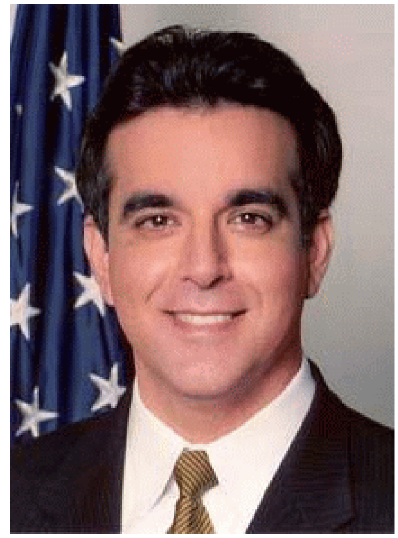
MESSAGE FROM THE ADMINISTRATOR

January 31, 2003



I am pleased to present the U.S. Small Business Administration's (SBA) Performance and Accountability Report for FY 2002. This report provides the public, the small business community and Congress with important information on the SBA's accomplishments and costs of operations.

Small businesses play a vital role in providing America's economic security. The SBA is leading the charge for the President's Small Business Agenda to provide an environment where entrepreneurs can dream and small businesses can flourish. The SBA is the principal advocate for small business in the Federal legislative and regulatory arenas. Also, since its founding, the SBA has provided financial, contracting, entrepreneurial development and export assistance to millions of small businesses. The SBA is also the Federal Government's bank for assisting victims of natural disasters and tragedies, such as on September 11, 2001, by providing low cost loans to assist homeowners and businesses in their recovery.

This year the SBA will celebrate its 50th year in service to the American small business community. As we position ourselves for this momentous occasion, we have intensified our efforts to become more efficient and effective. Our e-government initiative has begun to provide small businesses immediate access to information, service and SBA program transactions. The SBA is also transforming its workforce to market its services to targeted small business segments, and to effectively oversee the Agency's partners in its financial and entrepreneurial assistance programs. We also have efforts underway to identify and privatize functions, and this will provide additional resources to support our marketing and oversight priorities.

The SBA has been engaged in the sale of loan assets since fiscal year 1999. In retrospect, additional financial analyses should have been performed as the program was being implemented. We are currently working to align the financial aspects of the loan asset sale program following the guidance provided by the General Accounting Office. We have also devoted substantial resources toward the development of an administrative accounting system. We are working to improve our financial management systems and our goal is to meet the requirements under the Federal Financial Management Improvement Act in FY 2003. I have put a new management team in place in the Office of the Chief Financial Officer to address these issues.

The SBA has continued its efforts to strengthen its internal control program and we are working toward compliance with the requirements of the Office of Management and Budget Circular A-123 and the Federal Managers Financial Integrity Act. My internal control assurance statement for FY 2002 in this report has a "qualification" due to concerns regarding the completeness and reliability of the financial data in the forecasts and financial results for the Agency's loan asset sale program. These financial results, as compared to sale projections and budgetary reestimates of disaster program costs, have caused anomalies on SBA's financial statements since FY 2000. We are reviewing the disaster budget models, the hold model, and the accounting methodologies used. In addition, we are analyzing the interrelationships between these different models and procedures to ensure consistency in approaches, assumptions and results. I am encouraged that the improvements underway will succeed so that I will be able to provide a positive internal control assurance for FY 2003.

The SBA's performance objectives have been aligned to support the President's Small Business Agenda and the management of Federal resources. The Agency's performance indicators are designed to measure outcomes for its clients, as well as measure key program outputs. The performance data for our credit and procurement assistance programs is complete and reliable due to the systemic review of this data. We are working to improve the completeness and reliability of the performance data for advice provided to small business through the SBA's resource partners. Surveys used are inconsistent and not comparable, and client responses are often difficult to obtain. Because of this, ensuring the validity and reliability of this data has been more difficult and we are working to improve survey instruments used. The management controls section of this report provides additional information on data validation and verification.

During FY 2002, the SBA continued to expand its delivery of programs and services to match the changing needs of small business through the use of its public and private sector resource partners. In the coming years, the SBA will continue to administer its assistance programs to ensure we create value and provide necessary support and customer service.

It is my privilege to serve the American public as the SBA Administrator. I invite you to visit the Internet website (www.sba.gov) for more information about the SBA and its programs.

Sincerely,

Hector V. Barreto

Hector V. Barreto
Administrator

FY 2002 SBA Scorecard

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual	% Goal Achieved
Strategic Goal 1: Champion Small Business Interests						
1. Regulatory cost savings to small businesses	$4.3B	$3.6B	$4.4B	$3.5B	$21.1B	**602.9%**
Strategic Goal 2: Empower Entrepreneurs						
2. Start-ups receiving 7(a) and 504 financing	16,120	16,630	14,283	16,194	14,416	**89.0%**
3. Start-ups receiving 7(a) and 504 loans viable 3 years after receiving loan*	69%	69%	69%	70%	70%	**100%**
4. 7(a) and 504 loans that go to minority-owned firms	12,127	12,120	12,009	12,009	14,588	**121.%**
5. Export sales through SBA assistance	$349M	$675M	$608M	$537M	$616M	**114.7%**
6. 8(a) firms viable 3 years after graduation*	68%	65%	64%	70%	N/A	
7. Jobs created by 7(a) and 504 borrowers	373,143	379,481	374,441	408,172	486,048	**119.1%**
8. Jobs created/retained by SBIC clients	120,000	160,000	120,000	148,571	78,000	**52.5%**
9. Jobs created by SBDC clients	70,398	60,395	N/A	50,000	N/A	
Federal prime contract dollars:						
10. To small businesses*	23.1%	22.3%	22.0%	23.0%	N/A	
11. To women-owned firms*	2.3%	2.3%	2.49%	5.0%	N/A	
12. To small disadvantaged-owned firms*	6.5%	6.5%	7.12%	5.0%	N/A	
13. To service disabled veteran-owned firms*	N/A	N/A	0.25%	3.0%	N/A	
14. To HUBZone-certified firms*	N/A	0.3%	0.72%	2.5%	N/A	
Strategic Goal 3: Help Families and Businesses Recover from Disasters						
15. Homes restored to pre-disaster conditions*	28,811	23,070	43,519	31,853	N/A	No longer SBA goal
16. Businesses restored to pre-disaster conditions*	7,365	5,148	5,275	7,011	N/A	No longer SBA goal
17. SBA field presence within 3 days	100%	100%	100%	98%	99%	**101.0%**
18. Loan applications processed within 21 days	60%	91%	94%	80%	96%	**120.0%**
19. Customer satisfaction*	N/A	81%	N/A	80%	N/A	

*Results for these goals are not available until the second quarter of the succeeding fiscal year. This is the most recent data available.
N/A = Not available

Key:	**>99%**	Goal Achieved		**90-99%**	Goal Substantially Achieved		**<90%**	Goal Not Achieved

STRATEGIES FOR ACHIEVING PERFORMANCE GOALS

OUR PROGRAM OUTPUTS	CONTRIBUTE TO OUR PERFORMANCE GOALS
Strategic Goal #1: Champion Small Business Interests **Minimize Regulatory Burden** Small business advocacy and research Regulatory impact analysis **Provide Regulatory Information** BusinessLaw.gov **Ensure Fair Regulatory Treatment** Ombudsman hearings	**Strategic Goal #1: Champion Small Business Interests** **Goals to Reduce Regulatory Burden** $4 billion in regulatory cost savings **Goals to Provide Regulatory Information** Increased number of BusinessLaw.gov users Increased rate of compliance **Goals to Ensure Fair Regulatory Treatment** Increased compliance assistance
Strategic Goal #2: Empower Entrepreneurs **Increase Opportunities for Start-Up** Training, counseling and education for start-up Start-ups loans and Microloans SBIC equity financings **Increase Growth Opportunities** Business loans and equity financings Training, counseling and education for established firms Surety bond guarantees Export financing **Increase Contracting Opportunities** Percentages for small business contracting Intervention in contracting process **Reduce Barriers to Opportunity** Assist women-, minority-, veteran- and service connected disabled veteran-owned firms **Increase Small Business Contribution to Economy** Assist small businesses and targeted groups	**Strategic Goal #2: Empower Entrepreneurs** **Goals to Increase Opportunities for Start-Up** Increased number of start-ups counseled or trained by SBA Increased number of start-ups that receive 7(a) or 504 loans or micro-loans Increased number of SBIC start-up financings **Goals to Increase Growth Opportunities** Increased gap lending and investment Increased number of established firms counseled and trained Increased number of established firms that receive 7(a) and 504 loans Increased SBIC financing to established firms Increased number of surety bonds guaranteed Increased export sales assisted by SBA **Goals to Increase Contracting Opportunities** Increased percent and dollars of Federal contracts to small businesses **Goals to Reduce Barriers to Opportunity** Increased percent and dollars of Federal contracts to targeted groups **Goals to Increase Small Business Contribution to Economy** Number of jobs created and retained due to SBA assistance
Strategic Goal #3: Help Families and Businesses Recover from Disasters **Provide Loans to Disaster Victims** Disaster loans to families Disaster loans to businesses	**Strategic Goal #3: Help Families and Businesses Recover from Disasters** **Goals to Provide Loans to Disaster Victims** Increased percentage of loan applications processed within 21 days Increased percentage of initial disbursements made within 5 days of loan closing

