

U.S. Small Business Administration
“Proud To Be III” Results Report
Report to Employees (July 2005—June 2006)

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SBA Results (July 2005-June 2006) *PTB III Report to Employees*

Summary

In July 2006, the U.S. Small Business Administration (SBA) bid a fond farewell to its second longest tenured Administrator, Hector Barreto, and warmly welcomed its new leader, Administrator Steven Preston. Assuming leadership of the SBA during an important time of continuing change, Mr. Preston guides the Agency through a time that is full of both enormous promise and challenge. It is a time of **promise** because successful SBA outcomes include a vibrant small business sector that contributes to community and economic development benefiting all Americans; and fair, equitable, and accessible opportunities for *all* aspiring entrepreneurs to realize their dream of starting their own business, generating revenues, new jobs, fostering innovation and international competitiveness. It is also a time of **challenge** because “business as usual” is no longer viable nor desired, with the new Administrator calling for an Agency that cares about outcomes, and is more customer-centric, employee-empowered, and transparent and accountable for delivering efficient service to its constituents.

This report, therefore, looks at the achievements of the past 12 months from July 2005 through June 2006 inspired by the President’s Management Agenda and the continuing need to improve our operational efficiency. Throughout the past 15 years, SBA has experienced a history of reform to make it easier for the aspiring entrepreneur or small business owner to deal with government (SBA). Throughout 2006, SBA continued to break down barriers to small business success, as well as increase value and reduce the costs of its services to small businesses.

SBA often hears the mandate “Do more with less”! The same requirement holds true today, driven in part by diminishing resources and the likelihood of further resource reductions, and driven in part by the need to modernize who we are, what we do, and how we work. Over the past decade, we have undergone a number of major changes. We have --

- Moved from a “retail” to a “wholesale” perspective in our program delivery, i.e., from delivering service directly to small businesses to establishing alliances with resource partners who deal most directly with our customer;
- Centralized functions by creating 15 centers to approve, process, service, repurchase, liquidate, and charge off both business and disaster home and business loans more efficiently;
- Modified core functions to emphasize marketing and outreach on the “front end” and loan monitoring and lender oversight on the “back end” of the capital access process;
- Experimented with district office pilots, alternate work sites, and new functions for the field office of the future;
- Reduced Agency staff through attrition, early outs, and buyouts—since 1992, loan volume has tripled with over a 35 percent reduction in staff, i.e., we processed \$4 billion in capital and credit with 4,000+ staff in 1992 and more than \$16 billion with less than 2,500 in 2005.

With this shift in how we do work, however, have come serious challenges. As our resource partners began to provide more of SBA’s products and services, SBA’s direct connection with its small business customers was reduced, thereby limiting its knowledge of small business needs and desires. While SBA has continued to encourage its lending and resource partners to handle more and more of its program services, the Agency has had to develop different skills and different core lines of business, e.g., outreach/marketing/education and monitoring/oversight, to reach more of the small business community and to manage effectively its lending and resource partners. Partnerships, strategic alliances, efficient processes and increased use of technology have become even more important tools to implement our vital mission and to maintain our relevancy among the small business community.

Change management is at the core of SBA’s fourth Strategic Goal in its Strategic Plan, which is “Ensure that all SBA programs operate at maximum efficiency and effectiveness...” It is neither easy nor short term, and requires the involvement and support from the entire Agency, as well as enlightened leadership, and patient perseverance. Using the President’s Management Agenda paradigm, we continued in 2006 to transform ourselves by creating a more customer (and employee)-centric, results-driven, technology-enabled, partnership-based, market-oriented, and cost-effective organization—in a phrase, to increase our value and reduce our costs for more small businesses.

President’s Management Agenda

Our overall goal under the guidance of the PMA has been to reform our structure and processes and change the way we do business, to achieve the following four Strategic Goals:

- (1) An improved economic and regulatory environment conducive to small business,
- (2) Reduced opportunity gaps that impede small business success,
- (3) Restored homes and businesses affected by disasters, and
- (4) Improved efficiency and effectiveness for the taxpayer.

