these major components of the operating budget follow.

***Program Support (\$54.2 million)***

Funding for program support activities covers the costs of providing government contracting assistance, business development assistance, training and outreach activities, and capital access programs. Most administrative expenses for non-credit programs are included in this group.

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Funding requirements reflect the needs of Headquarters offices as well as servicing centers that process loan guarantees and service SBA's portfolio.

***Field Offices (\$150.4 million)***

Funding for field offices covers the cost of operating 10 regional, 70 district, and multiple branch offices throughout the United States and Puerto Rico. The regional, district, and branch offices are the locations where SBA personnel interact with customers and deliver SBA's programs and activities to the Nation's 25 million small business customers.

***Executive Direction (\$34.4 million)***

Executive Direction offices are responsible for administratively supporting SBA's program offices. Requirements include policy analysis and support, financial management, legal representation, hearings and appeals, equal employment opportunity/civil rights compliance, congressional and public interface, marketing to SBA's constituency, and advocating the small business community within the governmental process. An estimate of the cost of Executive Direction is provided in the Performance Indicators and Resources Requested section of each goal.

***Management and Administration (\$38.4 million)***

Management and Administration offices are responsible for the formulation and execution of policies and procedures that maximize the utilization of SBA's primary internal resources, including human resources, information technology, and administrative services. An estimate of the cost of Management and Administration is provided in the Performance Indicators and Resources Requested section of each goal.

***Agency-wide Costs (\$87.0 million)***

Agency-wide costs comprise fixed expenses that the Agency must incur to support the annual level of program funding. These costs include telecommunications, postage, rent, worker's compensation, centralized training, in-house printing, transit benefits subsidy, and reasonable accommodation expenses. Estimates for Agency-wide costs are provided in the Performance Indicators and Resources Requested section of each goal. This category also includes a majority of the IT and modernization initiatives indicated above. This includes \$13.9 million for pension costs previously funded by the Office of Personnel Management.



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**BUSINESS LOANS PROGRAM ACCOUNT**

*For the cost of direct loans, \$3,726,000 to be available until expended; and for the cost of guaranteed loans, \$85,360,000 as authorized by 15 U.S.C. 631 note, of which \$45,000,000 shall remain available until September 30, 2004: Provided, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974, as amended: Provided further, That during fiscal year 2003 commitments to guarantee loans under section 503 of the Small Business Investment Act of 1958, as amended, shall not exceed \$4,500,000,000, as provided under section 20(h)(1)(B)(ii) of the Small Business Act: Provided further, That during fiscal year 2003 commitments to guarantee loans for debentures and participating securities under section 303(b) of the Small Business Investment Act of 1958, as amended, shall not exceed the levels established by section 20(i)(1)(C) of the Small Business Act.*

*In addition, for administrative expenses to carry out the direct and guaranteed loan programs, \$133,769,000, which may be transferred to and merged with the appropriations for Salaries and Expenses. (Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2002); additional authorizing legislation required.*

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### **Business Loan Program Appropriation**

The Business Loan Program appropriation includes the funds to cover the taxpayer's cost of providing direct and guaranteed loans to new and existing small businesses throughout the United States. Financing to small businesses is made either directly or in cooperation with banks or other financial institutions through agreements to participate on a deferred (guaranteed) basis, or through approved Microloan intermediaries. Through its business loan programs, SBA provides capital, credit and equity assistance to help develop and strengthen America's small businesses and contribute to the country's economy.

As required by the Federal Credit Reform Act of 1990 (FCRA), the Business Loans program account includes the subsidy costs associated with direct loans obligated and loan guaranties committed in the fiscal year in question.

The Business Loans program account also includes administrative expenses associated with the delivery of business loan programs. Subsidy amounts are estimated on a present value basis, and administrative expenses are estimated on a cash basis. Funds for administrative expenses are appropriated to this account and then transferred to the Salaries and Expenses account to be obligated and outlayed in that account.

The FY 2003 budget requests \$3.7 million for the subsidy costs associated with microloan direct loans, \$85.4 for the subsidy costs associated with 7(a) guaranteed loans, supporting and a total program level of \$16.4 billion in "net" loan approvals to small businesses during FY 2003. These approvals include the effect of loan increases, decreases, and cancellations. The balance of the programs within this account do not require an appropriation due to the sufficiency of various fees resulting in no subsidy cost to the government. In addition to credit subsidy costs, the budget requests \$133.8 million for administrative expenses to be transferred to the Salaries and Expenses account. This amount includes \$4.8 million for pension costs previously funded by the Office of Personnel Management.

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**Business Loans Program Appropriation**

*(Dollars in Thousands)*

	<b>FY 2001 Actual</b>	<b>FY 2002 Estimate</b>	<b>FY 2003 Request</b>	<b>Inc/(Dec) vs FY 2002 Estimate</b>
<b>New Budget Authority</b>				
Section 7(a) Guaranty	\$114,960	\$153,000	\$85,360	(\$67,640)
Section 7(a) Guaranty - DELTA	0	0	0	0
Y2K Loans <sup>1</sup>	0	0	0	0
Section 504 CDC Guaranty	0	0	0	0
Section 504 CDC Guaranty - DELTA	0	0	0	0
Microloan - Direct	2,250	1,860	3,726	1,866
Microloan - Guaranty	0	0	0	0
New Market Venture Capital	22,000	0	0	0
SBIC - Participating Securities	26,200	0	0	0
SBIC - Debentures	0	0	0	0
Rescinded Funds - Appropriation	(364)	0	0	0
Subtotal - Loan Programs	165,046	154,860	89,086	(65,774)
<b>Administrative Expense</b>				
New Budget Authority	129,000	129,000	133,769	4,769
Rescinded Funds - Appropriation	(284)	0	0	0
Subtotal – Administrative Expense	128,716	129,000	133,769	4,769
<b>Total New Budget Authority</b>	<b>\$293,762</b>	<b>\$283,860</b>	<b>\$222,855</b>	<b>(\$61,005)</b>
<b>Business Loans - Summary</b>				
Program Level	\$14,019,430	\$24,545,542	\$16,401,053	(\$8,144,489)
New Appropriation	\$294,410	\$283,860	\$222,855	(\$61,005)
Carryover from Prior Fiscal Year	24,719	54,399	4,342	(50,057)
Carryover into Next Fiscal Year	(54,399)	(4,342)	(3,850)	492
Transfer to Other Accounts	(129,216)	(129,130)	(134,030)	(4,900)
Recoveries	1,242	0	0	0
Balance Expired	0	0	0	0
Transfer from Other Accounts	1,100	0	0	0
Rescinded Funds - Appropriation	(648)	(5,500)	0	5,500
Subsidy Budget Authority	\$137,208	\$199,287	\$89,317	(\$109,970)

<sup>1</sup> Program authority expired 12/31/00.

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**Section 7(A) Loan Guaranty Program**

*(Dollars in Thousands)*

	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>Inc/(Dec)</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Request</b>	<b>vs FY 2002</b>
				<b>Estimate</b>
Regular Program Level	\$9,121,709	\$9,352,804	\$4,850,000	(\$8,993,822)
Emergency Program Level	0	4,491,018	0	(4,491,018)
New Subsidy Appropriation	114,960	153,000	85,360	(67,640)
Carryover Balance - Beginning of Year	12,924	22,075	0	(22,075)
Recoveries	1,169	0	0	0
Carryover Balance - End of Year	(22,075)	0	0	0
Transfer from Other Accounts	0	0	0	0
Rescinded Funds - Appropriation	(253)	0	0	0
Subsidy Budget Authority	\$106,724	\$175,075	\$85,360	(\$89,715)
Subsidy Rate <sup>1</sup>	1.17%	1.07% & 1.67%	1.76%	.69%

1. Subsidy rate for FY 2002 regular program = 1.07%; emergency program rate = 1.67%.

<sup>1</sup> FY 2001: The Authorization Bill included changes that lowered the rate to 1.16 percent effective December 21, 2000. The rate was 1.24 percent from October 1, 2000 to December 21, 2000.  
FY 2002: Current Services rate is 1.07 percent. Passage of Defense Bill P.L. 107-117, increases rate to 1.67 percent for supplemental funds in response to September 11 events. For FY 2003, passage of P.L.107-100 changes fee structure and increases rate from .88 percent current services rate to 1.76 percent.

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**Section 7(A) Loan Guaranty Program (DELTA)**  
*(Dollars in Thousands)*

	<b>FY 2001 Actual</b>	<b>FY 2002 Estimate</b>	<b>FY 2003 Request</b>	<b>Inc/(Dec) vs FY 2002 Estimate</b>
Program Level	\$1,711	\$20,000	\$20,000	\$0
New Subsidy Appropriation	0	0	0	0
Carryover Balance – Beginning of Year	4,511	4,479	2,133	(2,346)
Carryover Balance - End of Year	(4,479)	(2,133)	(1,831)	302
Rescinded Funds-Non Appropriated	0	(2,000)	0	2,000
Subsidy Budget Authority	\$32	\$346	\$302	(\$44)
Subsidy Rate	1.87%	1.73%	1.51%	(.22%)

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**Section 504 Development Company Loan Program**  
*(Dollars in Thousands)*

	<b>FY 2001 Actual</b>	<b>FY 2002 Estimate</b>	<b>FY 2003 Request</b>	<b>Inc/(Dec) vs FY 2002 Estimate</b>
<b>Section 504/CDC Guarantees</b>				
Program Level	\$2,268,758	\$4,500,000	\$4,500,000	\$0
New Subsidy Appropriation	0	0	0	0
Carryover Balance - Beginning of Year	0	0	0	0
Recoveries	0	0	0	0
Carryover Balance - End of Year	0	0	0	0
Transfer to Salaries and Expenses	0	0	0	0
Subsidy Budget Authority	0	0	0	0
Subsidy Rate <sup>1</sup>	0.00%	0.00%	0.00%	0
<b>Section 504/CDC Guarantees (DELTA)</b>				
Program Level	\$0	\$2,500	\$2,500	\$0
New Subsidy Appropriation	0	0	0	0
Carryover Balance - Beginning of Year	1,028	1,047	526	(521)
Recoveries	0	0	0	0
Carryover Balance - End of Year	(1,037)	(526)	(504)	22
Rescinded Funds-Not Appropriated	0	(500)	0	500
Subsidy Budget Authority	\$0	\$21	\$22	\$ 1
Subsidy Rate	.89%	.84%	.88%	.04%

<sup>1</sup> No appropriation is required due to the annual adjustment of fees to maintain a 0 percent subsidy rate. For FY 2002, the fee will be lowered from 0.472 percent to 0.410 percent. For FY 2003, the current services rate is 0 percent with a fee increase from .410 percent to .425 percent. However, with the passage of P.L. 107-100, the fees would be lowered thereby increasing the subsidy rate to 3.72%.

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**Microloan Program**

*(Dollars in Thousands)*

	<b>FY 2001 Actual</b>	<b>FY 2002 Estimate</b>	<b>FY 2003 Request</b>	<b>Inc/(Dec) vs FY 2002 Estimate</b>
<b>Microloan Direct</b>				
Program Level	\$29,810	\$25,513	\$26,553	\$1,040
New Subsidy Appropriation	2,250	1,860	3,726	1,866
Carryover from Prior Year	198	0	0	0
Recoveries	0	0	0	0
Carryover into Next Year	0	0	0	0
Transfer to Salaries and Expenses <sup>1</sup>	0	(130)	(261)	(131)
Transfer from Other Accounts	225	0	0	0
Rescinded Funds - Appropriation	(5)	0	0	0
Subsidy Budget Authority	2,668	1,730	3,465	1,735
Subsidy Rate	8.95%	6.78%	13.05%	6.27%
<b>Microloan Guaranty Loans</b>				
Program Level	\$2,000	\$2,000	\$2,000	\$0
New Subsidy Appropriation	0	0	0	0
Carryover from Prior	2,604	2,445	782	(1,663)
Recoveries	0	0	0	0
Carryover into Next Year	(2,445)	(782)	(614)	168
Rescinded Funds-Not Appropriated	0	(1,500)	0	1,500
Subsidy Budget Authority	\$159	\$163	\$168	\$5
Subsidy Rate	7.95%	8.17%	8.42%	.25%

<sup>1</sup> By SBA statute, 7 percent of the annual appropriation may be transferred to Salaries and Expenses to provide training to Microloan intermediaries.

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APPROPRIATIONS LANGUAGE AND DESCRIPTION

**Small Business Investment Company Programs**  
*(Dollars in Thousands)*

	<b>FY 2001 Actual</b>	<b>FY 2002 Estimate</b>	<b>FY 2003 Request</b>	<b>Inc/(Dec) vs FY 2002 Estimate</b>
<b>Participating Securities</b>				
Program Level	\$2,108,702	\$3,500,000	\$4,000,000	\$500,000
New Subsidy Appropriation	26,200	0	0	0
Carryover Balance - Beginning of Year	1,928	0	0	0
Recoveries	54	0	0	0
Carryover Balance - End of Year	0	0	0	0
Transfer from Others	0	0	0	0
Rescinded Funds – Appropriation	(58)	0	0	0
Transfer to Others	(500)	0	0	0
Subsidy Budget Authority	27,624	0	0	0
Subsidy Rate <sup>1</sup>	1.31%	0.00%	0.00%	0
<b>SBIC – Debentures</b>				
Program Level	\$486,714	\$2,500,000	\$3,000,000	\$500,000
New Subsidy Appropriation	0	0	0	0
Carryover Balance - Beginning of Year	1,526	2,401	901	(1,500)
Recoveries	0	0	0	0
Carryover Balance - End of Year	(2,401)	(901)	0	901
Transferred from Others	875	0	0	0
Balance Expiring	0	0	0	0
Rescinded-Not Appropriated	0	(1,500)	0	1,500
Subsidy Budget Authority	\$ 0	\$ 0	\$ 0	0
Subsidy Rate <sup>2</sup>	0.00%	0.00%	0.00%	0.00%

<sup>1</sup> FY 2002 assumes proposed fee change from 1.0 percent to 1.376 percent resulting in a 0 percent subsidy rate. FY 2003 lowers fee to 1.311 percent to retain 0 percent subsidy.