SBA Activity by Program Type

State	FY 2002 Approved 7(a) and 504 loans (millions of dollars)	FY 2002 SBIC financings (millions of dollars)	FY 2001 Federal Procurement contracts (millions of dollars)	FY 2002 Clients counseled/trained in SBDC, SCORE, WBC, BIC
Alabama	98	$19	$4,723	21,290
Alaska	16	0	1,079	9,104
Arizona	443	58	5,045	26,970
Arkansas	103	15	579	9,174
California	3,187	700	27,361	147,463
Colorado	455	77	4,147	25,010
Connecticut	179	84	4,535	21,842
Delaware	31	10	108	7,289
District of Columbia	23	8	10,102	13,097
Florida	835	105	8,042	84,706
Georgia	485	45	6,962	32,799
Hawaii	35	<1	1,420	13,641
Idaho	94	<1	1,148	8,213
Illinois	395	98	3,345	47,248
Indiana	198	14	2,456	18,035
Iowa	101	12	737	13,870
Kansas	112	23	1,206	16,609
Kentucky	89	9	1,395	18,967
Louisiana	141	33	2,438	16,229
Maine	55	<1	600	9,890
Maryland	200	69	10,186	25,256
Massachusetts	291	125	6,390	27,888
Michigan	354	24	2,871	30,281
Minnesota	388	58	1,740	20,641
Mississippi	152	9	1,61	9,257
Missouri	216	36	6,393	6,393
Montana	84	4	325	7,019
Nebraska	67	0	334	10,657
Nevada	125	2	957	9,455
New Hampshire	101	18	557	7,945
New Jersey	561	115	3,529	42,558
New Mexico	88	7	5,045	14,309
New York	654	186	5,023	97,125
North Carolina	204	57	2,546	22,205
North Dakota	62	<1	244	6,803
Ohio	378	44	4,524	35,200
Oklahoma	135	15	1,966	10,297
Oregon	184	14	810	32,830
Pennsylvania	471	62	6,025	46,106
Puerto Rico	92	5	N/A	2,885
Rhode Island	81	5	328	6,971
South Carolina	117	13	2,987	12,025
South Dakota	34	4	262	7,319
Tennessee	130	20	3,838	27,841
Texas	1,295	223	14,689	109,808
Utah	195	37	2,007	19,601
Vermont	37	<1	352	4,345
Virginia	232	51	26,030	21,435
Washington	326	83	5,197	28,970
West Virginia	42	9	434	7,857
Wisconsin	273	53	1,57	19,873
Wyoming	28	0	178	3,481
TOTALS	**14,672**	**$2,663**	**$56,360**	**1,296,082**

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) is considered Required Supplementary Information for Federal financial statements and is designed to provide a high level overview of the Agency. It provides a description of who we are, what we do, what our goals are, how well we achieved the goals we set and what it cost. The MD&A is organized into the following sections:

- **Mission and Organization of the Agency** – contains background on the establishment of the SBA and highlights our mission. It contains information on our major programs and program initiatives that affect the performance and/or the financial reporting.
- **Major Issues Facing the SBA** – highlights issues that could affect planned accomplishments and/or funding execution.
- **Performance Goal Achievements** – contains highlights of the results we achieved.
- **Analysis of the Financial Statements –** presents information on SBA's financial management and program costs.
- **Management Controls –** contains highlights of the SBA's reportable conditions and the corrective actions taken, our internal control program, and highlights from the Office of the Inspector General (OIG) audits and General Accounting Office (GAO) audits along with corrective actions taken.
- **Achieving Green on the President's Management Agenda** – details SBA's efforts to achieve the President's vision of Government that is citizen-centered, results oriented and market-based.

Mission and Organization of the Agency

Our Mission

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.

The SBA was established in 1953 as an independent agency of the Federal Government to administer a targeted set of Federal programs and policies focused on the Nation's small business community. President Dwight D. Eisenhower maintained that economic development and innovation prosper because of the unyielding American entrepreneurial spirit. His foresight led to the creation of the SBA.

The policy of Congress, relative to the SBA, is summarized in 15 U.S.C. 631 which states, "It is the declared policy of the Congress that the Government should aid, counsel, assist and protect, in so far as is possible, the interests of small-business concerns in order to preserve free competitive enterprise . . . and to maintain and strengthen the overall economy of the Nation."

Small business is the foundation of the Nation's economy. It remains the swiftest and surest way of achieving the American Dream.

The SBA's disaster loans are the primary form of Federal credit assistance for non-farm, private sector individuals and businesses in the wake of a disaster.

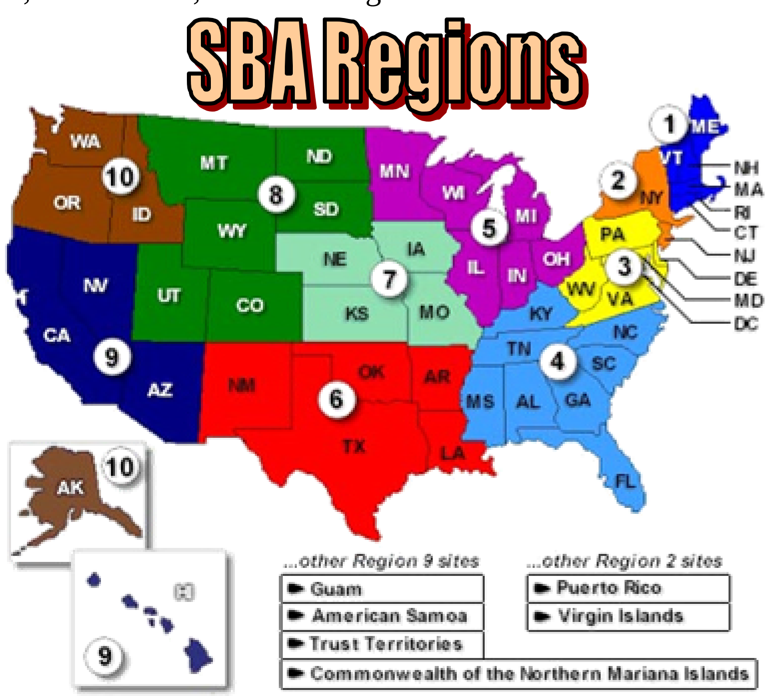
The SBA is the primary advocate of the small business community for the Federal Government, and it provides financial, procurement, business development and minority small business assistance and counseling.

In FY 2002, SBA

- **Backed $17.37 billion in financing to America's small businesses**
- **Approved more than 51,666 loan guarantees amounting to $11.1 billion in the 7(a) General Business Loan Guaranty program**
- **Provided more than 21,800 loans totaling $1.3 billion to disaster victims for residential, personal property and business restoration**
- **Provided more than $873 million in loans to 9,000 small businesses in the wake of September 11, 2001, and it continues in this effort into FY 2003**
- **Provided business counseling and technical assistance to more than 1.3 million clients through technical assistance programs**
- **Supported $616.5 million in export sales through SBA financing**

The Organization of SBA

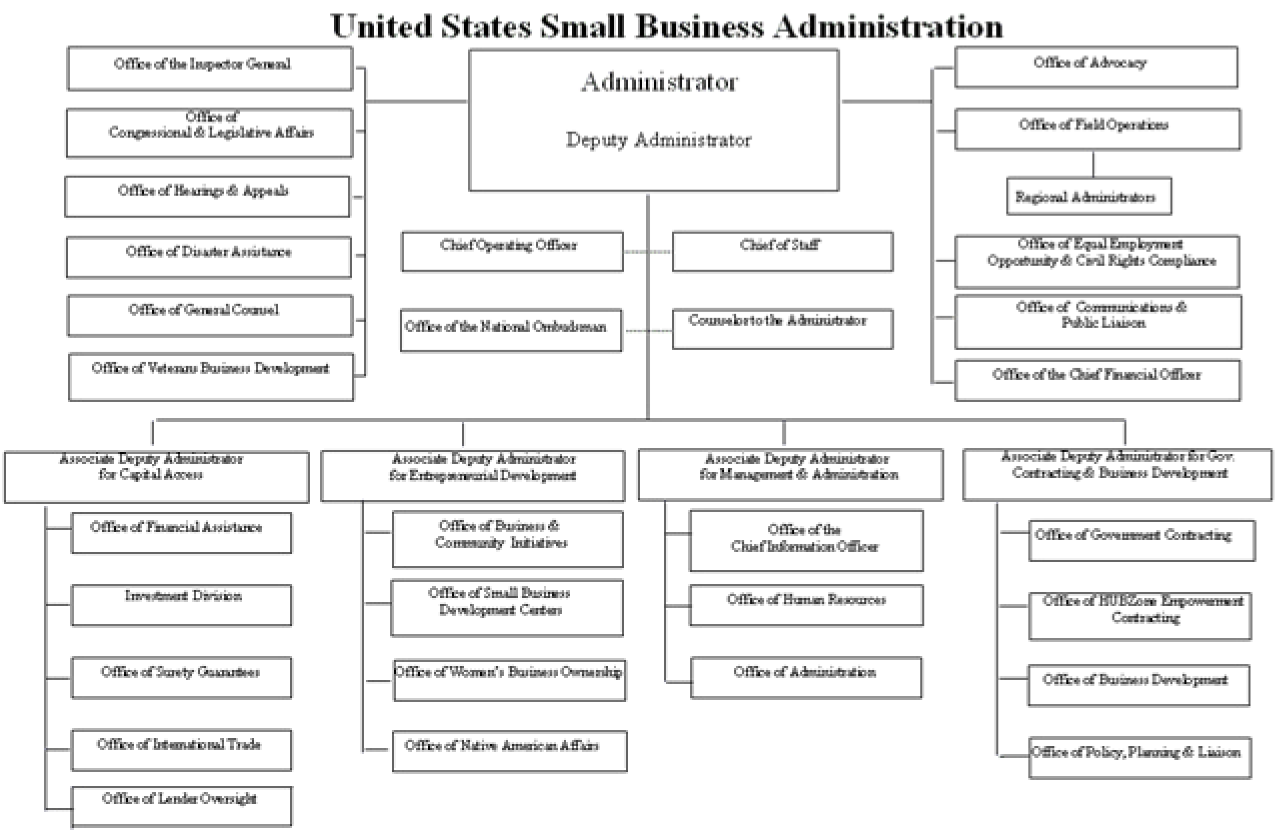
SBA is an organization with a Nationwide purview. SBA's Headquarters building is located in Washington, DC, while its business products and services are delivered with the help of 10 regional offices, 70 district offices and a vast network of resource partners in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam.



Disaster programs are delivered Nationwide and to U.S. Territories out of four area offices and to a large extent use temporary staff hired on location to respond to emergencies. The area offices report to and receive guidance from Headquarters.

SBA Headquarters is divided into key functional areas.

- The Office of Capital Access (OCA) is responsible for small business program loans, lender oversight, the investment company program, the surety bond program and international trade.
- The Office of Government Contracting and Business Development (GC/BD) is responsible for assistance to small business in obtaining Federal procurement, including the 8(a) minority business program, and Historically Underutilized Business Zone (HUBZone) and Small Disadvantaged Business (SDB) certification and eligibility. GC/BD also administers the small business innovation and research program and sets size standards for small businesses.
- The Office of Entrepreneurial Development (ED) provides management and business development assistance through a network of over 1,500 resource partner locations.
- The Office of Management and Administration (M&A) serves primarily in support of the previous three program offices and other offices located within the Office of the Administrator by directing human resources, information technology, contracting and purchases, grants management and Agency administration.