During FY 2006, the Agency continued to align its priorities with the President’s Small Business Agenda, the PMA, and the Agency’s four Strategic Goals articulated in its Strategic Plan. Effective September 30, 2006, SBA earned the following PMA scores from OMB:

	<u>Status</u>	<u>Progress</u>
1. Budget Performance & Integration	Green	Green
2. Competitive Sourcing	Green	Green
3. Eliminating Improper Payments	Green	Green
4. Expanding E-Gov	Green	Green
5. Strategic Mgmt of Human Capital	Yellow	Green
6. Improving Financial Management	Red	Green
7. Faith-Based & Community Initiative	Red	Green
8. Improving Credit Management	Red	Yellow

Major 2006 Initiatives

In FY 2006, we were guided by three overarching demands, to include:

- Responding to the Nation’s largest season of disasters ever,

- Implementing the Administrator’s twin goals of increasing the net capital investment in small businesses and the share of government contracts (with a special focus on the “matchmaking” initiative), and
- Continuing to transform how we do business.

We exceeded our goals and experienced a banner year in delivery of our core services to small businesses (e.g., guaranteed loans, contracts, entrepreneurial development assistance, and regulatory burden reduction). Projecting FY 2006 results, we will continue to provide more for small business, while using fewer resources.

We are particularly proud of the following accomplishments during FY 2006:

Being the Federal Government’s Disaster Bank for Disaster Victims

- Approved a record number of disaster loans in 2005-2006 (i.e., 421,000 loans) and over \$10 billion in capital to rebuild after the Gulf Coast hurricanes;
- Based on lessons learned from the hurricanes of 2005, SBA improved its disaster assistance processes to be able to respond more effectively and efficiently to future disasters – irrespective of type or magnitude—to include the following improvements:
 - Upgraded the technical IT system capability, i.e., Disaster Credit Management Systems (DCMS), to handle a four-fold increase in concurrent users, from 2,000 to 8,000 users operating concurrently and remotely;
 - Increased the on-board disaster human response capability from a pre-Katrina level of 800 staff on the payroll to 3,500 (and 1,000 reserve corps members) trained and ready to respond to a disaster within 48 hours notice;
 - Leveraged SBA’s nationwide infrastructure to handle the unprecedented volume of applications, i.e., 300 staff from 64 offices processed 6,100 loans, and contracted with three private sector companies to help with disaster loan processing;
 - Enhanced forecasting, risk monitoring, and scalability modeling to forecast more accurately the loan volume and project the needed resource levels to respond to a disaster that could generate twice the application volume of the 2005 hurricane season, i.e., over 800,000 applications; and
 - Improved communications capability to prepare people to respond better to disasters, inform the public and the media about available resources once a disaster strikes, and report to Congress in a more comprehensive way on progress, challenges, and resource needs following a disaster.

Providing Access to Capital and Credit and Ensuring Quality Lending

- Guaranteed nearly 100,000 business loans to small businesses, doubling the number of loans since 2001 with more than a 25 percent reduction in staffing;
- Nearly 35 percent of all SBA loan guarantees and 33 percent of the dollar volume go to minority-owned businesses, with 22 percent of our total to woman-owned businesses;
- Provided capital and credit to nearly 27,000 entrepreneurs in the first 10 months of FY 2006 to *start* a business, which exceeds our goal of 25,250 for FY 2006;
- Provided 2,565 export loan guarantees with a projected goal of 3,000 (value of \$970 million) by September 30, 2006, contributing to a projected \$1.75 billion in export sales;

- Helped create and/or retain a projected 900,000 jobs for FY 2006, an estimated 13 percent increase over FY 2005 levels;
- Reduced SBA cost per 7(a) loan funded from \$2,596 in FY 2004 per loan for 72,179 loans to \$559 per loan for 88,845 loans in FY 2005;
- Improved our ability to analyze the risk associated with the SBIC program and better monitor the licensees with leverage or outstanding commitments, to include improving our evaluation guidelines, analyzing requests for leverage commitments, electronically collecting and importing financial information, and addressing the number of funds and assets in liquidation;
- Improved customer satisfaction and loan process efficiency through technology (68 percent of all loans are handled electronically);
- Launched an electronic signature process for 504 loan approval notification;
- Centralized 7(a), 504 and Disaster Loan Liquidation processes;
- Approved a National Preferred Lender Program (PLP) status, making it easier and faster to approve new PLP lenders;
- Implemented a vastly improved lender oversight system that includes a risk rating system, a transparent lender portal, and analytics to increase the quality of our lending and reduce the risk of loss to the taxpayer.