<sup>2</sup> No appropriation is required due to the annual adjustment of fees to maintain a 0 percent subsidy rate. For FY 2002, the fee will be lowered from 0.88 percent to 0.866. For FY 2003, the fee will be raised from .866 percent to .887 percent.



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**New Markets Venture Capital Program**  
*(Dollars in Thousands)*

	<b>FY 2001 Actual</b>	<b>FY 2002 Estimate</b>	<b>FY 2003 Request</b>	<b>Inc/(Dec) vs FY 2002 Estimate</b>
Program Level	\$0	\$151,707	\$0	(\$151,707)
New Subsidy Appropriation	22,000	0	0	0
Carryover Balance - Beginning of Year	0	21,952	0	(21,952)
Recoveries	0	0	0	0
Carryover Balance - End of Year	(21,952)	0	0	0
Transfer to Other Accounts	0	0	0	0
Rescinded Funds - Appropriation	(48)	0	0	0
Transfer to Salaries and Expenses	0	0	0	0
Subsidy Budget Authority	\$ 0	\$ 21,952	\$ 0	(\$21,952)
Subsidy Rate	14.44%	14.47%	15.46%	

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**SURETY BOND GUARANTEES REVOLVING FUND**  
*No appropriation language is requested for FY 2003*

**Surety Bond Guaranty Revolving Fund Appropriation**  
*(Dollars in thousands)*

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
Surety Guarantees	\$248,902	\$1,672,000	\$1,672,000	\$0
Total Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Total Obligation				
Adjustments to Obligations				
Offsetting collections				
Appropriation	\$ 0	\$ 0	\$ 0	\$ 0

APPROPRIATIONS LANGUAGE AND DESCRIPTION

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**DISASTER LOANS PROGRAM ACCOUNT**

*For the cost of direct loans authorized by section 7(b) of the Small Business Act, as amended, \$87,360,000, **\$76,140,000** to remain available until expended: Provided, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974, as amended.*

*For administrative expenses to carry out the direct loan program, **\$122,141,000** which may be transferred to and merged with appropriations for Salaries and Expenses, of which \$500,000 is for the Office of Inspector General of the Small Business Administration for audits and reviews of disaster loans and the disaster loan program and shall be transferred to and merged with appropriations for the Office of Inspector General; of which **\$111,787,000** is for direct administrative expenses of loan making and servicing to carry out the direct loan program; and of which \$9,854,000 is for indirect administrative expenses. (Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2002.)*

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The FY 2003 budget requests \$76.1 million in appropriations, coupled with \$25.0 million carried-forward from FY 2002, plus \$10.0 million in new recoveries to support \$795 million in loans (the five-year average). In addition, an administrative appropriation of \$122.1 million is requested to support direct and indirect loan making and direct loan servicing expenses. This amount includes \$3.8 million for pension costs previously funded through OPM.

**Disaster Loan Program**

*(Dollars in Thousands)*

	<b>FY 2001 Actual</b>	<b>FY 2002 Estimate</b>	<b>FY 2003 Request</b>	<b>Inc/(Dec) vs FY 2002 Estimate</b>
Disaster Loans Program				
Direct Loan Subsidy	\$76,140	\$87,360	\$76,140	(\$11,220)
Supplemental, Contingencies	60,000	75,000	0	(75,000)
Total Budget Authority	\$136,140	\$162,360	\$76,140	(\$86,220)
Loan Program Budget Authority				
New Budget Authority	\$76,140	\$87,360	\$76,140	(\$11,220)
Supplemental, Contingencies	60,000	75,000	0	(75,000)
Carryover from Prior Fiscal Year	96,231	90,603	25,000	(65,607)
Recoveries	11,013	10,000	10,000	0
Carryover into Next Fiscal Year	(90,603)	(25,000)	0	25,000
Transfer to Administrative Expense	0	0	0	0
Rescinded Funds Appropriated	(168)	0	0	0
Subtotal - Disaster Loans Program	\$152,613	\$237,963	\$111,140	(\$126,827)
Subsidy Rate	14.46%	14.67% <sup>1</sup>	13.98%	(.69%)
Program Level	\$874,074	\$1,299,756 <sup>2</sup>	\$794,993	(\$314,053)
Disaster Loans Program – Administration				
New Budget Authority	\$108,354	\$122,354	\$122,141	(\$213)
Supplemental, Contingencies	40,000	0	0	0
Carryover from Prior Fiscal Year	27,307	42,989	0	(42,989)
Transfer from Loan Subsidy & others	387	0	0	0
Recoveries	0	0	0	0
Carryover into Next Fiscal Year	(42,989)	0	0	0
Transfer to Salaries and Expenses	(14,754)	(9,854)	(9,854)	0
Transfer to Inspector General	(500)	(500)	(500)	0
Rescinded Funds Appropriated	(596)	0	0	0
Total - Disaster Administration	\$117,209	\$154,989	\$111,787	(\$43,202)
Disaster Loan Making	\$88,190	\$124,933	\$81,093	(\$43,840)
Disaster Loan Servicing	29,019	30,056	30,694	638
Total	\$117,209	\$154,989	\$111,787	(\$43,202)

<sup>1</sup> FY 2002 Current services rate is 14.67 percent. With passage of Defense Bill and supplemental, rate increases to 23.16 percent for impacted loans.

<sup>2</sup> Program level for regular disaster program is \$742.8 million; for the “emergency” disaster program, it is \$557 million.

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**Disaster Loan Making**  
**Summary of Requirements By Object Class**  
*(Dollars in Thousands)*

	<b>FY 2001 Actual</b>	<b>FY 2002 Estimate</b>	<b>FY 2003 Request</b>	<b>Inc/(Dec) vs FY 2002 Estimate</b>
Personnel Compensation	\$37,135	\$64,852	\$38,785	(\$26,067)
Overtime and Awards	9,811	10,179	6,355	(3,824)
Civilian Personnel Benefits	9,245	16,145	12,749	(3,396)
Workers/Unempl Compensation	1,432	1,853	1,157	(696)
Travel	16,241	16,728	12,241	(4,488)
Transportation of Things	47	67	42	(25)
Rental Payments to GSA	4,295	4,497	4,632	135
Rental Payments to Others	82	116	72	(44)
Communications, Utilities	1,432	1,475	1,253	(222)
Postage	644	913	570	(343)
Printing and Reproduction	33	47	35	(12)
Other Services	6,254	6,474	2,212	(4,263)
Supplies and Materials	4	6	4	(2)
Equipment	1,529	1,575	984	(592)
Penalties	5	6	4	(2)
<b>Total Obligations</b>	<b>\$88,190</b>	<b>\$124,933</b>	<b>\$81,093</b>	<b>(\$43,840)</b>
<b>Total Positions</b>	<b>1,106</b>	<b>1,862</b>	<b>1,078</b>	<b>(784)</b>

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**Disaster Loan Servicing**  
**Summary of Requirements by Object Class**  
*(Dollars in Thousands)*

	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>Inc/(Dec)</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Request</b>	<b>vs FY 2002</b>
				<b>Estimate</b>
Personnel Compensation	\$10,594	\$10,992	\$11,363	(\$371)
Overtime and Awards	273	283	292	10
Civilian Personnel Benefits	3,145	3,263	4,067	804
Workers/Unempl Compensation	36	188	194	6
Travel	34	35	36	1
Transportation of Things	16	17	17	0
Rental Payments to GSA	2,860	2,991	3,081	90
Rental Payments to Others	0	0	0	0
Communications and Utilities	421	434	447	13
Postage	1,621	1,670	1,720	50
Printing and Reproduction	0	0	0	0
Other Services	9,885	10,046	9,336	(711)
Supplies and Materials	15	16	16	0
Equipment	111	114	117	3
Penalties	8	8	8	0
<b>Total Obligations</b>	<b>\$29,019</b>	<b>\$30,056</b>	<b>\$30,694</b>	<b>\$638</b>
<b>Total Positions</b>	<b>222</b>	<b>222</b>	<b>222</b>	<b>0</b>

APPROPRIATIONS LANGUAGE AND DESCRIPTION

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## Office of the Inspector General

*For necessary expenses of the Office of Inspector General in carrying out the provisions of the Inspector General Act of 1978, as amended (5U.S.C. App.), \$15,011,000. (Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2002;) additional authorizing legislation required.*

### Office of Inspector General Appropriation:

The Office of Inspector General (OIG) appropriation provides funding for costs incurred by Headquarters and field staff in the administration and operation of their programs. The FY 2003 President's Budget requests \$15.0 million in new budget authority for OIG appropriation, an increase of \$3.5 million from the FY 2002 appropriated level. \$500,000 of this increase is for employee pension costs previously paid by the Office of Personnel Management. Additional justification for the remaining increase is contained in the section on the Office of Inspector General. A summary of the President's Request for the OIG is as follows:

	FY 2001 Actual	FY 2002 Estimate	FY 2003 Request	Inc/(Dec) vs FY 2002 Estimate
<b>Salaries and Expenses:</b>				
New Budget Authority	\$11,953	\$11,464	\$15,011	\$ 3,547
Transfer from Disaster Loans Program	500	500	500	0
Carryover from Prior Fiscal Year	515	494	0	(494)
Recoveries	2	0	0	0
Carryover into Next Fiscal Year	(494)	0	0	0
Rescinded Funds	(26)	0	0	0
Balance Expired	(82)	0	0	0
<b>Total IG</b>	<b>\$12,368</b>	<b>\$12,458</b>	<b>\$15,511</b>	<b>\$3,053</b>

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**OFFICE OF INSPECTOR GENERAL  
MANAGEMENT CHALLENGES**

## **Office of Inspector General Management Challenges**

The OIG report discusses a total of 83 actions to address the ten management challenges in the Agency. These actions are categorized as (1) implemented, (2) progress being made, and (3) not implemented/no substantial progress. This section includes the OIG's summary of the management challenges and actions taken. Under each challenge, SBA identifies proposed actions to address the OIG's actions categorized as (3) not implemented/no substantial progress. For more information see Office of Inspector General report, FY 2002 Agency Management Challenges (No. 2-02).

### **Challenge 1. SBA needs to improve its managing for results processes and performance data.**

**Summary** SBA needs to develop effective outcome measures, ensure that its performance data are accurate and reliable, and establish systems to manage for results. The Agency has taken steps to identify additional program outcomes, improve performance measures, and increase the accuracy of its data. SBA still needs to secure Agency support for guidance issued in July 2001 for preparing more effective performance goals and indicators, and ensuring that standards and procedures for data verification, validation, client surveys, and other methods to obtain outcome information are fully implemented.

#### **Action Taken**

- The Agency published Guidelines for Performance Indicators and Data Quality on July 20, 2001. The guidance provides SBA program managers with a context and logical framework for developing useful performance goals and measures. The guidance discusses the balanced score card and the importance of addressing the cost of delivering services.
- SBA has issued the final guidance on how to count clients served and client counseling and training sessions. In another effort, the University of Michigan surveyed clients of the Service Corps of Retired Executives, and Women's Business Centers, while Business Information Centers have conducted their own annual client survey.
- The Office of Disaster Assistance has developed a standard definition of effective field presence and issued this guidance to field staff to ensure consistent application.
- SBA has indicated it has conducted risk assessment sessions using the COSO internal control framework throughout SBA and that all offices have completed the internal control checklist and other assessment efforts.

#### **Actions to be Taken**

- Produce Strategic Plan in FY 2002 for the FY 2003- FY 2007 period.

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- Conduct training on performance measurement, development of indicators, and data quality to middle and senior personnel to be completed during FY 2002.

**Challenge 2. SBA faces significant challenges in modernizing its major loan monitoring and financial management systems.**

**Summary** SBA implemented the Joint Accounting and Administrative Management System (JAAMS) on October 9, 2001. JAAMS is a software acquisition project intended to improve SBA's financial management systems. The previous accounting and financial management system used by SBA was becoming obsolete, and the service provider was planning to shut down the system. SBA had plans to modernize and update its loan information system—Loan Monitoring System (LMS). LMS was initially planned to include a new loan financial tracking system as a replacement to SBA's Loan Accounting System, as well as a loan monitoring, portfolio analysis, and lender oversight system. LMS is on hold awaiting decisions on its future. SBA has made some progress, but needs to formulate and implement sound procedures for system development and software acquisition for all its systems under development.

**Action Taken**

- SBA has taken steps to strengthen and institutionalize its “Information Technology (IT) Planning and Investment Control Process,” to improve selection and control of IT projects in a portfolio environment, and to improve formulation of the IT budget. This should help the Agency meet the requirements of the Clinger-Cohen Information Technology Management Reform Act.
- To address past criticisms and help support its strategic goals, OCIO recently developed and has started implementing SDM. SDM is a set of procedures and quality controls intended to reduce risks in the development of new information systems and ensure that new systems function as intended by owners and stakeholders. SDM needs to be codified in an SBA SOP.
- The Agency has completed an IT architecture document and established procedures for its maintenance. The IT architecture document needs to be codified in an SBA SOP.
- SBA has developed configuration management procedures. However, these procedures need to be codified in an SBA SOP.