Capital Access

The Office of Capital Access is responsible for managing programs that increase the availability of financing for America's small businesses.

By providing access to capital, SBA provides crucial assistance to small business entrepreneurs at every stage of their growth. Access to capital supports the following outcome goals:

- Increase the opportunities for entrepreneurs to start a small business
- Increase the opportunities for small businesses to grow

The 7(a) loan program provides general loan financing for a wide variety of purposes. SBA guarantees small business loans 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.

Aldricia Lattimore

Accurate Engineering

In 1996, Aldrica Lattimore came to San Diego from New York to spend her vacation helping her brother Rodney get his business, Accurate Engineering, organized. The "vacation" turned into a six-month visit, during which Lattimore slept on Rodney's couch and spent 12-15 hours a day, seven days a week, working at Accurate Engineering without pay. She spent the next several years dividing her time between New York and San Diego, working as an administrative consultant, and helping Rodney with Accurate Engineering. In 2000, after several years of commuting – without pay! – Lattimore and her husband bought the business from Rodney. To get working capital, they used their home as collateral for two SBA loans, so they could bid larger jobs and get their own bonding. The company grossed over $1 million in sales in 2001 and now has 26 full-time employees and 50 others on an as-needed basis throughout the year. Lattimore has a passion for helping others and sees the business as a vehicle for doing that. She has written a training program in which Accurate Engineering will hire and train people who are "unemployable" and help them become self-sufficient.

The 504 program finances fixed asset investments and supports local economic development needs with long term financing. The 504 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 a Certified Development Company (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 non-Federal capital sources.

Microloans serve the very small entrepreneur, often in emerging markets. Microloans 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.

Small Business Investment Companies (SBICs) leverage private capital to expand the equity financing options available to small businesses. 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 they supplement investment companies' private capital with funds made available through SBA guarantees. SBICs are licensed and regulated by the SBA.

The Office of International Trade (OIT) develops, oversees and delivers SBA's technical assistance and export finance programs to small business exporters. It provides overall direction to staff located across the country at 19 U.S. Export Assistance Centers (USEACs) and 70 SBA district offices. OIT works extensively with other Federal agencies such as the Department of Commerce and the Export-Import Bank to coordinate the delivery of services to small firms and with the U.S. Trade Representative on small business-related trade issues. The office also supports the Administration's foreign affairs efforts participating actively in bilateral initiatives, and is a key player on the interagency Trade Promotion Coordinating Committee.

The Surety Bond Guarantee (SBG) program expands the bond credit and capacity of small contractors who would not otherwise be able to compete for public and private work. The SBG program provides 70-90 percent bid, payment and performance bond guarantees on behalf of small businesses for construction, service and supply contracts (up to $2 million). SBA's guarantee provides surety companies with the necessary incentive to extend surety bond credit to small contractors who could not otherwise compete in the contracting industry.

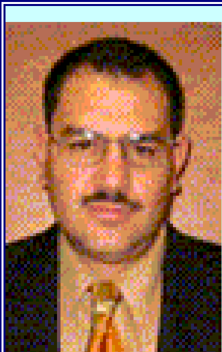
The Office of Lender Oversight (OLO) provides oversight and evaluation of SBA's lenders and lending programs in order to identify and monitor the risk in the Agency's loan programs. As much of the lending authority is delegated to lenders, OLO provides oversight and risk management of SBA lenders to ensure that they do not make loans to small businesses that are unnecessarily risky. OLO objectives are achieved through on-sight lender reviews and off-sight analysis. These activities take the form of tracking and analyzing loan activity and performance trends, assessing credit quality, identifying geographic and industry concentrations, and assessing compliance with SBA rules and regulation. SBA uses this information to assist the Agency in making better informed management and program decisions with regard to loan programs and lender partners.

Government Contracting and Business Development

The SBA's statutory mission includes ensuring a fair share of Federal procurement goes to small businesses. The Office of Government Contracting and Business Development (GC/BD) works to ensure that Federal agencies comply with Federal statutory procurement goal requirements to buy a portion of their goods and services from small businesses. Working with Federal agencies, SBA negotiates procurement goals, monitors performance, encourages the use of small business sources and provides procurement training and technical assistance to small firms.

GC/BD is organized to support small businesses through a coordinated and collaborative network of programs.

Government Contracting provides policy direction and guidance to Federal agencies and establishes performance targets in collaboration with those agencies. The SBA and other agencies develop business strategies in pursuit of achieving these goals. Several of the goals are statutory (i.e., Small Disadvantaged Businesses, Women-Owned small businesses, HUBZone small businesses and Service Disabled Veteran-Owned small businesses).



Andrew Cabral

SBA Helps Montebello Roofer Expand

In the early 1980s, Andrew Cabral arrived in Los Angeles from his native Zacatecas, Mexico. He learned the roofing trade and attended business school on a part-time basis, eventually becoming a manager and then comptroller for a family-owned roofing company. In 1997, he started Cabral Roofing and Waterproofing, based in Montebello, California. He hired family members for his management team and established business relationships with clients who knew him from his many years in the roofing industry. In 1998, the company became certified in the SBA's 8(a) business development program. Cabral Roofing has been awarded five 8(a) business development contracts for $3 million and is well on the way to hitting $11 million in sales this year. In addition, their involvement in the 8(a) business development program has provided them the reputation for quality work they need to successfully compete for private sector contracts. "Participation in the 8(a) program has more than met my expectations," said Andrew Cabral. "Thanks to our involvement with the SBA, we have doubled our sales since 1999 and expanded our staff from 45 to 70 employees." Los Angeles SBA District Director Alberto G. Alvarado commented on Cabral Roofing and Waterproofing's success: "I commend Andrew Cabral for nurturing his family business to success. He has made a significant contribution to our community's economic development by steadily adding new employees."

The HUBZone program's statutory mission is to promote job growth and economic development in "historically underutilized business zones" – HUBZones. HUBZones are distressed urban and rural areas, characterized by chronic high unemployment and/or low household income or are designated as Indian Lands. Firms that are certified as "qualified HUBZone small business concerns" are eligible for Federal contract preferences. Through award of such contracts, funds are made available to historically underutilized communities, by promoting job growth, capital formation and economic development.

The Office of Business Development manages the business development 8(a) and 7(j) programs. 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. 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.

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.

Entrepreneurial Development

The vision of the Office of Entrepreneurial Development (OED) is to enhance entrepreneurship and business expansion by providing cutting-edge programs and services designed to provide existing and potential entrepreneurs with the knowledge, skills and tools to be successful and capable of competing in the 21st Century business environment, domestically and internationally, through traditional and e-Government methods.

Lack of management knowledge or the inability to access knowledge is a major underlying cause of small business failure. Therefore, empowering entrepreneurs through counseling, education, training and information is one of SBA's principal objectives. OED plays an important role in delivering and disseminating business information, providing education and training and counseling clients about starting or growing their businesses.

ED serves approximately 1.4 million clients annually through its programs, including, but not limited to Women's Business Centers (WBCs), Small Business Development Centers (SBDCs), Business Information Centers (BICs), SCORE and various online activities. 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.

SBA's Women's Business Centers (WBCs) program provides in-depth, long-term training, counseling, mentoring, access to capital and encouragement to emerging and existing women entrepreneurs. Each WBC focuses on the special needs of women, especially those who are socially and/or economically disadvantaged. Many offer child care, evening and weekend hours, scholarships and classes in different languages. SBA supports the Online WBC, which offers online business information and training in seven languages as well as individual counseling, mentoring, networking and links to other relevant Web sites, 24/7. WBCs are public/private partnerships funded through matching grants under cooperative agreements. Each undergoes quarterly on-site reviews and an annual programmatic and financial review before receiving another year of funding.

Small Business Development Centers (SBDCs) (funded through cooperative agreements) increase opportunities for entrepreneurs to start small businesses as well as increasing their potential for growth and survival. Approximately 50 percent of SBDC clients are entrepreneurs who are already in business. With a National network consisting of 58 lead centers, over 1,100 service centers and approximately 6,000 employees, SBDC services are tailored to the needs of each individual client and provide the full range of business counseling from the basics, such as marketing and finance, to the relatively more advanced, such as patent assistance, export assistance and strategic planning. This assistance is provided at the SBDC site or at the client's site and is done face-to-face, by phone, by e-mail, by fax, by video and by teleconferencing.

Business Information Centers (BICs) provide a resource location where current and future small business owners can receive assistance and advice. Through cosponsorships with the public and private sector, BICs offer the latest computer technology, self-help hardware, software and reference materials. BICs also offer on-site counseling that allows small business owners to develop personalized plans for action leading to the right choices for their businesses. Individuals who are in business or are interested in starting a business use the BIC at no charge. BICs help business owners and entrepreneurs start, run and grow a small business.

The **SCORE** program (funded through a cooperative agreement) uses volunteer experts – retired and still working – to help current and potential entrepreneurs make intelligent business decisions. SCORE complements SBA's other information, counseling and technical assistance programs, with many SCORE sites being co-located with SBA district offices, BICs or resource partners such as SBDCs, as well as chambers of commerce, colleges and universities, banks, libraries and economic development offices. The vast majority of clients counseled by SCORE are pre-start or recently started businesses.

Cheryl DeCain, the Organized Woman

Do you know which colors are in a rainbow? Do you know in what order they are located within that rainbow? Just ask Cheryl DeCain, owner of The Organized Woman. She could tell you. She organizes clothes in closets according to the colors of the rainbow. "I started my business "The Organized Woman" in 1995 on a shoestring," said DeCain. "My start up cost was $10.50, which was the price of a small ad in the Ladue News. At the time, I was working as a sales person in the bakery "Hank's Cheesecakes", and each time a nicely dressed woman would enter to pick up her order, I would ask 'would you hire someone to organize your closets, take out unwanted clothes, and only leave in-season clothes that were set up according to item and color.' Every woman said, 'I certainly would.' So, when the former editor of the Ladue News came in, I asked her the same question, and her reply was, 'What I think doesn't matter, what matters is what your market thinks, so place an ad and see for yourself.' So I did," said DeCain. Her first job was organizing an entire home. Where did she get her organization skills? "I was raised by two very organized people. When we entered our home, we went directly to the closet and hung up our coats. That's how we lived. I always knew where everything was because it was always put back when I was finished with it. It makes life just a little easier," said DeCain. DeCain realized she needed help with her bookkeeping skills, so she called SBA and asked for assistance. She was assigned to Dick Priest, a volunteer counselor for the Service Corps of Retired Executives (SCORE). Priest spent some time with DeCain and then suggested that she purchase a computer so that the computer could do her bookkeeping for her. "I cannot tell you how helpful Dick has been. I could even call him at home and he was always helpful and kind. He knows his business," said DeCain. She learned how to write a profit and loss sheet, which at one time seemed impossible, but thanks to Dick Priest and SCORE "I can now write my own!"