Enabling Improved Access to Procurement

- FY 2005 prime contracting dollars (FY 2006 numbers not yet available) going to small businesses increased by over \$10 billion over the FY 2004 level, i.e., increased from 23.1 percent to 25.4 percent of all federal procurement going to small businesses, and from \$69 billion in FY 2005 to a projected \$80 billion for FY 2006;
- Created 40,000 matchmaking appointments between buyers and suppliers of goods and services that resulted in \$40 million in contracts; in last 12 months alone, 700 small firms received nearly \$600 million in contracts from “business matches” in the Hurricane ravaged areas of the Gulf Coast.

Improving Access to Capacity Building (Counseling, Training, Education)

- Through a grass-roots network of partnerships in over 1500 locations and through the Internet, helped approximately 3 million aspiring entrepreneurs and/or existing businesses start and/or grow;
- Helped over 90,000 customers with 1,800 SCORE counselors and received high honors from *Inc* and *Money* magazines that named SCORE as “Best for One-on-One Counseling” and “39 Great Business Bargains”;
- Increased the network of Women’s Business Centers (WBC) enabling them to provide 45,672 hours of counseling to 18,105 women as well as training to 76,624 aspiring entrepreneurs in the first nine months of FY 2006, contributing to the OWBO’s mission to level the playing field for women entrepreneurs;
- Local Small Business Development Center and SBA District Office partnerships have assisted small businesses in creating or retaining over 200,000 jobs in 2005; and
- Increased online training to more than 5,000 clients each week who register for online courses offered through the Small Business Training Network (SBTN)—an increase of more than seven percent in client registrations over last year.

Improving the Economic Environment for Small Businesses

- Reduced FY 2006 regulatory costs to small businesses by working with regulatory agencies to minimize regulatory burden on the small business sector, in addition to the \$55.6 billion in unnecessary regulatory costs saved from FY 2001 through FY 2005;
- Ensured equity and fairness in the regulatory enforcement process by conducting 12 Regulatory Fairness public events, processing 375 public comments on alleged “unfair regulations,” addressing concerns of 230 customers not filing complaints, and reaching a potential audience of over 1 million through media marketing and outreach;
- Since 2002, SBA has successfully encouraged 34 states to consider and 19 states to implement legislation or an Executive Order that requires regulating agencies to analyze the economic impact of proposed rules on small business and to consider less burdensome alternatives. Implementing regulatory flexibility on the state level reduces the negative impact of regulations on small business, increases the level of regulatory compliance and passes on cost savings to state economies. With SBA's assistance, states ensure that the regulatory burden is not excessive and that regulations are straightforward and easy to understand, which helps entrepreneurs start up businesses, increases competition, and promotes job creation.

Improving Management and Creating a Culture of Performance

- Continued to improve our managing for results processes by--
 - Aligning programs and activities with the PMA and SBA’s Strategic Plan Goals and Long Term Objectives;
 - Revising the organizational goaling system and individual performance goals, to include success on addressing OIG management challenges and progress on PMA scorecard activities;
 - Holding Bi-monthly internal monitoring sessions using an internal execution scorecard;
 - Using activity-based costing to analyze resource needs for improved decision-making;
 - Using Personal Business Commitment Plans (PBCPs) to track progress and reward individual results;
 - Using the PART evaluation process to assess line program effectiveness and the Urban Institute to evaluate program outcomes.
- Improved internal and external communications, increased training opportunities, and focused on identifying competencies and closing skill gaps required to perform new functions in SBA, which were factors identified in the 2004 human capital survey;
- Increased centralization of major loan processes: 7(a) processing, 504 liquidation, disaster loan liquidation;
- Increased and improved the provision of information and service to small businesses via the Internet, most notably through expansion of E-Tran (electronic loan application), overhaul of the new SBA.gov website, the initiation of the first phase of an e-application for surety bonds, work on phase II of the Business Gateway (www.business.gov), and expanded distance learning through the Small Business Training Network;
- Eliminated approximately half of the OIG’s “red” (no progress designations) in the 10 management challenges—we reduced our “no progress” ratings from 22 to 15 to 8 over the past two years.

Helping Faith-Based and Community Organizations Support Local Enterprise

- Through a major outreach effort, SBA District Offices have helped members of faith-based and community organizations to start and/or expand their own small businesses;
- Helped faith-based and community organizations obtain a fair share of federal grants. SCORE, one of SBA’s resource partners, has been a regular participant in the White House organized conferences and has conducted tutorials on “Preparing a Business Plan.” SCORE’s information has proven to be one of the most effective tools for obtaining government grants.