**Actions to be Taken**

- Institutionalize and enforce agency-wide use of SBA's Systems Development Methodology (SDM) implemented by end of FY 2003.
- Define procedures for proper evaluation of prototype software and documentation before the prototypes will be implemented by end of FY 2003.

### **Challenge 3. Information systems security needs improvement.**

**Summary** SBA operations depend heavily on the Agency's information systems, and the security of those systems is critical. The Agency has made a substantial commitment of resources for enhancing computer security, providing technical staff support, and developing security training. SBA needs to fully implement its Agencywide systems security program to include assessing risks, establishing and updating policies and controls, promoting awareness, and evaluating security effectiveness.

#### **Action Taken**

- Eliminated the "Material Weakness" finding in computer security in FY 2001.
- Committed over \$1.2 million in personnel and contract support to enhance the Agency's computer security program.
- Issued an updated computer security policy document that incorporated security policies covering the latest Agency technology, including client servers, e-mail, and the Internet.
- Documented the computer security program and produced guidance documents and templates for the performance of computer security functions within the Agency.
- Completed Certification and Accreditation reviews for 38 of the most sensitive systems.
- Developed a security training program.
- Continued work on developing critical infrastructure protection and security plans required by PDDs 63 and 67.

#### **Actions to be Taken**

- The CIO will complete a formalized management control process to act on risks identified from risk assessments including a schedule to correct identified deficiencies, dates for completion, and funding requirements by end of FY 2002.
- The CIO will develop a program to perform Security Test & Evaluation (ST&E) reviews on all of SBA's high-priority computer systems by end of FY 2002.

### **Challenge 4. Maximizing program performance requires that SBA fully develop and implement its human capital management strategies.**

**Summary** The nature and scope of SBA's work has changed significantly, requiring a different set of skills in the Agency's workforce. SBA has begun to take the steps necessary to better manage its human capital activities, but needs to do more. The Agency must define what the

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future SBA will look like. The Office of Human Resources, in partnership with the program and district offices, should then develop a comprehensive human capital strategy that will identify SBA's current and future human capital needs, including the size of the workforce and skill gaps; its deployment across the organization; the knowledge, skills, and abilities needed for the Agency to pursue its missions; and an effective succession planning process.

**Action Taken**

- SBA has indicated that it will establish a steering committee “to reposition the Agency to allow it to be more responsive to its target market.”
- Completed a workload and staffing analysis of Headquarters.
- Developed competency models for Marketing & Outreach Specialists, Public Information Officers, Lender Oversight and Business Development, and adopted a leadership competency model. With the exception of Business Development, training has begun with the other competencies. A draft program for procurement occupations has been developed.
- To estimate the number of employees in need of skills training, and based on projections that shifts in SBA's human capital needs will likely result in a need for fewer employees, but more personnel with new technology skills, SBA is using: (a) “gap analysis” to compare the skill sets that SBA employees currently possess to the competency models developed; (b) interviews with Associate Deputy Administrators regarding their vision for the future of their organizations; and (c) surveys such as the FY 2000 Agencywide training assessment survey.
- Initiated two developmental programs for succession planning: the Senior Executive Service Candidate Development Program (SESCDP) and the District Director Candidate Development Program.
- Continued to monitor the developmental progress of the 1998 Presidential Management Interns (PMI), most of whom have graduated, and hired a PMI for the Office of Capital Access.
- Shifted the training focus slightly from emerging functions to fundamental skills training, such as the core skills for carrying out the Agency's mission—business basics and leadership.
- More than 135 senior managers and 165 mid-level managers have received leadership training thus far.
- SBA offers courses in Practical Personnel Solutions for managing human resources; business basics courses in Commercial Credit Analysis, Advanced Commercial Credit Analysis, Resolution of Problem Commercial Credits, Advanced Resolution of Problem Commercial

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Credits, Train the Trainer, and Marketing and Outreach; and courses for SBDC Project Officers and Contracting Officers Technical Representatives.

- In the area of personnel and administrative basics, training is being offered for Administrative Officers and in retirement planning.
- SBA is in the process of developing technology-based training systems to enhance the delivery of skills training using “on-demand,” web-based delivery. With sufficient funding, SBA plans to use distance learning techniques.

**Actions to be Taken**

- Develop and implement a comprehensive human capital strategy that encompasses human capital policies, programs, and practices to guide the Agency and that is linked to SBA's strategic goals, includes major human capital objectives, identifies the milestones and resources needed to implement the strategy, and establishes results-oriented performance measures for human capital objectives in FY 2002.
- Develop a comprehensive succession planning process and plan in FY 2002.
- Develop a recruitment, retention, and development plan for lower and middle levels which has explicit links to skill needs identified by the Agency in FY 2002.

**Challenge 5. SBA needs better controls over the business loan purchase process.**

**Summary** OIG audits have shown that SBA field offices do not consistently follow Agency requirements when purchasing guarantees from lenders after loan defaults, resulting in purchases that may not be justified and unnecessary expenditures for the Agency. In response to this concern, SBA reports that it has instituted a guaranty purchase review (GPR) process, implemented a guaranty repair tracking system, established an early warning system, and is in the process of improving procedures and training. The Agency needs to ensure that the guaranty is denied or reduced when a lender fails to comply with SBA requirements by continuing to update and implement changes to improve the guaranty purchase process based on the results of the guaranty purchase reviews. Responsibility for taking actions to improve the purchase process is shared by the Office of Financial Assistance (OFA) and the Office of Field Operations (OFO) with the assistance of the Office of General Counsel.

**Action Taken**

- The GPR was instituted in FY 2000 as a means to improve the guaranty purchase process. Since GPR's initiation, SBA has reviewed approximately 300 guaranty loan purchase decisions in FYs 2000 and 2001. Of the 300 loans reviewed, 48 purchase decisions were questioned and forwarded to OFA for final determination on whether OFA agrees with the GPR teams or the field offices. While the GPR efforts should help improve the guaranty purchase process, a current OIG review has identified potential weaknesses in the areas of:

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training for individuals reviewing guaranty purchases; sample selection; flagging loans with potential problems in the Guaranty Repair Tracking System and the Delinquent Loan Collection System; distributing reports from the Guaranty Repair Tracking System; review limitations; Standard Operating Procedure guidance; and tracking GPR results.

**Actions to be Taken**

- SBA is complying with OMB circular A-11, section 11. SBA has estimated the level of improper payments for the 7(a) loan portfolio and the SBIC program. SBA will develop estimates of improper payments for the 504 loan program by the Fall of FY 2002.
- SBA will establish goals for reducing improper guaranty purchases by end of FY 2002.
- SBA will improve guidance and provide training for documentation needed to make purchase decisions by end of FY 2002 including developing a system for sharing information among field offices.

**Challenge 6. SBA needs to continue improving lender oversight.**

**Summary** An effective lender oversight program is critical for ensuring lender activities serve Agency objectives and comply with all rules and procedures. The Agency established an Office of Lender Oversight (OLO); completed the third-cycle Preferred Lender Program (PLP) reviews; started the fourth-cycle of PLP reviews, initiated reviews of selected non-PLP lenders; completed the third cycle of safety and soundness examinations of the non-depository Small Business Lending Companies (SBLC); and implemented a review process that ensures all lenders are reviewed periodically and consistently. Congress stopped additional funding and froze existing funds available for the development of a loan monitoring system because of significant changes in scope and dramatic cost increases in the systems modernization initiative. To have an effective oversight program, the Agency needs to develop and implement the loan monitoring system.

**Actions Taken**

- The Agency has made some progress toward implementing an effective oversight program, and additional improvements are in process. However, significant improvements need to be made to ensure consistent and appropriate oversight of SBA's lending partners and to assess risk in SBA's portfolio. We used the Federal internal control model to assess the progress made and to determine whether additional improvements are needed for the three most significant credit programs. Our review showed progress in the areas of risk identification and communications, and mixed results in the areas of control environment, policies and procedures, and monitoring.

**Actions to be Taken**

- Update and revise OLO Strategic Plan incorporating specific provisions and related implementation plans for issues raised by the IG in the area of 7(a) and 504 lenders and

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SBICs. Among other things, the plan will address risk identification, communications, the control environment, policies and procedures, and monitoring. (September 30, 2002)

- Redesign, test and implement a lender review process for 7(a) and 504 lenders that considers operational, financial and compliance risk. (September 30, 2003)
- Conduct studies of SBA's loan programs to identify drivers of performance and other risk characteristics. (Timing dependent upon implementation of lender oversight/risk management characteristics of LMS.)

**Challenge 7. More participating companies need access to business development and contracts in the Section 8(a) Business Development program.**

**Summary** The Agency needs to give greater emphasis to business development assistance and ensure a more equitable distribution of contracting opportunities to program participants. The bulk of the dollar value of Section 8(a) Business Development (BD) contracts goes to a relatively small number of companies in the program.

**Action Taken**

- Management has drafted a proposal to redesign the Section 8(a) BD Program. It is waiting the Administrator's review. According to program officials, it will refocus the Section 8(a) BD Program's efforts and resources on business development activities and will coordinate the delivery of other SBA counseling, training, and technical assistance services to Section 8(a) BD participants.

**Actions to be Taken**

- Assign senior staff from the Offices of Business Development, Inspector General, General Counsel, and Advocacy to develop a plan to refocus the program by September 30, 2002.
- The above plan will address criteria for "business success".
- The above plan will address program graduation criteria.
- The above plan will address the business development assistance provided to firms.

**Challenge 8. SBA needs clearer standards to determine economic disadvantage.**

**Summary** New standards for determining economic disadvantage should be established to effectively measure diminished capital and credit opportunities—the definition included in the law. The Agency should (1) redefine "economic disadvantage" using objective, quantitative, qualitative, and other criteria that effectively measure capital and credit opportunities; and (2) provide sufficient training to SBA staff responsible for evaluating companies.



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**Action Taken**

- Management has agreed to develop appropriate guidance for SBA employees. This guidance will require a more in-depth review of economic disadvantage factors for Section 8(a) BD owners once certain conditions are met and detail what must be reviewed in these instances. In developing this guidance, Agency officials will determine whether SBA will need to seek statutory changes to ensure that SBA can effectively determine economic disadvantage. The Deputy Associate Deputy Administrator for Government Contracting/Business Development stated that by March 31, 2002, the guidance should be issued and the decision made whether to seek statutory changes that may be deemed to be required.

**Actions to be Taken**

- Senior staff from the Offices of Business Development, Inspector General, General Counsel, and Advocacy will develop a plan to address economic disadvantage to be completed by March 31, 2002.
- The above plan, which will address training, will be implemented by January 31, 2003.

**Challenge 9. SBA needs to clarify its rules intended to deter Section 8(a) Business Development participants from passing through procurement activity to non-Section 8(a) Business Development firms.**

**Summary** SBA's rules, while restricting the amount of a contract that a Section 8(a) Business Development (BD) firm may pass through to a non-Section 8(a) firm, allow many non-participating companies to receive substantial financial benefit. SBA intends to include value-added resellers as a legitimate industry under the North American Industry Classification System. SBA needs to tighten the definition of "manufacturing" to preclude the pass-through practice of making only minor modifications to the products of other manufacturers.

**Actions Taken**

- The Office of Government Contracting/Business Development (GC/BD) has put into clearance a proposed rule to establish an industry category and size standard for Information Technology (IT) Value Added Resellers. This action will ensure that small businesses supplying IT products to the Federal Government as nonmanufacturers will perform significant value added services of at least 15 percent of total contract value or supply the product of a small manufacturer. Implementation of this rule will not tighten the definition of "manufacturing," but will allow nonmanufacturing companies to be classified as Value Added Resellers.
- Additionally, GC/BD has agreed to review the existing regulations and minimize the subjectivity in the manufacturing criteria.

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**Action to be Taken**

- The Office of GC/BD has developed and will propose for comment a rule to establish a size standard for Information Technology Value Added Resellers. This will be published in the Federal Register by September 30, 2002.

**Challenge 10. Preventing loan fraud requires additional measures, including new regulations and funding.**

**Summary** OIG studies have demonstrated that fraud in the business loan program could be reduced by obtaining criminal background information on prospective borrowers and on loan packagers and other for-fee agents. Specific statutory authority exists to perform background checks on prospective borrowers. OIG believes that the statutory framework already exists for SBA to require background checks of loan packagers and other for-fee agents.

**Actions Taken**

- In FY 2001, SBA submitted a legislative proposal specifically to authorize criminal background checks of loan agents; require loan agents and prospective borrowers to provide personal identifiers (including Social Security Numbers) needed by the National Crime Information Center (NCIC) database operated by the FBI; and mandate the use of the NCIC. The Senate Small Business Committee voted to include the proposal in SBA's Reauthorization Bill for FY 2001. The conference committee, however, adopted the House version that did not contain the proposal.
- SBA continues to work on establishing a loan agent tracking system that is tied to the development of a Partner Information Management System (PIMS). PIMS is to be incorporated into the Loan Monitoring System (LMS). The first phase of PIMS was completed on June 30, 2000. SBA Form 159, which contains information on loan agents, was being revised to clarify the requirements for agents to notify SBA of their loan participation. In view of the need for new regulations, the form may need to be further revised to include additional loan agent identification data.