The Paul D. Coverdell Drug-Free Workplace program is delivered to small businesses Nationwide through grants to intermediaries and in part through the SBDC system. Although not directly increasing opportunities for entrepreneurs to start small businesses, this program trains small businesses on how to set up drug-free workplace programs. Studies have shown that businesses that establish drug-free workplace programs see improvement in their bottom lines.

Disaster Assistance

The SBA assists victims of physical disasters such as earthquakes, floods and hurricanes, by extending direct loans to individuals and businesses. The SBA's disaster loans are the primary form of assistance for non-farm, disaster losses for individuals and businesses. The SBA assists in disasters through two programs: Home Disaster Loans and Business Disaster Loans. Loans are made at favorable terms and conditions to cover uninsured losses of real and personal property and economic injury caused by disasters. The Disaster Loan program provides Federal assistance for non-farm private sector losses. It is the only form of SBA financial assistance not limited to small businesses. The Disaster Loan program is administered through four Disaster Area Offices (DAOs), and in times of emergencies uses temporary staff hired on location. The DAOs report to and receive guidance from a small Headquarters office.

Major Issues Facing the SBA

The SBA is rapidly changing the way it does business and has taken many steps toward correcting and modernizing the Agency's programs and financial management. Some changes are the consequence of re-tooling our business model from providing services and products directly to clients to providing services through resource partners. Some changes are the result of new technology, which makes it more cost-effective to carry out existing functions in new ways.

SBA's success in serving small business and helping with disaster recovery has been significant and has added immeasurably to the success of the small business sector and to the National economy. However, to frame a full, clear picture of the Agency, it is important to review the major issues facing SBA.

SBA is the "pilot" for OMB's Asset Sale program. OMB anticipates proliferating this program throughout the Federal Government. In order to stay on the "cutting edge," SBA must integrate its information technology (IT) systems to include data on all programs, an accounting of the expenditure of funding authority and financial reporting to provide accurate and timely information to Congress and the small business community. SBA must also completely analyze its functions and identify what can best be privatized, relieving some of the duties of the dwindling SBA workforce. The SBA has recognized the need to refocus its efforts toward marketing, requiring a transformation of the workforce, which has been and will be a real cultural impact at SBA.

Asset Sales Reporting

The SBA initiated its Asset Sale program in FY 1998, as encouraged by the Office of Management and Budget (OMB). The program is a part of the Government-wide effort to better manage credit portfolios. SBA had never sold large volumes of loans in bulk sales before OMB encouraged it to begin the sales.

SBA has successfully designed a sales process that attracts and satisfies investors. In preparation for a sale, the SBA provides potential investors with the information they need to make informed bids. SBA field offices and servicing centers review loan files to determine which loans can be sold and, in the case of SBA-guaranteed loans, obtain approvals from the participant lenders. SBA and a contractor assemble the loan information for investors, and SBA, with a financial advisor, creates loan pools and advertises each sale. SBA obtains OMB approval for each sale, based primarily on whether the SBA's estimate of the value to the Government of holding the loans is less than the market value estimate prepared by the financial advisor. SBA has consulted with investors since the beginning of the program in order to structure sales in accordance with market demands.

The Asset Sale program has the following four goals and objectives: (a) to maximize sales proceeds, (b) to protect the public policy goals of the Agency's loan programs, (c) to improve portfolio management, and (d) to create an opportunity to re-deploy SBA staff to mission critical functions. The SBA sells its owned assets to private sector investors in a program that is designed to maintain the public policy objectives central to the Agency's core mission of providing financing for small businesses and for homeowners and businesses that are the victims of disasters. The Asset Sale program is also intended to maintain the Agency's financial interests by returning the best value to the U.S. taxpayer from the sale of loans.

As of the end of FY 2002, the SBA has completed six sales of its owned loan portfolio. The loans are sold through an open and competitive process. The total SBA portfolio of direct loans and collateral assets was valued in 1999 at approximately $11 billion including 7(a), 504, disaster home and disaster business loans. As a result of the six sales so far, the SBA has sold about $5.1 billion in loans to private investors.

The Asset Sale program and its processes are under continuous review by OMB and the General Accounting Office (GAO). A review of the SBA's early asset sales has revealed that, in implementing the new sales effort, the Agency's efforts need improvement.

Although the SBA has followed up on borrower inquiries and complaints, the Agency plans to establish a tracking system in FY 2003 so that the total number of inquiries and complaints can be fully analyzed. Trends or consistencies found through this analysis will help to improve future loan asset sales.

Because it was the pioneering Agency selling loan assets subject to the Federal Credit Reform Act of 1990 (P.L. 101-508) (FCRA, or Credit Reform), the SBA was faced with a number of accounting challenges. Issues remain regarding the calculation of loss (or gain) on asset sales. To further complicate things, the calculation of loss (or gain) directly impacts the subsidy rates, which, in turn, affects the subsidy balance account. Time constraints and systems limitations make it difficult for the SBA to fully evaluate its loan portfolio both before and after each asset sale to fully determine the effect of the sale. However, the GAO report GAO-03-87, *Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain,* January 2003, noted discrepancies and issues with the subsidy calculations that impacted on the financial statements. The SBA is committed to correcting any noted deficiencies in its loan sale program. The Agency will work closely with the Office of the Inspector General (OIG), its external auditors and the GAO to ensure that the Asset Sale program becomes a model for other credit agencies to follow.

The operational benefits to the SBA and to the Federal Government that result from loan asset sales are evolutionary in nature. Original projections regarding reductions in loan servicing personnel, due to decreased numbers of loans, have not yet been achieved. Planned work force realignment is still underway.

In this Performance and Accountability Report, the "Improved Financial Performance" section under "Achieving Green on the President's Management Agenda" has additional information on the loan Asset Sale program.

Information Technology

The SBA is a systems intensive organization that has demanding IT security requirements that must be met. SBA will continue implementation of the Agency's Public Key Infrastructure (PKI) architecture that employs digital signatures and identifiers called digital certificates to prove a sender's identity and a message's integrity. The use of PKI is required by the e-Government/e-Authentication initiative. SBA will expand the PKI effort to include SBA lending resource partners. Planned IT security infrastructure improvements will increase the Agency's security monitoring, detection and reporting capabilities, thereby assuring information integrity and security.

The Agency's IT projects are divided into standard types in accordance with OMB guidance: Mission Area Support, e-Grants, Enterprise Architecture and Planning and IT Infrastructure/Office Automation.

- The SBA is committed to a program of sustained progress in its capital planning and investment control process, both to improve the quality of overall IT management and as a means to exercise better cost control and budget discipline over its portfolio of IT investments. SBA was one of only five agencies – and the only small agency -- to successfully transmit its IT budget to OMB using the Information Technology Investment Portfolio System (ITIPS).
- SBA requests $600,000 to create an electronic grant system. Public Law 106-107 requires the SBA to implement a plan by October 31, 2003 that would simplify the application, administration and reporting process for the financial assistance programs that the Agency administers. By creating and implementing an electronic grant program, SBA will enable grant applicants to electronically apply for, and report on the use of grant funds. By using electronic and Internet tools as a means of service delivery, SBA

will reduce the time and expense that the public spends doing grant business with the Agency. In order to move this e-grant project forward, SBA has created an e-Grants team. The SBA e-Grants team members will seek input from the Agency's grantees to identify and establish goals and objectives that will lead to a more efficient method and less burdensome process for receiving and processing grant applications utilizing technology. The SBA e-Grants project will transform the entire "grant life cycle" from announcement to completion and closure of the grant process. As required by P.L. 106-107, the e-Grants team will cooperate and coordinate with other agencies' efforts in the e-Grants cross-agency initiative.

- Information technology selection and management will be driven by the Agency's general goals and business processes addressing and emphasizing a streamlined work force, re-engineered work processes, centralized processing and more effective ways of doing business. Using best industry practices and contemporary but proven technologies, SBA will lay the foundation to become an "anywhere, anytime" service provider – the Virtual SBA. Utilizing contemporary technologies, predominately via the Internet, SBA will be able to inform, assist and nurture more small businesses, in more ways, on an anywhere, anytime basis. The virtual SBA will be more customer-centric, highly responsive and oriented toward performance and results.

SBA fully understands that it must ensure that all data it collects and maintains is safeguarded. Successfully implementing e-Government entails creating and maintaining a level of trust among all transacting parties. Each one must have confidence in the use of electronic means to carry out private, sensitive transactions such as applying for a business loan or a grant or determining eligibility in an SBA program. SBA's IT capital investments in security and privacy feature an integrated planning framework and a unified approach to developing and implementing necessary security policies, components and practices. These actions protect and defend both private data and information systems by ensuring confidentiality, availability, integrity, authentication and non-repudiation.

SBA's strategic security plan identifies the processes, resources, responsibilities and issues associated with these key components:

- Security and Privacy Policy and Guidance
- Risk Management
- Contingency Planning
- Incident Reporting and Response
- Vulnerability Analysis and Penetration Testing
- Computer Security Awareness and Training

The security plan provides the framework for establishing an Agencywide information security program and ensures that broader e-Government activities occur within a secure yet unobtrusive customer environment. Starting in FY 2002, SBA identified IT security requirements and costs as a separate budget activity within its IT portfolio. These activities are seen as necessary costs that must be an integral part of all IT projects and plans but which are especially critical to the evolving family of Internet driven e-Government and e-Commerce initiatives. The Agency's security budget supports the expected introduction of PKI technologies and the Agency's sustained effort to mitigate or eliminate the risks associated with IT security vulnerabilities identified in Government Information Security Reform Act (GISRA**)** and OIG reviews.

The SBA recognized the need to ensure the Loan Monitoring System is developed meeting all IT configuration management criteria, and GAO is closely monitoring achievements. The SBA must have an integrated corporate information system (manpower, budget and personnel information), to provide ready access for each manager to vital information, and an integrated budget and financial process that produces automated financial reporting.