Improved Management and Culture of Effectiveness

At the core of our agenda, we have continued to create a culture of performance and accountability, using an internal Scorecard to measure progress and report on success. We have linked an individual’s success to achieving organizational results, which creates a more transparent system of accountability and provides incentives for improved performance. As required by the Results Act, senior managers set expectations, regularly measure progress, and report on results. During 2006, we focused significant attention on improving our disaster assistance and implementing the PMA.

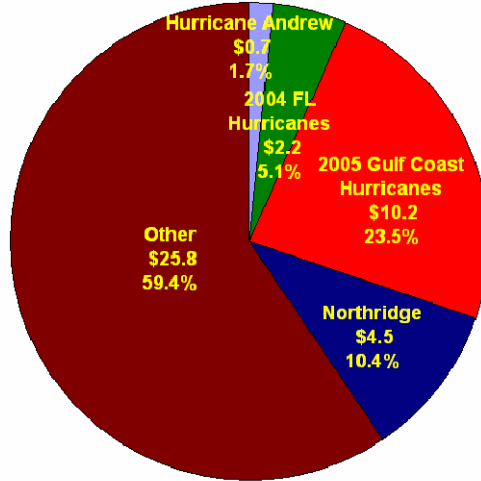
Improving Disaster Assistance. Collectively known as the Gulf Coast Disaster, in August-September 2005, hurricanes Katrina, Rita and Wilma constituted the single largest natural disaster occurring at one time in U.S. history. SBA responded as never before in its 53 year history. The magnitude of these disasters caused over 420,000 home and business owners to apply for SBA assistance. To date, SBA has approved over \$10.2 billion in loans. Put into context, over 20 percent of all disaster loan dollars approved in the 53-year history of SBA occurred this past disaster season. The table below illustrates how the Gulf Coast Hurricanes represent the largest collection of disasters the Agency has ever faced.

Event	Applications Received	Dollars Approved
Gulf Coast Hurricanes (2005)	421,064	\$10.2 Billion
Northridge, California Earthquake (1994)	250,402	\$4.0 Billion
Florida Hurricanes (2004)	181,751	\$1.8 Billion

To give some perspective for the magnitude of these events, the chart on the next page depicts that over 23 percent of all disaster home and business loan dollars approved throughout the life of the program occurred in response to the Gulf Coast Disaster. This volume of over \$10 billion for over 160,000 victims occurred in less than a year—from September 2005 to July 2006.

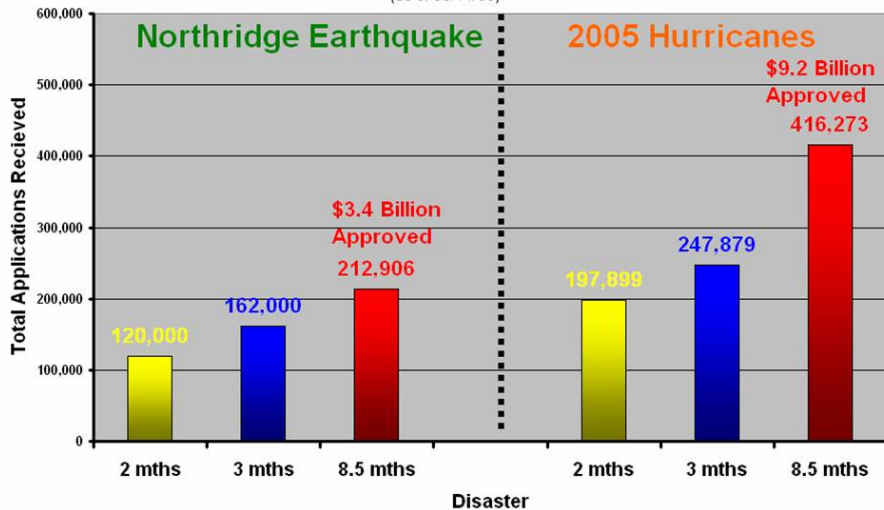
Disaster Loan Approvals-FY 1954 to FY 2006 as of July 11, 2006

(\$ in Billions)



Moreover, in the same period of time, SBA processed almost twice as many applications as the next largest disaster—the 1994 Northridge Earthquake.