**Actions to be Taken**

- SBA will implement tracking of loan agents within 6 months of receiving legally binding authority to collect SSNs on individual packagers and receipt of sufficient funds to cover computer system programming costs.
- In order to ensure that potential borrowers clearly understand that they are subject to a criminal investigation, OFA will include more specific language on its website wherever it references character requirements for borrowers.

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OIG will perform periodic criminal background checks on a sample of borrowers and, based on results, will determine whether wider effort is warranted.

# **DATA VALIDATION AND VERIFICATION**

## Data Validation and Verification

Managing for results and producing an annual performance plan and performance report require valid, reliable and high-quality performance measures and data. SBA faces many challenges in acquiring high-quality data, both output and outcome. In addition to using output data internally from its own systems, SBA relies on data from resource partners (such as SBDCs, SCORE, WBCs) and other Federal and local governments to assess its accomplishments and effectiveness. Limitations such as the lack of relevant data for measures, the accuracy and currency of data, the reporting capacity of quality data remain major issues for the Agency. Improving data quality will continue to be a high priority for SBA.

SBA vigorously pursues the following strategies to address the shortcomings of its data quality:

- **Ensuring the validity of performance measures and data.** SBA does this through assessing the relevancy of performance measures and data.
- **Fostering organizational commitment and capacity for data quality.** Achieving data quality through (1) *training* our managers to make sure they understand the need for quality data, how to develop valid performance measures and how to ensure data quality, and (2) managers *attesting* to the quality of the data under their management.
- **Assessing the quality of existing data.** Audits and reviews ensure the quality of our financial data systems. However, SBA must assess the quality of loan and program data provided by our resource partners. The Office of the Inspector General has carried out 5 performance measure reviews—7(a), SBIC, Surety Bond Guarantee, 8(a), and the Disaster Program. For example, an OIG report documented that SBDCs do not always use the same definitions for clients served, making it more difficult to get a valid picture of what has been done. SBA will include data verification in our lender and resource partner oversight.
- **Responding to data limitations.** It is not enough to identify data quality problems. Where there are data limitations, SBA must improve quality. Managers will be asked to document how they intend to reduce these limitations.
- **Building quality into the development of performance data.** The design process for new IT systems will include the requirements for developing and maintaining performance data. The new systems and upgrades will make sure that only correct data is entered into the systems and that data is stored with stringent verification and change rules.

In FY 1999, SBA tracked its performance goals monthly and verified the accuracy of the data on an *ad hoc* basis. As part of this internal performance monitoring, the agency tested the relevance of the indicators and identified problems of data completeness, timeliness, and accuracy.

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In FY 2000, SBA began implementing a more formal quality process, which included program manager self-assessment of performance indicator quality, manager training in data quality control and improvement methods, development of data quality improvement plans, and feedback to program managers about data limitations determined through using the data. SBA completed the program manager self-assessment step in December 1999. Program managers were asked to:

- define the measure;
- identify the data source;
- discuss the validity of the measure;
- list data limitations, particularly of resource partners, to include reporting cycles, incomplete source of data, double-counting, erroneous data, inconsistency in standards and definition of data, data that could not be collected (due to privacy or policy), and system capacity; and
- document steps being taken to improve data collection, verification and reporting, and to reduce data limitations.

In FY 2001, SBA developed guidelines on developing program indicators and ensuring data quality. SBA also developed better outcomes and included them in the budget/annual plan document.

For FY 2002, SBA will continue to train its managers to improve data quality, to ensure data quality through internal controls, and to improve data quality. Managers will be asked to provide data verification procedures and improvement plans, with milestones, after completion of the course. Feedback will be provided to managers regarding data limitations and data quality as part of SBA's use of the data in analyzing Agency activities, outputs, and outcomes and as part of the Inspector General's audits of data validity and verification.

In FY 2003, SBA will improve its data quality through increased use of statistical data sets.

The following pages provide for each performance indicator a definition, source, validity statement and discussion of limitations.

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<b>GOAL 1: CHAMPION SMALL BUSINESS INTERESTS</b>	
<b>Measure</b>	<b>Regulatory Cost Savings to Small Businesses</b>
Definition	Cost savings to Small Businesses because of changes to proposed regulations as a consequence of Office of Advocacy actions.
Source	Office of Advocacy estimates
Validation	Estimates of regulatory cost savings are difficult to make and require a number of assumptions. The Office of Advocacy believes their estimates to be valid.
Limitations	Estimates made using information gathered from various sources including agency data, Congressional Budget Office estimates, trade association and industry data.
Remedies for Limitations	Cross check against other regulatory savings estimates.
Verification	SBA has not independently verified this data.

<b>Measure</b>	<b>Share of Federal Procurement Prime Contract Dollars to Small firms, to Women-owned, Minority, Service Disabled Veteran-owned firms, and HUBZones-certified firms.</b>
Definition	This indicator measures the extent to which these different categories of small business ownership receive Federal Prime Contract dollars to be compared with the mandated share.
Source	The Federal Procurement Data System (FPDS) which is the official source for data on Federal procurements.
Validation	Congress establishes targets for the share of Federal procurement dollars that should reach the small business sector as well as specified subpopulations. The Office of Federal Procurement Policy (OFPP) in its policy letter 99-1 supports SBA's use of FPDS data to measure Federal contract dollars received by small businesses, women-owned, minority-owned, service disabled veteran-owned and HUBZone certified firms, rather than requiring agencies to provide this information on separate reports.
Limitations	Prime data are reported to the FPDS on a quarterly basis. FPDS has been determined to be the most accurate and verifiable reporting system of contract awards under the procurement preference goal program; however, there are some minor problems with data that are entered incorrectly into FPDS through the SF-279 and SF-281. The final FPDS data are available about a year after the end of the fiscal year. The FPDS was not programmed to identify HUBZone awards during FY 1999.
Remedies for Limitations	Through the electronic commerce committee PEC, GSA is re-engineering the FPDS to improve the accuracy and timeliness of information.
Verification	SBA does not separately verify the data obtained form FPDS system. The General Services Administration is responsible for working with the Agencies on the accuracy of the FPDS database. SBA has not independently verified this data.

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<b>GOAL 2: EMPOWER ENTREPRENEURS</b>	
<b>Measure</b>	<b>Number of Start-up Firms Financed by 7(a) &amp; 504</b>
Definition	Number of 7(a) & 504 approved loans to start-up firms.
Source	SBA Loan Approval Database (TTS001).
Validation	Start-up firms often have difficulty getting access to capital. The measure shows to what extent SBA is assisting start-up firms get capital and thereby the potential for survival and growth.
Limitations	The measure is based on the number of approved loans. A somewhat better measure would be disbursed loans.
Remedies for Limitations	Use disbursed loans.
Verification	The source of data is SBA's loan accounting database. The borrower indicates on the loan application forms if the firm is a start-up, a fact which is checked by the bank officer. SBA has not yet independently verified this data.
<b>Measure</b>	<b>Start-ups viable three years after getting loan</b>
Definition	Share of start-up firms receiving 7(a) loans in one fiscal year where the loan was current or paid in full at the end of the fiscal year three years later., i.e. for borrowers in FY 1995, the status at the end of FY 1998.
Source	SBA loan accounting database.
Validation	The assumption is that firms with loans current or paid in full may be considered economically viable. The loan database identifies loans to start-ups that are current, paid in full, delinquent or in default.
Limitations	The measure is an indirect measure based on the firm's performance of repaying the loan and does not measure actual performance.
Remedies for Limitations	Compare the loan performance data with actual viability as obtained through a random sample of start-up borrowers.
Verification	The data used are part of the loan accounting database and subject to the accounting verification procedures as to currency, paid in full or default status.
<b>Measure</b>	<b>Export Sales</b>
Definition	The total dollar volume of sales supported by export loans, export counseling, training, ETAP, trade mission and trade events.
Source	SBA's Office of International Trade records.
Validation	Export sales represent an economic stimulus to firms. The measure summarizes the increase in export sales achieved by SBA clients getting exporting assistance.
Limitations	Trade missions take time and result in an underestimate in sales.
Remedies for Limitations	Improve reporting process to ensure that most export sale increases achieved by SBA export assistance clients are captured.
Verification	A check is performed in Headquarters to ensure the identification and summation of export sale numbers are correct. SBA has not yet independently verified this data.



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<b>Measure</b>	<b>8(a) Firms Viable Years after Graduation</b>
Definition	The percentage of 8(a) firms three years after graduation that are independently operated – that is not sold or have not gone out of business.
Source	SBA surveys of all graduated firms and Dunn and Bradstreet data on individual firms.
Validation	Survey results provide an estimate of the share of viable graduated firms.
Limitation	The success rate is based on survey results which depend on response rates. The response rate varies from year to year.
Remedies for Limitations	Ensure a high response rate and seek to use other sources such as the Bureau of Labor Statistics data on number of employees.
Verification	The determination of independently operated firms is checked against the Dun and Bradstreet data base to ensure accuracy.
<b>Measure</b>	<b>Jobs created by SBA borrowers, SBIC clients, and SBDCs</b>
Definition	Estimates of jobs created by SBA programs.
Source	Disbursed loans for 7(a) and 504 estimate from Loan Accounting data base. SBIC dollar financings from program data base. <u>7(a)</u> : Based on SBDC's annual economic impact report to SBA. It includes data on loan dollars obtained for clients and jobs created. Job coefficient is \$32,382 that is an average of job coefficient numbers for 1999 and 2000 for SBDC clients that were assisted in getting loans. <u>504</u> : Based on SBA's 504 program data on loan application of expected number of jobs created from disbursed loan funds. Job creation constant is \$33,366 for loans made 1998-2000. In addition to jobs created 504 program contributes to jobs retained. <u>SBIC</u> : Based on the Arizona Venture Capital Impact Study made by the Zermatt Group (1999). Study estimates a job creation constant of one job for \$35,000 invested in 1999. <u>SBDC</u> : Impact information obtained on annual economic impact report submitted by SBDCs to SBA.
Validation	Capital infusion in a firm will most often lead to growth in jobs, sales and revenue. This measure focuses on the number of jobs created. By multiplying the dollar volume of loans by the job coefficient an estimate of jobs created is made.
Limitations	The SBDC data rely on data from a source not controlled by SBA, and is based on a loan portfolio where 30% of the loans are SBA guaranteed loans.
Remedies for Limitations	A project is under way with Bureau of Labor Statistics to obtain estimates of job creation by SBA loan recipients for firms that have EIN numbers.
Verification	Not possible until SBA has access to data from BLS or IRS.

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<b>GOAL 3: STREAMLINE DISASTER LENDING</b>	
<b>Measure</b>	<b>Homes restored to pre-disaster conditions</b>
Definition	The home has been restored to pre-disaster condition.
Source	SBA inspection of home
Validation	The indicator is measures if the purpose of the financial assistance has been achieved.
Limitation	Does not cover disaster home loans made to replace, for example home furnishings.
Remedies for Limitation	Does not include all benefits derived from disaster home loan assistance.
Verification	Based on SBA inspection of homes. No other verification.
<b>Measure</b>	<b>Businesses restored to pre-disaster conditions</b>
Definition	Businesses that have received disaster loans and have same number of jobs as before disaster two years later.
Source	SBA disaster program loan data base.
Validation	Measures the extent to which firms receiving disaster business loans recover to the same level of economic activity as before the disaster in terms of having the same number of employees.
Limitation	The measure only looks at number of employees.
Verification	No verification is done.
<b>Measure</b>	<b>Customer satisfaction</b>
Definition	Satisfaction rate determined through SBA surveys to disaster victims who have received loans.
Source	SBA surveys.
Validation	It is important that recipients of government assistance feel that they have received fair, courteous and helpful assistance. This can in part be captured by determining how satisfied the clients were with the service received.
Limitation	The survey measures those who received disaster loans but does not include those who did not receive loans.
Remedies for Limitations	The survey will be expanded to include all applicants.
Verification	No verification is done.

# **PROGRAM EVALUATION PLAN**

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## **Program Evaluation Plan**

For the next several years, SBA plans to systematically review those programs that offer the most financial risk to the Government and also review those programs that can offer tips on how to improve its efforts.

### **FY 2002 Evaluations:**

- Disaster Servicing. Evaluate the cost benefit of private-sector servicing of disaster loans.
- Balanced Scorecard. Develop a balanced scorecard for SBA's district offices, to include customer and employee satisfaction, financial results, and mission achievement.
- Customer Satisfaction. Continue implementation of customer satisfaction surveys for Entrepreneurial Development programs.
- Job Creation. Working with the Bureau of Labor Statistics databases, determine the number of jobs created by recipients of SBA financing assistance.
- ED Program Delivery Systems. Develop methodology for impact studies of the various distribution systems for management and technical assistance.
- Procurement Center Representatives. Evaluate the role of the PCRs and do a cost-benefit analysis of their contributions.
- Conduct and Evaluate District Office Pilots. These pilots will use the balanced scorecard approach to assess the value of such changes as changed goaling; waivers, such as where to locate offices and service centers; and improved IT support.
- Assess the Effectiveness of Government Contracting Programs.

### **FY 2003 Evaluations:**

- Customer Satisfaction. Continue to measure customer satisfaction of Entrepreneurial Development programs.
- Job Creation. Working with the Bureau of Labor Statistics databases, determine the number of jobs created by recipients of SBA ED and Procurement programs.
- SBA LowDoc, SBAExpress and Microloans. Assess the impact of these smaller loans.
- SBIC. Analyze SBIC venture capital financing success, describing customers, products and services, and growth rate of firms receiving capital.