Integrating the Budget and Financial Processes

Per the Federal Financial Management Improvement Act (FFMIA) of 1996, the SBA's independent auditor must issue an annual statement regarding the Agency's compliance with laws and regulations in the areas of Federal financial management systems and Federal accounting standards. During the FY 2000 audit, the auditors found "no instances of noncompliance," effectively reporting that the SBA was in substantial compliance. This was based on the Combined General Ledger (CGL)/Financial Reporting Information System (FRIS) process that was first developed for FY 2000 reporting. However, the auditor's opinion in the SBA's FY 2001 audit changed as to SBA's FFMIA compliance. In FY 2001, the auditor identified the following two areas in which they thought the SBA's financial management systems did not substantially comply with FFMIA.

- SBA's core financial system is not able to provide complete, reliable, timely and consistent financial management information on operations to enable management to fulfill its responsibility of being accountable to the public and provide timely financial information to manage current operations.
- SBA is not in substantial compliance with accounting standards because of significant errors and misstatements in its initial financial statements.

*Implementation of New Financial Statement Formats***-** At the end of FY 2001, OMB issued new guidance regarding changes to the financial statement formats (OMB Bulletin 01-09 dated 09/25/01). In this bulletin, OMB requires agencies to have these changes implemented by the reporting year FY 2002, but allows implementation a year early if desired. The SBA implemented the financial statement changes for the FY 2001 reporting year.

As a result of an accelerated reporting schedule and resource constraints, a complete validation of the new mappings was not accomplished. This allowed some errors to flow through to the draft statements. The auditor identified the errors, resulting in the negative FFMIA finding. The SBA attempted to be pro-active in the implementation of OMB's new formats a year early, but its reach exceeded its grasp.

The SBA has taken corrective action by contracting with outside experts to conduct a complete validation of the crosswalks/mappings in its financial reporting system to assure that data flows correctly from the combined general ledger to the financial statements for FY 2002.

Other Errors and Misstatements - The auditor identified various other entries to the financial statements that require improvement. The SBA was not able to fully implement the recommended changes, resulting in an adjustment to the statements.

The SBA has taken corrective action and SBA continues to explore new ways to take the human intervention out of the preparation of financial statements and to improve its quality assurance processes over all entries. SBA has worked to automate the loss calculation for FY 2002 reporting based on suggestions made by the auditor. Additional entries are being evaluated for similar automation.

For FY 2002, the SBA's auditor found the Agency not in compliance with FFMIA. The compliance exceptions included 1) Financial Systems – untimely and inaccurate financial management information, information systems control deficiencies, and funds control deficiencies; 2) Accounting Standards – inconsistencies in the costs of loans sold and the subsidy costs of disaster loans, lack of documentation on the liability for pre FY 1992 loan guarantees, and an inadequate estimate of the Master Reserve Fund excess or deficiency; and 3) non conformance with U.S. Standard General Ledger (SGL) – errors in updates to the SGL crosswalk, and invalid posting of recoveries of prior year obligations due to conversion to the Oracle Federal Financials.

The SBA is working intensively to correct these deficiencies. We are encouraged that the progress on the issue related to the costs of disaster loans sold will provide a solution to this most important issue for FY 2003 reporting. Also, we will make substantial progress toward the resolution of the other FFMIA issues during FY 2003 and we expect this will result in a much improved FY 2003 audit report.

Identifying and Evaluating Functions for Privatization

SBA has begun and will continue to examine all of its activities to determine which functions could be better performed by private-sector entities. This continuing effort involves detailed analysis of personnel, position descriptions, operations and processes. The analysis must be thorough, objective and fully compliant with OMB Circular A-76. To do this properly requires the assistance and support of individuals and firms with expertise in the conduct of competitive sourcing studies. SBA requested funds to secure these services so that SBA's analyses, conclusions and decisions are sound and fully supported by objective and quantifiable study. This will also protect the Agency and its employees in assuring the legally supportable and appropriate outcomes of the studies.

Transforming the Workforce

To better serve customers, improve efficiency and fully implement the President's Management Agenda, SBA requires funding dedicated to new investments in infrastructure, technology and human resources. Subject to Congressional concurrence, this funding will be used for new initiatives that will allow the Agency to accomplish its strategic initiatives, some of which are already progressing.

- SBA transformation will begin with the rollout of 3 district pilots meant to test the efficacy of the new focus on customer and resource partner relationship management. Training programs and planning for the pilots have been completed.
- e-SBA initiatives have already begun — with the development of an Internet portal dedicated to helping people start a business, and with the initiative to become the "Homepage for Small Business."
- SBA's marketing initiative includes the district pilot efforts to re-align the work of the district offices to focus more on marketing and outreach to small businesses. It also includes existing efforts to develop more productive co-sponsorship arrangements. Other planned activities include a comprehensive National strategy to reach more small businesses.

SBA's transformation plan defines the strategic management actions that are needed over the next 5 years to align staff, operations and organization with the needs of small businesses. This effort responds to the President's Management Agenda call to strategically manage the Agency's human capital.

Performance Goal Achievements

SBA achieves its mission by accomplishing three strategic goals

- *Champion Small Business Interests:* Small businesses need a champion to ensure that their interests are protected in the regulatory formulation and enforcement process.
- *Empower Entrepreneurs:* Many small businesses benefit from assistance that empowers them to succeed in the market place. Access to capital, technical assistance and procurement opportunities help to small businesses succeed in a competitive marketplace.
- *Help Businesses and Families Recover from Disasters:* Disaster ravaged communities need help rebuilding their economic base. SBA home and business disaster loans provide crucial assistance to businesses and families.

The progress that SBA made toward achieving each of these goals is discussed below.

Strategic Goal 1: Champion Small Business Interests.

SBA works to create an economic environment in which small businesses can thrive. The Government's relationship to small business is a critical part of the economic environment for small business. If regulations are excessively onerous, if it is difficult to understand how to comply with regulations, or if regulatory enforcement is unfair, then the ability of a small business to succeed will be greatly impaired. SBA's first strategic goal is to champion the interests of small businesses within the Government.

GEARED UP FOR A GOOD LONG RUN

When David Melo's job in Bakersfield was eliminated in 1999, his employer offered him a position in Chicago. Not wanting to uproot his family, David started Melo's Gas & Gear, a welding and industrial supply company. The company has grown so substantially that Melo's Gas & Gear ranked 77th in *Entrepreneur* Magazine's list of the top 100 fastest-growing new entrepreneurial businesses in the USA for 2001, achieving $3.1 million in sales. The company, which also provides customers with industrial and specialty gases, uses an innovative system to track the cylinders it rents. The technology helps the small company successfully compete with much larger firms. But while technology is important, Melo emphasizes that good customer service is every bit as important to the company's success. "We can make a decision to satisfy a customer in a second," Melo said. "A couple of our competitors call us a mom-and-pop business, and I'm proud of that." Service Manager Ron Wade, who helped start the business with Melo, agrees that the small firm has the advantage over larger companies. "There's a different atmosphere. We were pretty much told what we could and couldn't do before," Wade said. "But that's not necessarily what it takes to do the job. What it takes for one guy today is not necessarily what it'll take a guy tomorrow." With only 13 employees, Melo's is able to provide personal service to its customers, which means that employees can't wear just one hat, Wade said. Melo employees take on many roles to fit the need at the time, and don't all fit neatly into rigid job descriptions. "We all do pretty much what it takes," he said. "The aim is always to get the customer what is needed and get him on his way so he can get his job done," he said.

In FY 2002 SBA championed the interests of small businesses by working to reduce the burdens of Government regulation on small businesses. SBA reduced the cost of new regulations to small business through the Office of Advocacy's interventions in the regulatory process. SBA's Office of Advocacy saved small businesses $21.1 billion in potential costs from proposed regulations, dramatically exceeding its performance goal of $3.5 billion.[1]

SBA used Internet technology to reduce the time and effort businesses must expend in learning how to comply with regulations. SBA's award-winning *Business.gov* and *BusinessLaw.gov* web portals provided easy access to information about how to comply with Government regulations to 170,000 small businesses per week.

SBA reinvigorated the Office of the National Ombudsman's ability to provide assistance to small businesses that feel they have been unfairly treated in the regulatory process. SBA increased the number of RegFair hearings from four in 2001 to 22 in 2002 and held more than 10 emerging markets meetings to introduce the services of the Office of the National Ombudsman to women, minority and veteran small business owners. The number of small business comments about regulatory actions increased over tenfold from 22 in FY 2001 to 262 in the first 10 months of FY 2002. The newly-designed and interactive Ombudsman web site received over a million hits during FY 2002.

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1 The bulk of these savings, $18 billion, were due to the Office of Advocacy's successfully obtaining revisions to the Cross Media Electronic Reporting and Record-Keeping Rule by the Environmental Protection Agency. The magnitude of the potential cost of this rule to small business was so great and so unusual, that it is unlikely that this level of cost savings will be achieved in the future.

Strategic Goal 2: Empower Entrepreneurs

SBA empowered entrepreneurs by providing access to capital, increasing procurement opportunities and technical assistance.

Small businesses received $17.37 billion in loans and venture capital financing from SBA programs in FY 2002. For FY 2002 (ending September 30, 2002), the SBA approved 51,666 loan guaranties amounting to a record $11.1 billion in the 7(a) General Business Loan Guaranty program. Of that total, 4,704 loans amounting to $1.83 billion were made under the Supplemental Terrorist Activity Relief (STAR) program. SBA also approved 5,480 loans worth a record $2.47 billion under the Certified Development Company loan (CDC) program. The combined dollar total for the two loan programs of $14.68 billion is a record.

More than 23 percent of all SBA loan dollars in FY 2002 went to minority borrowers – more than $4.3 billion to more than 14,500 minority-owned businesses, both records. SBA also approved a record $2.2 billion in loans to small businesses owned by women. SBA loans to African-Americans ($418.4 million), Hispanics ($884.3 million), Asians ($2.8 billion) and Native Americans ($127.7 million) also set records.

SBA's Microloan program, which promotes economic empowerment at the smallest levels, provided $34.2 million in loans to a record 2,581 borrowers. Under the program, SBA provides funding for loans and technical assistance to non-profit community-based lenders. Since 1992, more than $184 million has been loaned under the program to more than 16,500 entrepreneurs, with an average loan size of about $10,500.

SBA's Small Business Investment Company (SBIC) program, the Agency's premier vehicle for providing venture capital to small, growing companies, produced $2.66 billion in equity and debt capital investments during the year. The program's licensed SBICs made 4,004 investments in 1,979 different small businesses.