Northridge Earthquake vs. 2005 Hurricanes:
Total Applications Received
(as of 05/11/06)



Besides the dedicated work of the disaster assistance employees, other SBA employees have and are still lending a hand with loan processing and loan closing activities. In short, SBA employees responded to an unprecedented disaster with unprecedented speed and dedication.

Improving Credit Management. Approximately, 6,700 cases for over \$800 million are awaiting review and charge off in SBA’s Herndon National Purchase Guaranty Center (NPGC). With the goal of addressing any cases more than two years old, SBA hired staff

to conduct the final review of cases awaiting charge off and is on target to meet this goal by September 30, 2006. Loans will either be charged off or a determination will be made that the foreclosure action is proceeding according to schedule. The purpose of the final review is to make sure there are no additional avenues for potential recovery.

SBA has centralized the processing of all regular 7(a) loans in one center to provide more reliable service and more consistent interpretation of loan policy. This will help reduce the approval of loans to ineligible businesses, thus reducing “improper payments” in the form of ineligible loan approvals. In addition, SBA is transferring the liquidation of Section 504 loans to two locations, the Little Rock Loan Servicing Center and the Fresno Loan Servicing Center. By moving the liquidations to two sites with liquidation specialists, SBA will have better control over the process and will have more consistent implementation of liquidation policy.

SBA has also transferred all of the disaster loan liquidation work to the Santa Ana Disaster Loan Liquidation Center to ensure better control over the activity and to develop expertise that will permit the Agency to foreclose on disaster loans more efficiently.

SBA has introduced its Lender Risk Rating system, and provided access to lender ratings through its Lender Portal. The Risk Rating system allows SBA to better determine which lenders present incrementally greater risk to SBA, allowing us to more closely monitor those higher risk lenders and work with them to improve their portfolio performance, as well as the performance of SBA's overall 7(a) and 504 portfolios.

Finally, SBA has instituted new procedures to ensure the timely collection of fees and bond recovery monies owed SBA by Surety Companies and small businesses. In the past eight months, SBA has collected over \$300,000 in past due fees.

Eliminating Improper Payments. SBA has taken significant steps to eliminate improper payments and was granted “Green” in both status and progress this year. OFA and the CFO have worked closely with the OMB staff to fully implement an improper payments reduction plan. The FY 2005 improper payments rate is based on sample of guaranty purchase disbursements of \$2,646,605 and was determined to be 1.44 percent for the fiscal year. This is a reduction from the preliminary estimate of approximately 5 percent that was made on the basis of initial reviews of cases selected. The sample size of purchases reviewed was 192 completed purchases, which is consistent with OMB guidance on sample size. In FY2006, SBA expanded the scope of the review process as OMB has determined that “improper payments” also includes guaranteed loans that have been approved and disbursed, but not purchased. SBA will revise the sample size and the review procedures to implement the revised definition of improper payment.

Competitive Sourcing. By September 30, 2006, SBA will have initiated six standard competitions and six streamlined competitions, and successfully improved the alignment of competitive sourcing efforts with the Agency’s human capital transformation initiative, e.g., where practical, competitions streamline business processes in accordance with the Human Capital plan. By September 30, 2006 also, SBA will have developed plans for functions identified for FY 2007-2008 competitions.

The Agency also completed and submitted FY 2005 FAIR Act Inventory to OMB for review and approval and completed the FY 2005 Report to Congress on Competitive Sourcing, which was posted on the SBA website. As described in its report, SBA met all OMB established deliverables for the PMA Competitive Sourcing Scorecard for FY 2006.

Specifically, SBA completed the A-76 Competitive Sourcing process for the servicing and liquidation of disaster home loans in March, 2006. In addition, a Quality Assurance Plan covering 99 different items was developed to insure that program operations are properly monitored and that program performance goals are met. In addition, SBA's Most Efficient Organization (MEO) team submitted a bid for the contract competition and was selected as the winning contractor. The Agency is now working closely with the MEO team to insure a smooth implementation of the new contract by the September 30, 2006 deadline.

Human Capital Management. We understand that we must value and invest in our workforce as our most important asset. We have focused our attention on completing the first stage in improving our existing gap analysis assessment framework, completing a Beta Site Performance Appraisal Assessment Tool review and implementing an improvement plan, designing an orientation program for new employees, submitting to OPM for approval a formal leadership succession plan, publishing a quarterly newsletter to improve communication, completing a gap analysis for mission critical functions, completing a human capital competency survey, and assessing SBA training needs. During 2006, SBA increased its training and supported improved communications through surveys and a series of town hall meetings.