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- HUBZone. Conduct a HUBZone study to assess the changes in employment and investment in distressed urban and rural communities.
- ED Program Delivery Systems. Conduct impact studies of the various distribution systems for management and technical assistance.
- U.S. Export Assistance Centers. Conduct a cost-effectiveness study of the USEACs.
- Evaluate the 8(a) Program Results. Using BLS and Census databases, determine the number of jobs created and volume of sales of the 8(a) firms.
- Conduct and Evaluate District Office Pilots. These pilots will use the balanced scorecard approach to assess the value of such changes as changed goaling; waivers, such as where to locate offices, and service centers; and improved IT support.

# **OFFICE OF THE INSPECTOR GENERAL**

## **OFFICE OF INSPECTOR GENERAL**

### **VISION**

Our vision is to improve the SBA's programs by identifying key issues facing the Agency, ensuring that corrective actions are taken, and promoting a high level of integrity. We will focus on serving the needs of our customers and stakeholders and on safeguarding SBA resources from waste, fraud, and abuse. We will also provide a work environment in the Office of Inspector General (OIG) that is conducive to excellent performance by our employees.

To accomplish this vision, we will –

- Focus on significant, systemic issues drawn from the cumulative results of our reviews and cases.
- Enhance our expertise in SBA's major programs to help us identify priority issues and plan our reviews and casework.
- Become more proficient in the use of information technology, research methods, data analysis, and investigative techniques.
- Encourage creative thinking within our office and the development of synergistic teams that combine various disciplines.
- Achieve superior results by emphasizing corrective actions that will improve SBA operations, combat fraud, and eliminate program vulnerabilities.

### **OIG MISSION**

Under the authority and in fulfillment of the Inspector General Act of 1978, as amended (IG Act), the Inspector General is committed to supporting SBA in its statutory mission to maintain and strengthen the Nation's economy by aiding, counseling, assisting, and protecting the interests of small businesses and by helping families and businesses recover from disasters.

### **ANNUAL PLAN ALIGNMENT**

With the Inspector General Act. OIG is an independent and objective oversight office created within the SBA by the IG Act of 1978. Inspectors General (IG) are principally charged with detecting fraud, waste, and mismanagement in agencies' programs and operations; conducting audits and investigations; and recommending policies to promote economy, efficiency, and effectiveness. OIGs also review existing and proposed legislation and regulations and make appropriate recommendations, and keep the Agency head and Congress informed.

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The goals and objectives of the Strategic and Annual Plans reflect the IG's statutory mission. OIG implementation of the Government Performance and Results Act (GPRA) extends our commitment to a results-oriented Government. For many years, OIG has provided regular and frequent updates to customers and stakeholders on the monetary and non-monetary results of OIG reviews and investigations. OIG Annual Plans and Performance Reports will strengthen our commitment to performance-based management.

In 1953, the Congress created SBA to aid, counsel, assist, and protect the interests of small business concerns. The OIG's Strategic and Annual Plans reflect the OIG commitment to supporting SBA's purpose.

This plan serves as a bridge from our traditional planning process. The FY 2003 Annual Performance Plan continues to build on the three strategic goals and related supporting objectives found in the OIG FY 2001-2006 Strategic Plan. In addition, OIG has identified five major areas of emphasis in SBA –

- Financial Assistance
- Business Development
- Management
- Advocacy
- Disaster Assistance

OIG believes these to be the key SBA program areas and will therefore allocate OIG resources accordingly while taking into account OIG's five strategic foci (financial management, information systems and computer security, lender oversight, other select high-risk areas, and new Agency initiatives). The plan also places a high priority on responding to requests from SBA management and congressional committees and providing consultative assistance where appropriate.

In FY 2003, OIG will seek to work more effectively by adopting a broader multidisciplinary approach where appropriate, drawing on the expertise of OIG audit, evaluation, investigation, and legal staff. This should enable OIG to better assist SBA in identifying and mitigating emerging vulnerabilities as SBA modernizes and changes its business practices, work systems, and procedures.

### **Performance Measurement Limitations**

OIG has developed a mix of output, intermediate outcome, and outcome measures to assess the effectiveness, quality, relevance, and timeliness of our work. Nevertheless, the OIG measures are subject to a number of external factors. About 75 percent of our work is in response to referrals of suspected fraud, complaints, and requests for auditing and inspection services. Over a period of time, achievements can be projected based on historical performance. During a specific year, actual accomplishments may vary substantially from the norm.



In addition, the ultimate authority to implement OIG recommendations for program improvements rests with the Agency. OIG also cannot control the results of judicial or administrative proceedings. To mitigate these factors, OIG produces quality products and works closely with SBA's policy and program officials to stress the importance of OIG findings and encourage the implementation of OIG recommendations. Likewise we work closely with judicial and administrative officials. Within these parameters, OIG strives to improve the performance of SBA programs and operations and deter fraud and other forms of misconduct.

### **Data Collection and Validation**

Quantitative data is collected and stored in OIG's management information system (MIS). Much of the quantitative data proposed has been collected for several years. For some of the measures, baselines were established in FY 2000; the remainder will be developed in FY 2002. Monetary results are reported at the time of management decision in accordance with OIG legislative requirements. SBA's Office of the Chief Financial Officer tracks actual collections. The management of each OIG division is responsible for collecting, verifying, and validating all data in the Annual Performance Report.

## **FY 2003 GOALS, OBJECTIVES, PERFORMANCE GOALS, AND RESOURCES**

### **Goal 1: Improve the economy, efficiency, and effectiveness of programs and operations.**

OIG audits, evaluates, and reviews all aspects of SBA's operations to improve Agency efficiency and effectiveness. The subject areas reviewed are determined either through responding to requests or inquiries from sources outside OIG, or through OIG assessments of SBA's risks and vulnerabilities. OIG activities in Goal 1 fall into one of five categories. It is important to note that the first four categories are comprised of statutorily mandated work or work over which OIG has little control as to volume or timing. Although OIG recognizes the need to respond to these requests, often their unpredictability impacts resources and significantly reduces OIG's ability to provide adequate oversight in category five, which is the heart of the office's mission – improving the efficiency and effectiveness of the Agency.

#### 1. Review proposed legislation, regulations, Agency procedures, and other issuances.

The IG Act requires that OIG review proposed legislation and regulations relating to Agency programs and operations and make recommendations concerning the impact of such proposals on program efficiency and effectiveness. At SBA, OIG also reviews and comments on all Agency procedures, as well as proposed issuances sent to us by the Office of Management and Budget (OMB), the President's Council on Integrity and Efficiency (PCIE), the General Accounting Office (GAO), and other organizations. We analyze vulnerabilities and risks, evaluate proposed procedures to determine whether they will provide reasonable assurance that the intended outcomes will occur, and provide other ideas and comments that may affect efficiency and effectiveness. The workload, which is unpredictable, ranges from about 250 to 350 reviews a year. The proposals reviewed varies from a few pages to several hundred pages.

The output for each review is a document that reflects SBA's analysis, conclusions, and recommendations. The outcome is improved guidance to assure more efficient and effective Government operations.

#### 2. Respond to requests for information from the public, SBA officials, other agencies, and Congress, and respond to complaints from employees and the public.

OIG receives complaints from employees, program participants, and the public concerning misconduct or program inefficiencies involving Agency officials or program participants. Members of Congress also refer constituent complaints to OIG for evaluation and response. OIG assesses the merits of each complaint and may conduct substantial analysis to determine the validity of each complaint. The output is a document to the complainant (if known – some are anonymous); OIG may also issue a document to the appropriate Agency program office with recommendations for improvement. The outcome is a higher level of integrity in SBA programs.

3. Conduct audits required by law, requested by OMB or Congress, or requested by SBA program managers.

Annual audits are required by law for SBA's financial statements, for all ten preferred surety bond companies, and to comply with the Government Information System Reform Act (GISRA). Other audits are mandated by law on a more sporadic basis, such as audits of District of Columbia water bill payments. There are several bills pending in Congress, which, if enacted, would mandate OIG reviews by FY 2003 (e.g., energy compliance). The financial statement audit is estimated by itself to cost \$800,000. The output is an audit report with recommendations. The outcome is assurance that SBA or its program participants are in compliance with various statutes or improvements in efficiencies in program administration.

Both OMB and Congress periodically request that SBA OIG perform specific audits. For instance, Congress has requested audits of agency implementation of the Government Performance and Results Act (GPRA), collection of personal data ("cookies") about individuals who access Government internet web sites, and agency travel practices. OMB desires audits involving erroneous payments. We participate in PCIE audits and inspections on issues that affect SBA, such as the implementation of Presidential Decision Directive 63 (PDD 63), which calls for a national effort to assure the security of the United States' critical infrastructures. The output is usually a report with recommendations. The outcome is improved efficiency and effectiveness of SBA program operations.

SBA program managers also request audits and inspections of program participants and SBA operations. In the past, we have been unable to fulfill all requests due to other priorities and workload scheduling. For FY 2003, we are requesting sufficient resources to be able to respond timely to substantive requests. The output for each requested review is a report with recommendations. The outcome is improved efficiency and effectiveness of SBA program operations.

4. Develop Top Management Challenges and follow-up on corrective actions.

Beginning in 1998, Congress has requested all OIGs to inform them of the top management challenges faced by their respective agencies. This request, now required by law, has become an effective vehicle both to highlight significant problems as well as to focus OIG resources on the most important activities of its agency. This process draws on the expertise and effort of all OIG divisions. OIG also assesses the progress of SBA's implementation of proposed corrective actions.

The output is a document that identifies the top management challenges and identification of needed corrective actions. The outcome, when the Agency implements the recommended corrective actions, is improved efficiency and effectiveness of SBA program operations.

5. Conduct Agency program oversight through audits and inspections.

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The IG Act requires the IG to keep the head of the establishment and Congress informed of problems and deficiencies in agency programs and operations. While some problems and deficiencies are discovered during the course of responding to external requests and complaints and in conducting mandated audits, there is no assurance that those activities will identify the major issues facing SBA. OIG therefore must focus its efforts on audits and inspections of those Agency operations that it has identified as presenting the most vulnerability and risk. The amount of OIG effort that can be devoted to such audits and inspections depends on staff availability after completion of the mandated and requested work.

OIG's annual operating plan of audits and inspections of SBA programs and activities addresses areas of potential abuse or operations requiring improved efficiency and effectiveness. These reviews are allocated resources based on the five areas of OIG strategic foci (lender oversight, financial management, information systems, high-risk areas, and new programs). The OIG FY 2003 annual performance plan presents five areas of program emphasis, with specific issues listed for each one:

<b>Financial Assistance</b>	<b>Business Development</b>	<b>Management</b>
- Lender Oversight	- Economic Disadvantaged Standards	- Financial Statement Audit
- Asset Sales	- Entrepreneurial Development Service Providers	- Human Capital
- Guaranteed Purchases	- Small Business Workforce Quality	- E-commerce
- Microloan Program		- GPRA
- Equity Injection		- GISRA
- Early Defaulted Loans		

<b>Disaster</b>	<b>Advocacy</b>
- Duplication of Benefits	- Effectiveness of Ombudsman
- Loan Application Modernization	- Regulatory Cost Savings to Small Business
- Early Defaulted Loans	- Federal Procurement Opportunities for Small Businesses

OIG has been able to provide only a minimal level of oversight to the areas critical to achievement of SBA's mission. OIG's FY 2003 budget request includes funding for six additional FTE's, which will be used for the following increase in OIG workload:

- Disaster Loans - The terrorist acts of September 11<sup>th</sup> resulted in huge economic losses to small businesses. Many small businesses will receive SBA economic injury disaster loans to help them recover. OIG historical data indicates the defaults on these types of loans usually occur 12 to 24 months after disbursement. Two additional FTE's would be devoted to auditing defaulted loans to determine whether loans were based on faulty information presented to SBA.

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- Erroneous Payments - OMB Circular A-11, Section 57, requires agencies to submit erroneous payment data, assessments, and action plans with their budget submission. Two additional FTE's would be devoted to auditing the Agency's efforts to reduce the rate of erroneous payments and make recommendations for improvements.
  
- Program Participants – Reviews of program participants would provide OIG with important information on program efficiency and effectiveness and the level of abuse. OIG needs to conduct more program participant reviews, including audits of defaulted business loans, Small Business Development Centers, surety claims, Section 8(a) eligibility, HUBZone Empowerment Contracting Program (HUBZone) eligibility, Small Business Investment Companies in liquidation, and selected grants and contracts. One FTE would be devoted to audits of program participants.
  
- PDD 63 – OIG participated in a PCIE Government-wide review of agency compliance with PDD 63, to determine SBA's ability to protect and recover from threats to its critical infrastructure. Work to date demonstrated that SBA needs to improve its compliance with PDD 63. In FY 2003, OIG would devote one additional FTE to assess PDD 63 implementation.

The outputs for these initiatives are reports with recommendations and potential monetary recoveries. The outcome is improved efficiency and effectiveness of SBA programs.

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<b>Objective 1.1</b> <i>Conduct reviews of major program activities, with emphasis on high risk and high priority areas, and assess whether SBA can be reasonably assured that its programs are meeting their goals in an economical, efficient, and effective manner .</i>					
	<b>FY 1999 Actual</b>	<b>FY 2000 Actual</b>	<b>FY 2001 Estimate</b>	<b>FY 2002 Estimate</b>	<b>FY 2003 Estimate</b>
<b>Output Performance Goals</b>					
Percentage of all recommendations on major program activities accepted by management or otherwise resolved within 6 months of report issuance	91%	88%	90%	90%	92%
Narrative assessment of OIG contribution to Agency task forces					
<b>Intermediate Outcome</b>					
Percentage of recommendations from reviews of major program activities implemented or corrective actions taken by management within the timeframe agreed by OIG and management	N/A (*)	52%	60%	60%	62%
<b>Outcome</b>					
Identification and implementation of corrective actions by the Agency to address the major management and operating problems in SBA (based on OIG reviews and recommendations made four years ago).					