SBA's international trade program and the U.S. Export Assistance Centers assisted in generating $616 million in export sales by small businesses.

SBA does not have performance data for its Federal prime contract dollar goals due to a delay in receiving this information from the Federal Procurement Data Center (FPDC). The Federal Acquisition Management Information System (FAMIS) that is being developed by the General Services Administration will improve the timeliness procurement data.

Belinda Guadarrama

GC Micro

When Belinda Guadarrama reported for work one day at the small mail-order business north of San Francisco where she was employed, she found a note on the front door saying the company was officially closed. She had known the company was in trouble but she didn't think things were that bad. She stood in the parking lot for a while, pondering her future. "I was at a turning point in my life," recalled Guadarrama. "I liked working in the computer field, so I could either start my own business doing that or look for a job in San Francisco. I decided to start my own company." In 1986, Melinda started GC Micro with two employees. The firm, which began as a value-added reseller of software products, was financed by Melinda's $20,000 profit from the sale of her home and some money from a retirement account. By the end of GC Micro's first year, the small business reported revenues of $209,000. But the beginning of GC Micro wasn't easy. When she sought a $5,000 loan for her company, a bank officer laughed at her lack of collateral. Belinda left the bank without even receiving a loan application. A prime contractor once told her, "No company wants to work with a little Mexican company in Novato." Through sheer determination and a passion for customer service, Belinda overcame the perception that a minority woman didn't belong in the technology field and had no business marketing to defense contractors. Three years after starting her company, Belinda worked with a local bank to secure an SBA-backed loan for $300,000. She paid off the loan in three years and oversaw the firm's expansion from a retail site to a business park that doubled her space. Today, GC Micro is one of the nation's leading suppliers of computer hardware and software products to the defense and aerospace industries. The company employs 28 and enjoyed sales last year of $34 million. Belinda Guadarrama is the 2002 second runner up for Small Business Person of the Year.

SBA initiated a procurement matchmaking program in FY 2002. In partnership with the U.S. Chamber of Commerce and as part of the Annual Industry/SBA Procurement Conference, SBA provided an opportunity for small businesses to market their services directly to agencies and private industry firms. Approximately 400 small businesses attended the event and met with 20 Federal agencies and 17 large corporate prime contractors. As a result, buyers and small businesses conducted over 1,000 meetings.

Lack of technical management knowledge is a major cause of small business failure. Through counseling, education, training and information SBA assists entrepreneurs to obtain the knowledge that they need to succeed. In FY 2002 approximately 1.53 million entrepreneurs received business counseling and technical assistance through SBA's advisory programs:

- 651,421 people received technical assistance through the Small Business Development Center program;
- 440,293 people received assistance from the volunteers of the Service Corps of Retired Executives (SCORE);
- 146,658 people got help at an SBA Business Information Center;
- 208,000 people used an SBA Small Business Classroom on the Internet;

- 85,748 people got help from an SBA Women's Business Center and conducted more than 180 roundtables through the Women's Network for Entrepreneurial Training (WNET) program.

Strategic Goal 3: Helping Families and Businesses Recover from Disasters

SBA played a major role in helping Americans recover from the effects of the 9/11 terrorist attacks. Small businesses that were victims of the World Trade Center / Pentagon attacks received more than $426 million in disaster recovery loans, and more than $447 million for the Expanded Economic Injury Disaster Loan Program was given to firms that were impacted by 9/11 but located outside of the declared disaster areas in New York and Virginia.

SBA's disaster assistance loan program made 21,829 disaster recovery loans Nationwide, amounting to over $1.3 billion during FY 2002. SBA continued to provide outstanding service to the victims of natural disasters by exceeding its field presence and loan processing timeliness goals.

Conclusion

The Performance section of this document provides a more detailed discussion of the performance of each of SBA's programs. This discussion includes more detailed performance measures than are reported in SBA's scorecard and cost information for each program. In the *FY 2004 Performance Plan and Budget Request*, SBA introduces a new system of performance measurement that includes more outcomes and better covers the wide range of services that SBA programs deliver to small business.

The SBA has conducted cost studies for many years to identify the operating expenses to be allocated to the business and disaster programs in its budget. In recent years, the need for cost reporting has increased. The Government Performance and Results Act of 1993 (GPRA) placed a new emphasis on identifying Agency program costs. Also, the Federal accounting standard on cost accounting issued in 1997 requires agencies to develop cost accounting systems for use in management and financial reports. Finally, the Chief Financial Officer (CFO) financial statements required a report of program costs beginning with FY 1999 reporting.

The activity based costing (ABC) methodology is used for the SBA's cost accounting with the OROS® cost accounting model. Using ABC, the SBA's program activities are defined, and surveys of agency personnel are used to relate costs to these program activities. These activity costs are then, in turn, related to the "cost objects," i.e., SBA services, such as guaranteed loans or disaster loans.

Besides financial reporting, the SBA also uses ABC developed costs for management decision making. The cost of making and servicing loans, for example, provides information for decisions on resource allocation within the SBA and for outsourcing alternatives. In addition, the SBA began using activity based budgeting (ABB) for the development of FY 2001 program office budgets. ABC and ABB have provided a modern management tool for the SBA's use in strategic and operating decision making. The identification of program costs is another important step for the SBA.

Analysis of Financial Results

The SBA is the smallest of the five major credit agencies, behind the Department of Agriculture, Department of Education, the Department of Housing and Urban Development and the Department of Veterans affairs. The SBA's portfolio includes approximately $50 billion of loan guarantees and defaulted loan guarantees, as well as loans made directly to the victims of natural disasters and the Agency's Microloan and SBIC direct lending programs.

The SBA's financial results are essentially driven by the factors affecting the costs of the Agency's credit programs. The SBA's debt management results affect credit subsidy costs, along with offsetting fees and charges. Program administrative expenses also affect the SBA's financial results. These factors altogether, along with the health of the U.S. economy, determine the financial condition of the SBA.

Financial Statement Analysis

Background

The SBA's assets and liabilities are mostly the result of its credit program activities, including: fund balances with the U.S. Department of the Treasury (Treasury), credit program receivables, liabilities for loan guarantees, Treasury debt and other asset and liability accounts. The SBA's loans and guarantees are financed by a combination of two sources: one for the long-term <u>cost of the loan</u> and another for the remaining <u>non-subsidized portion</u> of the loan. Congress provides appropriations to cover the estimated long-term costs of SBA loans, which are defined as the net present value of the estimated cash outflows and inflows associated with the loans. The remaining portion of each <u>direct loan</u> that does not represent long-term cost is financed under a permanent indefinite borrowing authority to borrow funds from the U.S. Department of the Treasury. <u>For loan guarantees,</u> the amount provided to SBA for the cost of the loan accumulates interest until the funds are needed to purchase defaulted guarantees or to pay liquidations expenses. Additional funds may be borrowed from Treasury for defaulted loan expenditures that will be repaid from liquidation recoveries.

<u>Credit program receivables</u> for SBA are comprised primarily of the following loan and guarantee programs:

- Business Guarantees including 7(a), 504 Development Company and SBIC debentures and participating securities,
- Business Direct loans including Microloans and SBIC direct debentures and preferred stock, and
- Disaster Direct loans to help businesses and homeowners recover from natural disasters.

Direct loans are accounted for as credit program receivables at the time they are disbursed. Defaulted SBA guarantees become loan receivables when they are purchased by the Agency. For loans obligated prior to October 1, 1991, loans receivable are adjusted by an allowance for estimated uncollectible amounts. For Credit Reform loans obligated on or after October 1, 1991, the loans receivable are adjusted by an allowance equal to the present value of the subsidy costs (due to the estimated delinquencies and defaults net of recoveries, the offset from fees, the interest rate differential between the loans and Treasury borrowing, and other estimated cash flows) associated with these loans. This allowance is re-estimated on an annual basis.

Financial Statement Results

Total SBA's assets of $13.4 billion at FY 2002 yearend include essentially:

$7.5 billion – cash reserves at Treasury to finance the SBA's credit programs
$5.4 billion – direct loans and defaulted guarantees
$0.4 billion – advances for timely payment guarantees
$13.4 billion

Total assets decreased $.9 billion from fiscal yearend FY 2001 as a result of a reduction of the cash reserves at Treasury from loan receivable liquidation that was not offset by new loan receivables. Defaulted guarantees, direct loans and advances for timely payment increased by $.4 billion in FY 2002 as new loan receivables partially offset the $1.25 billion of loans sold in the loan asset sale program. The future trend of SBA's total assets will depend on the net effects of new loan receivables, including defaulted guarantees and SBIC advances, as well as the liquidation and sale of loan assets.

Total Liabilities of $13.9 billion at FY 2002 yearend include essentially:

$12.1 billion – Debt and payables to Treasury
$ 0.2 billion – Accounts payable on SBA's loan asset sale program
$ 1.5 billion – Liabilities for loan guarantees (credit subsidy)
$ 0.1 billion – Benefits and other payables
$13.9 billion

Total liabilities at the FY 2002 were down slightly ($0.3 billion) from the previous year.

Net Position of $(.4) billion at FY 2002 yearend included:

$ 1.0 billion – unexpended appropriations
$(1.4) billion – cumulative results of operations
$(0.4) billion

The change in net position from FY 2001 was a $0.6 billion decrease due to a decrease in the cumulative results of operations from the increase in credit program costs that resulted in upward credit subsidy re-estimates to be funded in the next fiscal year.

Analysis of Major Balances

The major financials statement balances are discussed below. Additional detail is available in the" Introduction to the Financial Statements" and the "Notes to the Financial Statements" in this report

SBA's fund balances with Treasury primarily support the SBA's credit programs. The SBA does not conduct Treasury operations. Cash receipts and disbursements are processed by the Treasury. Fund balances with Treasury are comprised of appropriated funds and Treasury borrowings. SBA's fund balances are available to pay current liabilities on loan receivables and to make new loans and purchase guarantee defaults, and for the servicing and liquidation of these new receivables. During FY 2002, the fund balance in Treasury decreased 10 percent from $8.3 billion to $ 7.5 billion as a result of credit program operations and loan asset sales.

Credit Program Receivables increased $0.3 billion during FY 2002 ($5.2 billion to $5.5 billion.) This change resulted from the purchase of defaulted business loans and new disaster loans, partially offset by the sale of loans in the SBA's loan asset sale program. Although SBA sold $1.25 billion of primarily disaster loans during the year, $1.2 billion of new disaster loans and the purchase and liquidation of defaulted guarantees resulted in the net increase of $.3 billion during the year. In the future, increases to credit program receivables will tend to be offset by loans sold in the SBA's loan asset sale program, and the level of credit program receivables should remain around the same level.