Information Technology Management. We recognize that one way we can improve year-to-year is through working *smarter*, especially through using technology to support our programs, our customers, and our internal operations. The Internet is changing the way we work, live, play, and learn. SBA, like industry, is learning to adopt as a core business process the use of technology—particularly the Internet as the vehicle for electronic commerce—to deliver information and services more rapidly, securely, and cost-effectively to a wider group of constituents.

In 2006, SBA improved its support of its “internal customers” (i.e., employees) through enhanced security, nearly completing the upgrade of its computing infrastructure, and improving its focus on strategic computing through emphasizing the Federal Enterprise Architecture in its business decisions. For example, the IT Infrastructure Modernization Project that began in FY 2006 will not only align and upgrade SBA infrastructure to the Enterprise Architecture, but also bring modern technologies and efficiencies to key areas including desktop and server software upgrades, electronic messaging, and networking. This three phase project includes Planning, Proof of Concept, and Deployment. By the fourth quarter of FY 2006, SBA had completed the first two phases and was beginning the Deployment phase, expected to continue into early FY 2007. All agency staff and contractors will see improved computing capabilities as results of this project.

Similarly, to meet “external customer” expectations, SBA upgraded and refined its family of web-based systems to ensure 24 x 7 availability and more efficient and reliable operations in

servicing customers. The Agency replaced eight servers in its HQ data center with newer models, offering better performance, capacity and throughput. These replacements have improved system performance and ensure that critical delivery systems have redundancy, load-balancing, and “fail-over” capabilities. Accordingly, the customer experience is improved by ensuring better operational performance with reduced risk of failure or operational delays.

In FY 2006, SBA continued participating in the government-wide E-Government and Lines of Business initiatives with success resulting from continued collaboration with operating units across SBA, and with other Federal partner agencies and OMB. The Agency continued to move ahead with its comprehensive Agency-wide E-Government Implementation Plan, featuring precise milestones to ensure the planning, management and completion of OMB-required e-government activities. In FY 2006, 11 SBA program offices participated in 24 PMA E-Government Initiatives and Lines of Business, completing all of the planned 42 separate implementation milestones and deliverables.

The Business Gateway (www.business.gov), the E-government initiative for which SBA is the managing partner, made major strides in addressing businesses’ primary concern of simplifying their interaction with the Federal Government. By the end of FY 2006, SBA achieved these results:

- A major re-design of the business.gov portal site reflecting a value-added focus on compliance related information for business;
- Publication of Small Business Paperwork Relief Act (SBPRA) compliance information;
- Completion of the first ever federal wide data call for compliance information;
- National implementation of the Single Source Coal Reporting project (*aka* the “Coal Vertical”) This project significantly reduces the reporting burden on the Coal Industry by 66 percent while simultaneously providing a 10 for 1 return on the useful life of the technology;
- Significant improvements to the Federal Forms Catalog including presentation, search capabilities and increased automation to reduce the burden on agencies’ personnel for managing the forms in the catalog;
- Significant increased in the number of visitors to the site, from 89,000 per month in October 2005 to over 272,000 in May 2006.

Financial Management. We met the accelerated schedule for financial reporting and improved the audit opinion on our financial statements from a “qualified opinion” to an “unqualified opinion” in November 2005. We achieved this in large part because of ongoing improvements in the quality of our loan program cost models (the “subsidy models”). The models for all of the loan programs have been rigorously reviewed and we have established a strong internal control process for managing the development and maintenance of the models. We have also strengthened our financial statement quality assurance procedures. We developed and implemented a plan for strengthening the Agency’s internal controls (as required by OMB Circular A-123). This included a thorough review of the quality of the monthly loan data submitted by the Agency’s 7(a) lenders through the Form 1502 process. We have made

significant progress in remediation of the FY 2005 financial statement audit findings and believe those improvements will be reflected when the FY 2006 audit is completed in November 2006.

Conclusion

Change is neither simple, nor easy. Updating and streamlining the delivery of SBA's services will result in a more transparent and accountable government that is citizen-centric, employee-enabled, and outcome-oriented. This is what the Congress asks, the President demands, and citizens expect.