(\*) MIS system did not record this data in FY 1999

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<b>Objective 1.2 Audit contracts, grants, surety claims, and defaulted loans to determine whether the costs claimed are allowable.</b>					
	<b>FY 1999 Actual</b>	<b>FY 2000 Actual</b>	<b>FY 2001 Estimate</b>	<b>FY 2002 Estimate</b>	<b>FY 2003 Estimate</b>
<b>Output Performance Goals</b>					
Percentage of all recommendations in audits of contracts, grants, surety claims, and defaulted loans accepted by management or otherwise resolved within 6 months of report issuance	94%	96%	95%	95%	95%
Percentage of dollars in questioned costs, funds to be put to better use, settlement recoveries, and cost corrective measures in audits of contracts, grants, surety claims, and defaulted loans accepted by management or otherwise resolved within 6 months of report issuance	97%	44%	60%	60%	60%
<b>Intermediate Outcome</b>					
Percentage of recommendations from reviews of contracts, grants, surety claims, and defaulted loans implemented by management within the timeframe agreed by OIG and management	N/A	44%	60%	60%	62%

<b>Outcome</b>
Identification and implementation of corrective actions by the Agency to address the major management and operating systemic problems in SBA from OIG reviews conducted four years ago.
<p><b>Outcome/Impact for Goal 1:</b> Identification and implementation of corrective actions taken by the Agency of the major management and operating problems in SBA. OIG activities improve the economy, efficiency, and effectiveness of SBA programs.</p> <p><b>Methodology for Measuring Outcome:</b> Estimate the impact of implemented recommendations, e.g., what percentage of corrective actions taken in response to the OIG recommendations resolved the identified problems, and/or resulted in improved SBA programs or operations.</p> <p><b>Limitations:</b> Because OIG staff and resources are limited and intervening variables may also make it difficult to draw direct causal relationships, a pilot for estimating impact will be developed in FY 2002. The pilot will assist us in determining the level of resources needed to evaluate impact. As SBA develops and verifies the accuracy of its performance measurement system, it may also be possible to use some of that information to assess OIG effectiveness.</p>

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***Outputs and Resources***

<b>Goal 1</b>	<b>FY 1999 (actual)</b>	<b>FY 2000 (actual)</b>	<b>FY 2001 (estimate)*</b>	<b>FY 2002 (estimate)*</b>	<b>FY 2003 (estimate)*</b>
<i>Intermediate Outcomes</i>					
Disallowed costs agreed to by management	2,322,780	\$1,263,126	\$3,573,440	\$3,500,000	\$5,000,000
Recommendations that funds be put to better use agreed to by management	\$8,929,983	\$1,462,700	\$1,454,258	\$2,500,000	\$4,000,000
<i>Outputs</i>					
Reports issued	26	33	28	35	50
Number of Recommendations made	103	130	91	145	200
Number of reviews of Proposed legislation, Regulations, standard Operating procedures, and other SBA issuances	241	323	250	300	300
<i>Resources</i>					
FTE	42.4	42.4	39.4	39.4	61.5
Reviews of proposed Legislation, regulations, Agency, and other issu- Ances	\$325,700	\$372,650	\$384,740	\$418,575	\$453,500
Respond to requests for Information and com- Plainants	\$179,300	\$201,300	\$219,550	\$225,620	\$227,000
Mandated audits and Inspections (*)	\$892,450	\$1,125,650	\$1,418,135	\$1,392,780	\$1,985,500
Top 10 Management Challenges	\$274,550	\$276,685	\$301,250	\$337,700	\$358,100
SBA Program Over- Sight Audits and Inspec- tions	\$1,988,535	\$2,003,800	\$2,024,325	\$2,156,450	\$3,150,400
Travel	\$180,000	\$138,000	\$150,000	\$150,000	\$150,000
Training	\$24,000	\$25,000	\$46,000	\$50,000	\$65,000
<b>SubTotal Goal 1</b>	<b>\$3,864,535</b>	<b>\$4,143,085</b>	<b>\$4,544,000</b>	<b>\$4,731,125</b>	<b>\$6,389,500</b>

(\*) Includes FTE's and contracts costs for financial statement, surety bond and GPRA audits.

(\*\*)OIG does not advocate or endorse predicting the monetary results of its audits and reviews. These amounts represent an estimate based on historical experience with a focus on those activities that are most vulnerable to abuse and misuse of program funds.



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### **Major Accomplishments for FY 2001**

- Major audits and inspections included SBA's information systems and computer security controls, Agency GPRA performance measures, Small Business Lending Companies and Preferred Lender Programs lender oversight activities, loan monitoring system development activities, surety guaranty companies, and internal management issues.
- Issued 21 audit reports, 4 audit advisory memorandum reports, and 3 inspection reports. Obtained management decisions on 91 audit recommendations.
- Reviewed 250 proposed issuances, including legislation, regulations, and procedures.

### **Major Goals and Objectives for FY 2002**

- Financial Assistance. Continue to address Congress' priority concerns about the Agency's planned Loan Monitoring/Risk Management System, review the guarantee purchase process, update the Section 7(a) best practices study, review SBA oversight of Section 504 loan program, review SBA oversight of lenders/brokers and agents and defaulted loans, determine the effectiveness of SBA's microloan program, and analyze adequacy of credit analysis for loans to franchisees.
- Business Development. Conduct a review of the HUBZone program, selected program participants in the preferred guaranty surety program, Section 8(a) program, and SBA awarded contracts; and selected aspects of SBA's implementation of the Section 8(a) economically disadvantaged program.
- Management. Conduct the mandatory financial statement and information systems technology audits, review the Agency's e-commerce activities to evaluate internal controls, review SBA's human capital initiatives, continue monitoring the Agency's implementation of the GPRA, and follow up on SBA action to address major management challenges.
- Disaster. Review the Economic Injury Disaster Loan program, and selected early defaulted disaster loans to determine the extent to which loans have been made in accordance with SBA requirements. Review the Disaster Assistance Program's system modernization efforts.
- Advocacy. Conduct a survey of the various advocacy tools within the Agency to assess their effectiveness.

### **Justification for FY 2003 Budget Increase**

The requested budget increase for FY 2003 would allow OIG to fund its authorized positions and increase staff by 6 positions to expand coverage of SBA's programs and participants, including those areas that have been identified as Congressional, OMB, or Agency priorities.

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- We are requesting two FTE's to review defaulted SBA economic injury disaster loans made as the result of the terrorist acts of September 11<sup>th</sup>. This work should result in four audits with recommendations and monetary recoveries.
- Two additional FTE's are requested to review the Agency's efforts to reduce the rate of erroneous payments as required by OMB Circular A-11, Section 57. This effort would build on other OIG audits that identify erroneous payments and result in recommended improvements for ensuring the efficient operation of Agency programs.
- One FTE is requested to review SBA program participants. This investment should produce audits of one preferred sureties and audits of two Section 7(a) business loan recipients. These projects would provide OIG with important information on program efficiency and effectiveness and result in reports with recommendations.
- An additional one FTE is requested to review the Agency's compliance with PDD 63 and its ability to protect, and recover from threats to, its critical infrastructure and would result in one report with recommendations.

In FY 2001 with 40 FTE's, OIG issued 25 audit reports and 3 inspection reports. In FY 2003, with full funding for our authorized ceiling and the increase of six FTE's we expect to complete 50 reports with 200 recommendations.

**Goal 2: Prevent and detect fraud and abuse, and foster integrity in programs and operations.**

OIG directly supports the Agency's mission by detecting, investigating, and deterring fraud in SBA programs and operations. OIG activities conducted under Goal 2 help achieve a high level of integrity in SBA's applicants, lenders, and employees, which is a critical factor in the proper administration of SBA programs. This ensures that SBA resources are utilized by those who deserve and need them the most. OIG activities in Goal 2 fall into four categories.

1. Responding to requests for information from the public, SBA officials, other agencies, and the Congress, and responding to complaints from employees and the public.

OIG receives complaints from employees, program participants, and the public concerning program waste, fraud, and abuse. Members of Congress also refer constituent complaints to OIG for evaluation and response. OIG assesses each complaint, determines whether an investigation or other OIG action is warranted, and informs complainants of initial disposition. The output is appropriate disposition of complaints. The outcome is the initiation of investigations or other OIG actions that reduce fraud, waste, and abuse and strengthen program integrity.

2. Conducting investigations.

In accordance with the IG Act, OIG manages a nationwide program to detect, investigate, and prevent illegal and/or improper activities involving SBA programs, operations, and personnel. OIG's criminal-investigative staff conduct complex criminal investigations and carry out a full range of traditional law enforcement functions, including testifying before grand juries and in court, making arrests, executing search warrants, and conducting electronic monitoring. Over the past 5 years, SBA/OIG investigations have resulted in 325 indictments, 278 convictions, \$70,890,921 in potential recoveries and fines, and \$42,337,852 in savings. The investigations were conducted in every section of the country and were worked by SBA/OIG special agents out of field offices in 14 cities. The outputs of these investigations are indictments, convictions, recoveries, fines, and savings. The outcomes are greater deterrence and a higher level of integrity in SBA programs.

In the wake of the recent terrorist attacks, the SBA OIG expects a huge increase in SBA disaster loan applications. Based on our past experience in disasters, particularly the urban disasters in southern California in the early- to mid-1990s, we anticipate receiving disaster-fraud referrals that would more than double our disaster caseload over the next 2 years. Disaster assistance is one of SBA's most vital programs; consequently, maintaining the integrity of the program is crucial to ensure that benefits are not diverted from needy victims.

3. Fraud awareness education and program vulnerability reviews.

OIG conducts briefings for SBA's employees, lenders, and other resource partners as part of its mission to educate them on identifying and preventing fraud, waste, and abuse. These briefings have been effective, as over 50 percent of our investigations are based on referrals from SBA program heads or employees. Recently, we have modified our briefing strategy to include participating lenders and other interested parties. The outputs are fraud awareness briefings and referrals. The outcome is a higher level of integrity in SBA programs.

In FY 2003, OIG will begin an initiative to evaluate fraud reduction opportunities by conducting an evaluation of the business loan program to identify systemic weaknesses that may make it vulnerable to fraud and abuse. OIG will accomplish this by identifying program and policy vulnerabilities and examining the adequacy of program controls.

4. Name Check Program.

Pursuant to provisions of the Small Business Act and the Small Business Investment Act, SBA requires applicants for assistance to meet certain character standards before participating in Agency programs. OIG processes name checks and, where appropriate, fingerprint checks on applicants. When program applicants appear to be ineligible for assistance based on character, OIG makes referrals to program officials for adjudication. OIG also performs background checks to comply with Federal regulations that require Agency employees to have security clearances appropriate for their positions. The outputs are

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character ineligibility referrals to SBA program officials for appropriate decisions, which result in denial of assistance or employment. The outcome is a higher level of integrity in SBA programs.

In FY 2001, we project that we will have conducted name checks on approximately 1,500 loan applicants with projected denial of assistance of \$20 million. In FY 2003, SBA will inform all prospective borrowers that they are subject to a possible criminal background check. OIG plans to perform periodic criminal background checks on a significant sample of borrowers and, based on the results, will determine whether a wider effort is warranted. By conducting name checks on a significant sample of loan applicants, we estimate that loans denied due to bad character or otherwise not made as a result of this deterrence program will be \$40 million. This estimate is based on OIG's Operation Cleansweep III, which disclosed that 9.1 percent of Section 7(a) loans had borrowers who failed to fully disclose their criminal records. Borrowers who failed to disclose their criminal histories had higher rates of default on SBA loans than those who disclose their records or had no criminal histories. The outputs are reports with recommendations to deny assistance or employment. The outcome is reduced vulnerability and higher integrity in SBA's programs.

The following chart divides the activities in Goal 2 among the five major areas in SBA.

<b>Financial Assistance</b>	<b>Business Development</b>	<b>Management</b>
<ul style="list-style-type: none"> <li>- Loan Fraud Investigations</li> <li>- Asset Sales</li> <li>- Fraud Identification Educational Briefings</li> <li>- Loan Program Participant Name Check</li> </ul>	<ul style="list-style-type: none"> <li>- Abuses of Economic Disadvantaged Standards</li> <li>- Fraud Identification in Section 8 (a) Contracting</li> <li>- Fraud Detection in Entrepreneurial Development Programs</li> <li>- BD Program Participant Name Check</li> </ul>	<ul style="list-style-type: none"> <li>- Computer Forensics</li> <li>- Controls on E-commerce</li> <li>- Employee Integrity</li> <li>- Employee Background Checks and Security Clearances</li> <li>- Administrative Violations</li> </ul>
<b>Disaster</b>		<b>Advocacy</b>
<ul style="list-style-type: none"> <li>- Duplication of Benefits</li> <li>- Loan Fraud Investigations</li> <li>- Disaster Program Participant Name Check</li> </ul>		<ul style="list-style-type: none"> <li>- Fraud Prevention Seminars</li> <li>- Vulnerability Assessments</li> </ul>

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<b>Objective 2.1 Detect/identify waste, fraud and abuse, and foster integrity in SBA programs and operations and take appropriate actions.</b>					
	<b>FY 1999 Actual</b>	<b>FY 2000 Actual</b>	<b>FY 2001 Estimate</b>	<b>FY 2002 Estimate</b>	<b>FY 2003 Estimate</b>
Percentage of criminal cases referred that are accepted by U.S. Attorneys	N/A*	NA*	40%	45%	50%
Percentage of Affirmative Civil Enforcement (ACE) cases referred that are accepted by U.S. Attorneys	N/A*	NA*	NA*	30%	35%
<b>Intermediate Outcomes</b>					
Ratio of monetary recoveries to losses	20%	17%	20%	20%	20%
Percentage of closed cases resulting in criminal, civil, or administrative actions	32%	23%	25%	25%	30%

\* The Investigations Division's current MIS has just begun tracking when a referral, whether criminal or ACE, is "accepted" by a Federal prosecutor. When fully implemented in FY 2002, SBA's MIS should provide that capacity.