Advances are related to primarily the SBIC program and also the 504 Development Company program. They increased from $254 million to $380 million during the year as a result of SBIC participating security program operations. The participating security program originated in 1997 and advances will continue to expand from its continued operation.

Accounts Payable under Intragovernmental Liabilities are primarily interest owed on Treasury debt that is payable currently. During FY 2002, accounts payable decreased from $698 million to $28 million as a result of a change in procedure to pay Treasury all interest payable prior to fiscal yearend. Accounts Payable to the Public at $149 million are the result of loan asset program activity for contractors that assist the SBA in the "due diligence" and financial advisory activities in the loan asset sale process.

Debt owed to Treasury is the largest intragovernmental liability on the SBA's financial statement, and detail on this item is provided in footnote 10. The unsubsidized portions of SBA's Disaster and other direct loans are financed by Treasury borrowings. During FY 2002, Treasury debt increased from $10.2 billion to $11.1 billion. $2.5 billion of new Treasury debt was acquired during FY 2002 and $1.5 billion was repaid to Treasury. Included in new borrowing was $0.9 billion of Treasury debt to finance business program cash needs. $1.5 billion of Treasury debt was repaid from loan collections and from SBA's loan asset sale program activity. The SBA is reviewing its debt to reduce it to the essential level for its credit program operations. This will have a downward effect on debt and fund balances with Treasury in the future.

Liabilities for Loan Guarantees at $1.5 billion are most of SBA's liabilities to the public. It is the estimated cost of SBA's guarantees outstanding for Federal Credit Reform loans made on or after October 1, 1991, plus the liability for the loans made prior to October 1, 1991. The cost of SBA's guarantee programs under Federal Credit Reform is estimated initially and re-estimated annually. It depends on the operation of the programs, economic conditions, interest rates and offsetting fees collected. This amount will grow with the portfolio and increase or decrease depending on the aforementioned cost factors.

Asset Sale Program

The SBA beginning in FY 1999 has sold $5.1 billion of primarily disaster loan receivables. The SBA's loan receivables (and total assets) would be around $4 billion higher without this program, and <u>additional SBA personnel and other resources would be employed in the servicing and liquidation of these increased receivables</u>. The loan asset sale program has had a fundamental impact on the SBA's credit program operations and its financial results. The loan asset sale program is part of the Agency's strategy to move away from credit program operations, and instead strengthen credit program oversight and the marketing of services to small businesses most needing the SBA's assistance.

In January 2003 the General Accounting Office (GAO) issued a report on the SBA's loan asset program that questioned whether the financial and operational results of the program are meeting expectations. As discussed in the introduction to the financial statements in this report, the SBA's independent auditor has issued a "disclaimer" for FY 2002 and has also withdrawn its "unqualified" opinion for the two previous fiscal years. We are working intensively to resolve the questions raised by the GAO and the independent auditor without adversely affecting the SBA's loan asset sale program. The success of the SBA's effort to respond to this issue concerning the loan asset sale program could have dramatic implications to the SBA's future operations and financial results.

Program Costs

The SBA has conducted cost studies for many years to identify the operating expenses to be allocated to the business and disaster programs in its budget. In recent years, the need for cost reporting has increased. The Government Performance and Results Act of 1993 (GPRA) placed a new emphasis on identifying Agency program costs. Also, the Federal accounting standard on cost accounting issued in 1997 requires agencies to develop cost-accounting systems for use in management and financial reports. Finally, the Chief Financial Officer (CFO) financial statements required a report of program costs beginning with FY 1999 reporting.

In order to meet the above requirements, the SBA contracted for cost-accounting support for its fiscal 1997 reporting of costs. The Activity Based Costing (ABC) methodology is used for the SBA's cost accounting with the OROS® cost-accounting model. Using ABC, the SBA's program activities are defined, and surveys of Agency personnel are used to relate costs to these program activities. These activity costs are then, in turn, related to the "cost objects," i.e., SBA services, such as guaranteed loans or disaster loans.

Besides financial reporting, the SBA also uses ABC-developed costs for management decision-making. The cost of making and servicing loans, for example, provides information for decisions on resource allocation within the SBA and for outsourcing alternatives. In addition, the SBA began using Activity Based Budgeting (ABB) for the development of FY 2001 program office budgets. ABC and ABB have provided a modern management tool for the SBA's use in strategic and operating decision-making. The identification of program costs is another important step for the SBA.

The Performance section of this report includes program costs along with the SBA's performance results.

Debt Management

The SBA is one of the 24 Federal credit agencies. Appropriate management of the Agency's debt is essential to efficient operations. The SBA utilizes all possible means to ensure its funds are collected, protected and managed well. Debt management issues have become more critical as the Agency transforms its business model from lending to marketing, partnering, outsourcing functions and selling loans.

Asset Sales

The SBA initiated its Asset Sale program in FY 1999, selling its owned assets to private sector investors. The program is designed to maintain the Agency's financial interests and privatize those functions that can be conducted efficiently by the private sector. Since August of 1999, the SBA has completed six sales, transferring approximately $5.1 billion to private investors. The loans are sold through an open and competitive process.

Erroneous Payments

The SBA's Denver Finance Center (DFC), a part of the Office of the Chief Financial Officer (OCFO), is responsible for all Agency disbursements. Proactive and comprehensive internal control and quality assurance processes ensure that all payments made are appropriate and documented. During FY 2002, the Agency developed a statistical sampling and review process plan for payments processed by the DFC. During FY 2003, the DFC will conduct the actual review process and establish a baseline and targets for future years. The SBA has four loan programs for which the OMB requires erroneous payment information with budget submissions and the annual *Performance and Accountability Report*. Each of these programs is discussed separately below.

<u>7(a) Business Loan Program</u>
The potential for erroneous payments in the 7(a) program lies in the guaranty purchase process, because this is when Treasury funds are disbursed. To reduce this potential, the SBA has centralized the purchase of SBA*Express* loans, which account for approximately 25 percent of all 7(a) loans. In addition, a review process is used for 10 percent of the defaulted guarantees that are purchased by the SBA. The SBA has established goals to reduce erroneous payments and monitors the progress toward its objective (1.9 percent is the goal for FY 2002). The FY 2002 results will be available in early FY 2003.

<u>Section 504 Certified Development Company (CDC) Debenture Program</u>
A participating CDC issues debentures to private investors to finance transactions with small business borrowers. SBA's guaranty covers 100 percent of the debenture financing, and the Agency honors its guarantee to the investor through a single Central Servicing Agent (CSA) under tightly controlled procedures. After the SBA pays its guaranty to the investor, the Agency attempts to collect via a workout with the borrower or through the liquidation of collateral. The

measurement of erroneous payments in this program is based on a review of defaults, which amount to about $60-70 million annually. Post oversight and reviews have not identified any significant deficiencies with the 504 program guarantee and purchase processes. During FY 2003, the Agency will monitor the 504 program to determine the need for enhanced 504 internal controls.

Small Business Investment Company (SBIC) Program

SBICs are privately owned and managed venture capital firms that issue debentures and/or participation certificates, guaranteed by the SBA, to private investors to supplement private capital raised by the fund. If an SBIC defaults on payments for a debenture or participation certificate, the SBA honors its guarantee to the investor, and then attempts collection from the SBIC or the small business that was financed. Due to the intensive monitoring and the strict procedures for disbursement, the SBA does not believe an erroneous payment has ever been made to an SBIC. The SBA reviews investments made by the SBICs for compliance with its regulations, and its objective is to limit potential violations to not more than 1.0 percent of the total investments made by the SBICs. The dollar amounts related to these investments do not exceed $600,000 on average.

Disaster Assistance Loan Program

The potential for erroneous payments in this program is in the initial granting of a loan to a disaster victim, and so the initial eligibility criteria and loan credit analysis are vitally important to ensuring that erroneous payments are not made. Independent teams conduct periodic "Quality Reviews" of all four disaster area Offices. A team reviews a statistical sampling of Disaster loan files in each office for compliance with basic eligibility criteria, adherence to all relevant laws, regulations and procedures and overall credit worthiness. These reviews provide reasonably accurate oversight of the program's payments. The extent and impact of erroneous payments is very slight for this program.

Debt Servicing and Collection Practices

The SBA has extensive debt servicing and collection practices to ensure maximum recovery. Borrowers indicate on loan applications whether they are delinquent on Government debt. Credit reports are used to identify delinquent Federal obligors. Delinquent Federal debtors are subsequently barred from obtaining SBA guaranteed loans. The Agency actively uses Federal salary offset and conducts annual matching of delinquent debtor records for civilian and military Federal employees/retirees with the Department of Defense. The SBA requires every loan applicant to disclose his or her taxpayer identification number (TIN). The SBA reports delinquent debt to the Credit Alert Interactive Voice Response System (CAIVRS) maintained by the Department of Housing and Urban Development (HUD). Debt servicing and collection procedures include the acquisition and sale of collateral through liquidation processes.

Treasury Offset Program

The Treasury Offset Program (TOP) is a centralized debt collection program of the Treasury's Financial Management Service. The offset program includes the offset of Federal tax refunds, Federal salary, Federal retirement pay and Federal vouchers, and includes any Federal income benefits paid to a delinquent borrower. All loans more than 180 days delinquent and all charged-off loans are referred to TOP. FY 2002 was yet another record year for the TOP division; more than $9.8 million was collected from approximately 9,400 charged-off (mostly disaster home) loans in the TOP portfolio. Of those 9,400 loans, 914 were collected in full. The TOP division ended FY 2002 with 9,543 loans in the portfolio, with a total outstanding balance of approximately $79 million. The program has resulted in cumulative collections of $60 million for the SBA on its charged-off portfolio. Over 10,600 loans have been collected in full, and over 29,000 charged-off loans have either made arrangements to pay monthly or have paid in full during the tenure of the program. SBA also intends to participate with the Treasury on a pilot program to implement a new web-based credit alert system (called DebtCheck) that will use the TOP database of delinquent debtors.