<b>Objective 2.2 Prevent and deter fraud and abuse, and other misconduct through studies and education programs for employees and participants.</b>					
	<b>FY 1999 Actual</b>	<b>FY 2000 Actual</b>	<b>FY 2001 Estimate</b>	<b>FY 2002 Estimate</b>	<b>FY 2003 Estimate</b>
<b>Output Performance Goals</b>					
Number of SBA employees attending integrity briefings	499	222	120	125	125
Number of private sector partners attending integrity briefings	170	282	491	500	500

<b>Objective 2.3 Preclude persons not of good character from participating in SBA programs and employment.</b>
<b>Output Performance Goal</b>
Narrative assessment of the work of the Office of Security Operations in conducting criminal background checks of SBA program partners and participants, and administering SBA applicant/employee/contractor background investigations

**Outcome/Impact for Goal 2:** SBA internal policies, procedures, and controls are strengthened and provide a deterrence for future wrongdoing. OIG activities lead to changes in SBA practices that effectively reduce fraud and abuse, and promote the integrity of SBA programs and operations.

**Methodology for Measuring Outcomes:** OIG will assess the practicality and feasibility of developing evaluations of major investigative cases and related audits and inspections to estimate the impact on the prevention and deterrence of fraud and abuse. In addition, as SBA develops and verifies the accuracy of its performance measurement system, it may be possible to use some of the information to indicate OIG effectiveness.

**Limitations:** Evaluation efforts will be constrained by a lack of information on the extent of actual fraud and other misconduct in SBA's programs and operations.

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*Outputs and Resources*

<b>Goal 2</b>	<b>FY 1999 (actual)</b>	<b>FY 2000 (actual)</b>	<b>2001 (estimate)</b>	<b>2002 (estimate)</b>	<b>2003 (estimate)*</b>
<i>Intermediate Outcomes</i>					
Indictments	44	74	52	52	56
Convictions	53	39	40	40	44
Potential Investigative Recoveries and Fines	\$10,434,102	\$7,590,827	\$12.4 M	\$12.4 M	\$13.0 M
Loans Not Made As a Result of:	\$28,677,286	\$28,741,121	\$20.8 M	\$20.6 M	\$60.3 M
-Investigations	\$295,000	\$1,404,529	\$126,000	\$125,000	\$1.3 M
-Name Check Progr.	\$28,382,286	\$27,336,592	\$20.6 M	\$20.5 M	\$40 M
<i>Outputs</i>					
Number of Fraud-Awareness & Integrity Briefings	12	15	17	18	19
Hotline Calls/Letters/Walk-Ins	1,623	2,015	1,250	1,400	1,750
Reports			1		2
Recommendations			3		6
<i>Resources</i>					
FTE	56.2	56.2	56.2	56.2	67.2
Respond to Requests For Information	\$349,500	\$400,060	\$419,850	\$424,500	\$327,800
Criminal Investigations	\$4,500,375	\$4,595,800	\$4,984,635	\$5,006,750	\$5,289,000
Fraud awareness Briefings & Program Vulnerability Reviews	\$41,705	\$45,502	\$46,870	\$49,750	\$437,800
Name Check Program*	\$418,125	\$424,500	\$448,575	\$487,500	\$815,000
Telecommunications	\$50,000	\$55,000	\$60,000	\$62,000	\$62,000
Training	\$11,000	\$16,000	\$25,000	\$25,000	\$65,000
Travel	\$251,000	\$162,000	\$179,000	\$200,000	\$200,000
GSA Leased Vehicles	\$45,000	\$45,000	\$53,000	\$61,000	\$65,000
<b>SubTotal Goal 2</b>	<b>\$5,566,705</b>	<b>\$5,743,862</b>	<b>\$6,216,930</b>	<b>\$6,316,500</b>	<b>\$7,261,600</b>

\* Includes FTE's and background investigation contract costs.

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### **Major Accomplishments for FY 2001**

- Projections based on our actual 10-month results indicate that, during FY 2001, SBA OIG will have had an investigative workload of 430 of its own cases (with estimated SBA-related losses/subjects' illegal gains of \$165 million) as well as 105 cases (estimated SBA-related losses/subjects' illegal gains of \$22 million) that had been referred to other law enforcement agencies for investigation. OIG's own cases generally cover complex financial transactions and multiple investigative subjects, in a few cases numbering more than 100. The 105 referrals involve allegations which we had jurisdiction to investigate but where limited resources would not allow us to investigate before expiration of the statute of limitations. Traditionally, results of those referrals produce smaller benefits for SBA, due in large measure to the other agencies' lack of specialized knowledge of SBA programs and local personnel.
- Based on actual 10-month results, we project that during FY 2001 SBA OIG will have made final disposition of 59 (estimated SBA-related losses/subjects' illegal gains of \$14.2 million) of those 430 of its own cases.
- Based on actual 10-month results, we project that during FY 2001 SBA OIG investigative efforts will have generated 52 indictments, 40 convictions, and financial accomplishments of more than \$12.5 million in potential recoveries, fines, and savings from criminal investigations, and \$20.6 million in savings from loan-applicant name checks.

### **Major Goals and Objectives for FY 2002**

- OIG will investigate those cases with the highest impact and potential for successful prosecution and other cases that maintain program and employee integrity. In addition, OIG will pursue civil fraud under the False Claims Act and the Financial Institution Reform, Recovery, and Enforcement Act of 1989.
- OIG will continue its programs to educate SBA employees and the lending community concerning their responsibilities to report allegations of wrongdoing. Outreach will include attending and/or participating in lender-related conferences and other activities.
- OIG will continue its name and fingerprint checks for SBA program participants, and assist the Agency in its pre-employment screening program by conducting background checks for potential key employees. OIG will explore the use of other information sources to identify persons of bad character and preclude their participation in SBA programs.

### **Justification for FY 2003 Budget Increase**

We are requesting 12 additional FTE's for FY 2003 to combat fraud and improve the integrity of SBA programs. We are requesting four additional FTE's for our background character and security check program to increase the level of name checks, which should greatly reduce the Government's financial risk from SBA loans. SBA will inform all prospective borrowers that they are subject to a possible criminal background check. OIG plans to perform periodic criminal background checks on a significant sample of business loan applicants, and, based on



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the results, will determine whether a wider effort is warranted. In FY 2001, we project that OIG's name check program will have prevented the Agency from making more than \$20 million in loans to individuals who were not of good character. We estimate that the four additional FTE's would result in an additional \$20 million in loans denied due to bad character or otherwise not made as a result of this deterrence program.

We are requesting two FTE's so that we can reduce the caseload per criminal investigator and complete cases more timely and effectively. In FY 2000, OIG generated investigations on 40 percent of the referrals it received concerning SBA-related allegations; OIG achieved 39 convictions, 74 indictments, and \$8,995,356 in dollar accomplishments as a result of its investigations. An increase of two FTE's on the criminal-investigative staff would increase the number of referrals that we can investigate and is expected to increase investigative accomplishments in FY 2003 by approximately four indictments, three convictions, and \$1.2 million in potential recoveries, fines, and savings. This would enhance deterrence and strengthen the integrity of SBA's important programs.

We are requesting another four FTE's dedicated to disaster-fraud investigative assignments based on expected doubling of this workload emanating from recent terrorist activities. We estimate that by FY 2008, these four FTE's would generate approximately 36 disaster-fraud indictments, 32 convictions, and \$11.6 million in potential recoveries, fines, and savings.

We are requesting two FTE's to conduct fraud reduction evaluations of SBA programs, beginning with an evaluation of fraud reduction in the business loan programs.

**Goal 3: Ensure the economical, efficient, and effective operation of OIG.**

OIG recognizes that its operations are only as good as its people, communications, and planning and control processes. Therefore, OIG will continue to emphasize these functions and strive to improve them. OIG activities will fall into seven main categories.

1. Human Capital.

OIG has independent personnel authority and administers a comprehensive nationwide personnel management program that includes position classification, recruitment and staffing. OIG utilizes various strategies available in current law to recruit, hire, and retain a diverse and high performing workforce. OIG manages a comprehensive career development program assessing skill levels and identifying appropriate training to promote professional growth for its employees. The outputs are personnel actions executed (e.g., new hires, promotions, training courses approved). The outcome is a highly trained, diverse, and knowledgeable staff.

2. Budget.

OIG is appropriated a separate budget and has independent responsibility for budget formulation, execution, and reconciliation. As a result of OIG's personnel authority, OIG also manages the compensation and benefits associated with its employees. OIG designs and implements a financial management system to align with OIG strategic goals and objectives to ensure the most efficient and effective results. The outputs are budget documents, and allocations. The outcome is OIG strategic objectives are supported with appropriate resources.

3. Information technology.

OIG provides up-to-date and secure computer technology and information systems for OIG staff. OIG continually evaluates new software and hardware to improve the productivity of its employees. OIG designs automated information systems. Many OIG employees are armed with laptops and remote dial in capabilities to facilitate a mobile workforce and take advantage of telecommuting opportunities. OIG has established an intranet site which houses internal guidance and procedures and a web page for the public to learn about our organization and have immediate access to our published products. The outputs are software and hardware purchases, MIS applications, and automated tools. The outcome is a workforce that has the skills and tools to maximize technology to be more effective and efficient in their work.

4. Administrative and procurement services.

OIG independently manages a variety of administrative and procurement services in direct support of its mission. OIG utilizes the streamlined Government credit card program to ensure employees are equipped with the necessary supplies, and coordinates interagency agreements for services and partners with the SBA's Office of Procurement and Grants Management to execute large contracts. OIG averages over 400 procurement actions annually in support of the mission of the office. OIG's manages an extensive administrative support program procuring adequate and appropriate telecommunications, office space, paperwork and records management system for its 14 field offices and Headquarters staff. The outputs are contract and purchase orders executed and well coordinated leased space assignments. The outcome is a workforce with professional space and adequate tools to do their job in a timely fashion.

5. Support services.

OIG has a cross-trained staff to provide timely support to OIG staff members. The support services group provides a variety of services, including time and attendance record keeping, data processing, filing, and routine clerical support. The use of automation has allowed the support services group to do more with less in support of the three OIG operating units to aid in carrying out the OIG mandated functions. Developing automated tracking systems and

spreadsheets for routine procedures is increasing the office's efficiency. The outputs are completed administrative tasks. The outcome is a workforce with professional space and adequate tools to do their job in a timely fashion.

6. Communications.

An ongoing major initiative of OIG is to strive to improve communication with Agency officials and stakeholders. OIG issues a number of products designed to meet the needs of our customers. We use the OIG website to post our various publications making them easily accessible to the public. OIG serves on various SBA working groups providing timely advice and guidance and on the PCIE taskforces sharing the knowledge/experience of individual OIG's. OIG hosts regular briefings for Hill staffers to better educate them on our organization and recently completed or ongoing projects. The outputs are newsletters, semiannual reports, and briefings. The outcome is a strong alliance with informed customers and stakeholders.

7. Planning process.

OIG works with SBA officials and major stakeholders developing strategic and annual operating plans. OIG's planned activities are targeted to be more proactive in evaluating SBA's programs, management structure, and administrative systems, and develop work products that provide input or feedback to SBA management on an expedited basis. Maintaining ongoing liaison with Agency officials (both headquarters and field), key congressional committees, the OMB, PCIE, and others as appropriate is key to effectively accomplishing the OIG mission. The outputs are strategic plans and annual plans. The outcome is an OIG that operates efficiently and effectively.

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<b>Objective 3.1 Provide the tools, services, and supportive work environment necessary to improve employee productivity.</b>					
	<b>FY 1999 Actual</b>	<b>FY 2000 Actual</b>	<b>FY 2001 Estimate</b>	<b>FY 2002 Estimate</b>	<b>FY 2003 Estimate</b>
<b>Output Performance Goals</b>					
Percentage of staff that received the training established by OIG for their career needs	N/A*	84%	100%	100%	100%
Percentage of employees provided the IT products necessary to do their jobs, as established by the OIG	N/A*	100%	100%	100%	100%
<b>Intermediate Outcomes</b>					
Percentage of employees satisfied or very satisfied in annual employee surveys	N/A*	62%***	65%	65%	65%
No material weaknesses identified in audit quality controls by external peer reviews	N/A**	N/A**	None	N/A**	N/A**

\*Standards for measuring this goal and the survey instrument were developed in FY 2000

\*\*Peer reviews are conducted every three years. The last one was conducted in FY 2001.

\*\*\*Based on responses to an OIG Organization Assessment Survey distributed September 2000: "Considering everything, how satisfied are you with your job?"

**Objective 3.2** *Communicate and foster cooperation with all stakeholders, customers, and interested parties.*

Output Performance Goals/Intermediate Outcome

Narrative assessment that may include anecdotal results of ongoing contacts with customers and stakeholders, OIG work on PCIE and interagency projects, and/or customer satisfaction surveys

**Outcome/Impact for Goal 3:** An OIG staff that is fully supported with the tools, services, and direction necessary to be economical, efficient, and effective, and works cooperatively and in a timely manner with customers and stakeholders.

**Methodology**

An analysis of the performance goal results in each Annual Performance Report (beginning with the FY 2001 report) should indicate if OIG is operating economically, efficiently, and effectively.

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**Outputs and Resources**

<b>Goal 3</b>	<b>FY 1999 (actual)</b>	<b>FY 2000 (actual)</b>	<b>FY 2001 (estimate)</b>	<b>FY 2002 (estimate)</b>	<b>FY 2003 (estimate)</b>
<i>Intermediate Outcomes</i>					
An OIG staff that is fully supported with the tools, services, and direction necessary to be economical, efficient, and effective, and works cooperatively and in a timely manner with customers and stakeholders	N/A	100%	100%	100%	100%
Percentage of employees satisfied or very satisfied in annual employee surveys	N/A	62%	65%	70%	75%
<i>Outputs</i>					
Percentage of staff that received the training established by OIG for their career needs	N/A	85%	90%	90%	90%
Percentage of employees provided the IT products necessary to do their jobs, as established by the OIG	N/A	100%	100%	100%	100%
Number of Hits to OIG Homepage	80,000	160,000	525,000	1 million	1.5 million
Number of External Reports Issued	19	14	19	19	19
Number of Employees Trained	114	94	102	124	150
FTE	12.4	12.4	12.4	12.4	13.3
<i>Resources</i>					
Human Capital	\$140,850	\$168,600	\$184,550	\$192,450	\$195,900
Budget	\$82,245	\$101,200	\$108,750	\$109,375	\$110,400
Information Technology*	\$297,435	\$232,300	\$240,887	\$180,607	\$171,300
Administrative and Procurement Support **	\$746,223	\$507,257	\$490,679	\$285,799	\$256,950
Support Services***	\$332,732	\$304,771	\$325,177	\$282,967	\$281,550
Communication	\$91,450	\$114,450	\$208,500	\$211,450	\$212,100
Planning	\$70,325	\$81,475	\$96,750	\$98,450	\$100,700
Travel	\$3,000	\$3,500	\$5,500	\$10,000	\$10,000
Training	\$4,500	\$4,500	\$5,000	\$8,000	\$10,000
<b>SubTotal – Goal 3</b>	<b>\$1,768,760</b>	<b>\$1,518,053</b>	<b>\$1,665,793</b>	<b>\$1,379,098</b>	<b>\$1,348,900</b>

\*Includes FTE and IT equipment

\*\*Includes FTE and other contractual services in support of the entire OIG

\*\*\*Includes FTE and supplies for entire OIG

### **Major Accomplishments for FY 2001**

- Human Capital – During the first 10 ½ months of FY 2001, OIG executed 94 personnel actions, issued 14 job announcements, coordinated 3 retirements, hired 1 Presidential Management Intern (PMI), facilitated 155 training opportunities, and participated in 1 college job fair.
- Budget – effectively managed OIG’s FY 2001 budget of \$11.9 million (less a .22% rescission of \$26,297), and \$500,000 transfer for disaster assistance.
- Information Technology - During the first 10 ½ months of FY 2001, OIG implemented Teammate, an automated workpaper/workflow software; upgraded 19 computers, 4 printers, and the FBI’s NCIC software; established [oig@sba.gov](mailto:oig@sba.gov) e-mail account to receive complaints and referrals; posted 10 audit reports, 8 OIG Monthly Updates and one Semiannual Report to the President to OIG’s website; and received 500,000 hits on OIG’s website.
- Administrative and Procurement Services - During the first 10 ½ months of FY 2001, OIG executed 382 procurement actions.
- Support Services – During the first 10 ½ months of FY 2001, completed 612 requests for services from OIG staff, 90 percent of which were completed on or before the due date.
- Communications - OIG responds to numerous inquiries from OMB, GAO, the press, the public, program participants, and others. This category includes Freedom of Information/Privacy Act (FOIA/PA) requests, as well as discovery requests involving OIG audits, inspections, investigations, and other activities that may be the subject of criminal, civil, or administrative litigation. The output for each request is a response to an outside party. The outcome is a better-informed public, compliance with laws, and more informed decision-making. During the first 10 ½ months of FY 2001, OIG held 1 congressional staff briefing, issued 8 OIG Monthly Updates and 1 Semiannual Report to the President, responded to 84 inquiries to the new OIG e-mail address, and received 35 FOIA/PA requests.
- Planning - During the first 10 ½ months of FY 2001, OIG issued its FY 2000 Annual Performance Report and held three strategic planning meetings.

### **Major Goals and Objectives for FY 2002**

- Human Capital – Continue efforts to recruit and retain valuable employees for OIG, implement Individual Development Plans for all employees, and develop a comprehensive workforce restructuring plan.
- Budget – Effectively manage OIG’s FY 2002 budget, aligning resources with office goals and implement the Agency’s new financial system.

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- Information Technology – Continue the computer hardware upgrade plan (30% in FY 2002), enhance the MIS including evaluating a new system for the Investigations Division, aggressively implement the requirements of the Government Paperwork Elimination Act, evaluate the potential of other software to increase worker productivity, and work with the National Archives and Records Administration to address the issues of electronic records.
- Administrative and Procurement Services – Procure necessary supplies, materials, and office space for OIG employees in a timely fashion.
- Support Services – Provide fast and accurate support to OIG employees and customers.
- Communications – Continue to dialogue with SBA managers, congressional members, and staff and issue products that educate and inform our stakeholders.
- Planning – Continue to evaluate and modify, where appropriate, the OIG strategic plan, monitor progress on the annual plan, and communicate performance plan progress to our stakeholders.

**Justification for FY 2003 Budget Increase**

A nominal increase is requested to purchase necessary equipment and supplies and to cover estimated cost increases.



*U.S. Small Business Administration  
FY 2003 Budget Request and Performance Plan*

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**TABLE 1**

	<b>FY 2001 Estimate</b>	<b>FY 2002 Request</b>	<b>FY2003 Proposed</b>	<b>Inc (Dec) vs FY 2002 Request</b>
<b>Obligations:</b>				
Personnel Compensation	\$ 8,500	\$ 8,750	\$ 10,720	\$ 1,970
Civilian Personnel Benefits	2,125	2,180	3,191	1,011
Travel and Transportation of Persons	486	480	370	(110)
Transportation of Things	0	0	0	0
Communications, Utilities & Misc.	1	1	65	64
Printing and Reproduction	1	1	1	0
Supplies and Materials	40	40	70	30
Equipment	38	50	150	100
Other Services	736	425	944	519
Subtotal Prior to Rescinded Funding	\$ 11,953	\$ 11,927	\$ 15,511	\$ 3,584
Rescinded Funding	\$ (26)	0	0	0
Subtotal Including Rescinded Funding	\$ 11,927	\$ 11,927	\$ 15,511	\$ 3,584
Transfer from Disaster Rescinded Funding	\$ 500	0		
Subtotal	\$ 500			
Total Financing	\$ 12,427	\$ 11,927	\$ 15,511	\$ 3,584
Authorized Positions	125	124	142	
On Board Strength	108			

**TABLE 2** FTE Allocation by Organization FY 00 – 03

<b>Component</b>	<b>FY 2000 Authorized</b>	<b>FY 2001 Authorized</b>	<b>FY 2002 Requested</b>	<b>FY 2003 Requested</b>
Immediate Office	3	3	3	3
Auditing	45	45	45	51
Investigations	52	52	52	62
Inspection and Evaluation	8	8	8	10
Management and Policy	12	12	12	12
Counsel	4	5	4	4
Authorized Ceiling Total	124	125	124	142
On Board Strength	111	108		

**Explanation of Budget Object Class Increase/Decrease**

**1100/1200 Compensation and Benefits:**

FY 2003 Compensation and Benefits request is for an additional \$3.0 million. This increase funds 18 additional FTE's and those positions which are authorized but not funded. The additional 20 positions include 6 auditors, 6 investigators, 4 security specialists for the Name Check Program, and 2 program analysts. An increase of \$511,000 is identified to provide pension liabilities and expenses previously paid by OPM, and will be immediately transferred to OPM upon receipt.

**2100 Travel:**

OIG is planning to utilize its professional staff more effectively to conduct joint investigations and audits.

**2300 Communications:**

The increase in OIG's request for FY 2003 reflects more of an accounting change than an increase. The requested amount properly portrays the true cost of communication expenses for our field personnel, who make up over 50 percent of OIG staff. In previous years this expense was identified under "Other Services."

**2400 Printing:**

OIG does not request additional funds in this category.

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**2500 Other Services:**

OIG will fund the costs of SBA's financial statement audit, estimated at close to \$690k for FY2001. In addition to the financial statement audit, this category includes all other expenses associated with core mission requirements, e.g., vehicle expenses for all field personnel to include, vehicle rental, parking fees, and maintenance; metro subsidy for all eligible personnel; professional liability insurance; ammunition and firing range expenses; and fees associated with performing background checks and investigations.

***2600 Supplies and Materials:***

Increase of \$30K for supplies and materials to support the requested additional FTE's

**3100 Equipment:**

Increase for equipment, desks, and computers to support additional FTE to meet increase in core mission requirements.

**Workforce Restructuring Plan**

***Overview***

OIG is an independent office created within SBA by law to conduct and supervise audits, inspections, and investigations relating to SBA programs and supporting operations; to detect and prevent waste, fraud, and abuse; and to promote economy, efficiency, and effectiveness in the administration and management of SBA programs.

OIG keeps the SBA Administrator and the Congress fully informed of any problems, recommends corrective actions, and monitors progress in the implementation of such actions.

The three operating components of OIG are the Auditing Division, the Investigations Division, and the Inspection and Evaluation Division. They operate within professional standards set by General Accounting Office and the President's Council on Integrity and Efficiency and are subject, in part, to stringent peer review. The Auditing and Investigations Divisions each administer their respective activities through field offices around the country. The Management and Policy and Counsel Divisions support both the IG and the operating divisions by providing policy, planning, administrative, and legal services respectively.

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### **OIG's Restructuring Plan**

During FY 2002, OIG will develop a comprehensive workforce analysis to determine the best approaches to achieve the Administration's goals of:

- reducing the number of managers;
- reducing layers;
- reducing the time it takes to make decisions;
- increasing the span of control; and
- redirecting positions within the agency to ensure that the largest number of employees possible are in direct service delivery positions that interact with citizens and retrain and/or re-deploy employees as part of restructuring efforts.

Based on a preliminary analysis of workforce restructuring, OIG needs to re-assess its strategic plan, workload, and resource allocation among the operating Divisions. OIG will complete these tasks and develop a formal 5-year workforce restructuring plan by June 30, 2002.

Our preliminary analysis of OIG staffing compared to the Administration's goals follows:

- **OIG's Plan to Reduce the Number of Managers:** OIG's current supervisory ratio is 1 to 4. Supervision is one factor in determining the need for managers. Managers are responsible for managing a function within an area of responsibility, such as directing all auditing activity for an SBA program or directing all criminal investigations within a geographical area. These activities include coordinating OIG programs with numerous SBA executives, overseeing work performed by contractors, and coordinating activities with other investigative agencies and numerous United States Attorneys. The OIG workload restructuring plan will address how OIG will increase the ratio of employees to managers, while providing quality services with the least number of managers. We anticipate being able to increase the ratio of employees to managers.
- **OIG's Plan to Reduce the Number of Organizational Layers:** Organizationally, OIG is structured with only two to four organizational layers, depending on the operation. There may be some opportunity to reduce one layer, but this needs to be weighed against any impact on work effectiveness. Our workload analysis will include an assessment of whether there are any opportunities to increase efficiency and effectiveness by reducing organizational layers.
- **OIG's Plan to Reduce the Time it Takes to Make Decisions:** The nature of OIG's work allows employees to act independently and make many decisions at the employee level as long as they work within the professional guidelines and legal authorities established for each profession. Our analysis and plan, however, will examine the appropriate levels at which decisions should be made to determine whether there are opportunities to reduce the time it takes to make decisions.

- **OIG's Plan to Increase the Span of Control:** As stated above, we will conduct an assessment of our work to determine the appropriate level of supervision and span of control.
- **OIG's plan to redirect positions within the agency to ensure that the largest number of employees possible are in direct service delivery positions that interact with citizens and retrain and/or re-deploy employees as part of restructuring efforts:**

Our focus must be in situating our investigators, auditors, and evaluators in locations where they can provide maximum oversight of SBA programs and program participants. Our goal is to place as many employees as possible in direct service delivery. Currently our first-line managers spend much of their efforts in direct service delivery. We will, however, determine whether there is additional opportunity to redirect positions within OIG.

As a result of our planned review of the OIG strategic plan, workload and staffing over the next year, we will be in a better position to assess and project:

- costs and/or savings that will result from implementing organizational changes at the account and/or program level as appropriate;
- the human resources management tools and flexibilities needed to implement the plan;
- the specific actions to be taken, with a timetable; and
- the anticipated impact that these changes will have by fiscal year and the agency's plan for measuring progress.