Lender Oversight

The Office of Lender Oversight (OLO) is responsible for providing objective, efficient and coordinated monitoring and oversight of the SBA's lending resource partners and lending programs by utilizing risk management techniques and approaches. OLO assesses the SBA's lending activities from the perspectives of (1) the performance and risk profile of individual lenders making SBA loans, and (2) the loan portfolio as a whole, or as segmented by program, region, industry, loan size or other key characteristics. Effective lender oversight is achieved by tracking and analyzing performance trends, assessing credit quality and identifying geographic and industry concentrations. The SBA uses this information to develop early warning systems that identify potential problems so that the Agency can make better informed management and program decisions with regard to loan programs and lender partners. OLO objectives are achieved through on-site lender reviews and off-site analysis. Lender oversight is a key component of the SBA's debt and credit program management methodology. Risk management issues have become more critical as the Agency's business model has changed to include partnering with lenders, outsourcing core processes and selling loans. In FY 2002, the SBA placed great reliance on its lending partners to originate approximately 75 percent of all business loans.

Portfolio Aging

The SBA carefully monitors its credit portfolio to watch for deterioration. When a borrower makes all payments as agreed and on time, the borrower is considered "current." The portion of loans in the portfolio with current payments, as compared to the total portfolio, is called the "currency rate." Deterioration in the currency rate signifies potential problems for the SBA, and the Agency takes prompt action to bring borrowers current. The following table provides a history of the performance of SBA's credit portfolio. Generally, actual credit portfolio results have improved during this period due to programmatic and economic factors.

SBA Portfolio Aging

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual
Currency Rate[1]				
7(a)	89.8%	90.4%	92.2%	93.5%
504	98.0%	98.4%	99.6%	99.5%
Disaster Home Loans	90.6%	89.6%	89.6%	89.6%
Disaster Business Loans	85.0%	85.1%	85.2%	91.3%
Default Rate[2]				
Disaster Home Loans	6.5%	7.4%	7.2%	6.8%
Disaster Business Loans	12.1%	11.5%	11.5%	7.4%
Purchase Rate[3]				
7(a)	15.1%	14.4%	14.35	13.9%
504	13.3%	11.9%	11.1%	8.4%
Recovery Rate[4]				
7(a)	61.0%	60.5%	60.7%	60.3%
504	31.1%	24.9%	31.3%	26.9%
Disaster Home Loans	4.6%	4.6%	5.0%	3.7%
Disaster Business Loans	11.8%	11.8%	19.4%	8.0%

1. The proportion of each year's disbursed dollars with on-time payments.
2. The proportion of each year's disbursed dollars over 60 days delinquent.
3. The proportion of each year's disbursed dollars purchased from lenders due to borrower default.
4. The proportion of each year's purchased dollars recovered by SBA or lenders, net of expenses.

Loss Reporting

Each year, the SBA provides a Loss Report to Agency management for its various loan programs. The Loss Report focuses on the actual losses as a percentage of disbursements made to date. The report allows the user to review historical and current year data for each of the Agency's primary lending programs.

Loss data includes losses and gains from the sale of collateral (real estate and other property) acquired on defaulted loans; other "costs of doing business" to service and liquidate defaulted loans; and non-recoverable expenses such as fees for title searches and Uniform Commercial Code (UCC) re-filing charges. Before a loan sale, the portfolio to be sold is reviewed to write down overvalued loans. The results of the write down are also included in SBA's loss data.

Once the Agency has exhausted all debt collection methods, the SBA may classify a loan as charged-off. For guaranteed loans, the loan must first be purchased from the participating lender before this classification can be made. Assignment of charge-off status does not preclude the Agency from further collection actions.

The SBA's Loss Reports beginning with Fiscal Year 1996 are available on the Internet at http://www.sba.gov/library/recordsroom.html.

SBA FY 2002 Loss Report – All Business Loans

All Business Loans			
	Direct	**Guaranteed**	**Program Total**
Disbursements			
Balance as of 2001	$7,129,520,578	$116,759,917,021	$123,889,437,599
FY 2002	$25,205,296	$10,308,950,224	$10,334,155,520
Cumulative Disbursements	$7,154,725,874	$127,068,867,245	$134,223,593,119
****Charged Off Loans**			
Balance as of 2001	$1,532,481,525	$6,846,569,952	$8,379,051,477
2002 Loan Principal	($367,544)	$410,445,165	$410,077,621
2002 Judgment Principal	$4,490,895	$5,473,414	$9,964,309
2002 Other Receivables	$1,689,306	$4,796,234	$6,485,540
Cumulative Charged Off Loans	$1,538,294,182	$7,267,284,765	$8,805,578,947
Recoveries			
Balance as of 2001	$84,000,069	$319,633,500	$403,633,568
FY 2002	$1,978,051	$14,517,528	$16,495,578
Cumulative Recoveries	$85,978,119	$334,151,028	$420,129,147
Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	$1,452,316,063	$6,933,133,737	$8,385,449,800
Actual Loss Rate	20.30%	5.46%	6.25%

** Asset sales data is also included

SBA FY 2002 Loss Report – Disaster Loans

Disaster Loans			
	Direct	**Guaranteed**	**Program Total**
An			
Balance as of 2001	$23,425,402,715	$39,817,968	$23,465,220,683
FY 2002	$1,225,255,239	$0	$1,225,255,239
Cumulative Disbursements	$24,650,657,954	$39,817,968	$24,690,475,922
**** Charged Off Loans**			
Balance as of 2001	$2,526,650,256	$2,077,849	$2,528,728,105
2002 Loan Principal	$119,617,698	$0	$119,617,698
2002 Judgment Principal	$529,626	$206	$529,832
2002 Other Receivables	$175,303	$2,688	$177,991
Cumulative Charged Off Loans	$2,646,972,882	$2,080,743	$2,649,053,625
Recoveries			
Balance as of 2001	$193,848,634	$11,361	$193,859,995
FY 2002	$8,584,761	$450	$8,585,211

Disaster Loans			
	Direct	**Guaranteed**	**Program Total**
Cumulative Recoveries	$202,433,395	$11,811	$202,445,206
Actual Net Losses			
Cumulative Charged Off Loans Net of Cumulative Recoveries	$2,444,539,487	$2,068,932	$2,446,608,419
Actual Loss Rate	9.92%	5.20%	9.91%

** Asset sales data is also included

Credit Subsidy Information

FCRA requires that all agencies budget for the "cost" of credit programs by measuring the net present value of cash flows to and from the Government. Loans approved during the same fiscal year in the same appropriation fund are assigned to a "cohort," which is funded by appropriations for that year. Loans may be obligated or guaranteed only to the extent Congress appropriates funds and these funds are deposited in SBA accounts at the Treasury. These funds are used as a reserve for any losses from the programs. This reserve is also reported in the preparation of SBA's annual financial statements as required by rules promulgated by the Federal Accounting Standards Advisory Board.

Prior to the beginning of the Government fiscal year (and before any loans or guarantees are issued), SBA produces an estimate of the cost, called a "subsidy rate," for each program by developing models that forecast annual cash flows from SBA's programs. Extensive amounts of historical transactional loan data and accounting data are used to develop this initial subsidy rate. Upon the passage of SBA's appropriation and authorization bills, this becomes the original subsidy rate. Once the fiscal year has been completed, and annually thereafter, the Agency produces a re-estimate that adjusts its initial estimate based on the most recent information available. Based on the re-estimate, funds are either remitted to or obtained from the Treasury for SBA's use without the need for further Congressional action. SBA produces re-estimates for all of its major programs annually. Due to timing considerations, these are normally produced using information ending in March of the previous fiscal year and then annualized. On other programs that are not financially material, SBA produces the re-estimates on a different schedule based on different considerations.

SBA currently develops subsidy rates for the following programs on an annual basis: 7(a), 504, SBIC, Debentures and Participating Securities, and Disaster loans for home and business. Re-estimates for direct and guaranteed Microloans and other smaller programs are normally produced at least every two years.

The following table shows the latest re-estimate of subsidy rates for the 7(a) program for all cohorts originated under the requirements of the FCRA. The total subsidy cost is the sum of the components for the interest subsidy costs, default costs (net of recoveries), fees and other collections and other costs. The SBA has prepared these estimates for loan guarantees in the current year's budget for the current and past years' cohorts. Each subsidy rate represents the cost as a percentage of the direct or guaranteed loans obligated in the cohort. Tables showing the latest re-estimate of subsidy rates for other programs can be found in footnote 7Q to the Principal Financial Statements.

SBA 7(a) Subsidy Rates

Cohort	Original Subsidy Rate	2002 Re-Estimate	Subsidy Rate Re-Estimate Components		
Year	**Total**	**Total**	**Interest**	**Default**	**Fee**
1992	4.85	1.62	0.00	3.15	-1.53
1993	5.47	0.82	0.00	2.54	-1.72
1994	2.15	0.81	0.00	2.69	-1.88
1995	2.74	1.81	0.00	3.62	-1.81
1996	2.74	0.40	0.00	3.55	-3.15
1997	1.93	0.22	0.00	3.38	-3.16
1998	2.14	0.41	0.00	3.69	-3.28
1999	1.39	0.46	0.00	3.71	-3.25
2000	1.16	0.28	0.00	3.75	-3.47
2001	1.16	1.22	0.00	4.68	-3.46
2002	1.07	0.04	0.00	4.06	-4.02

As with any estimate, the accuracy of subsidy rates can be affected by many variables, including those having to do with the economy, such as economic expansion, interest rates or the availability of credit. Subsidy rate variations can also occur due to changes in loan origination and servicing practices and loan mix. SBA's models assume that these underlying items will cause its loans to perform similar to the historical cycle experienced over the last 15 years. Thus, any variations from that experience will cause deviations in the subsidy rate and cost.

Fee income has increased over the past ten years as a result of changes in the statutory fee rates. The SBA's subsidy account is entitled to two principal fees from loan guarantees: an up-front "guarantee fee" and an annual servicing fee. Fee income is affected by many items, including the rate of prepayments, defaults and the mix in loan volumes.

During FY 2002, default costs generally moved up from the prior year estimates but affected newer cohorts less severely than older cohorts. The decrease in performing loans also affected fees. SBA management has attributed these increased costs to the economic growth cycle.

Fees and Charges

The SBA annually or biennially assesses user fees and other program charges in accordance with the Chief Financial Officer (CFO) Act, 31 U.S.C. 902(a)(8). Annually, the SBA estimates program revenues and charges (or costs), and these are included as part of the *President's Budget.* Certain fees and charges are also included in the program subsidy calculations for the *President's Budget*.

The SBA evaluates the sources and amounts of actual and anticipated revenues and expenses in order to calculate the subsidy rate for each program. Changes to fees and other charges can be made legislatively as part of the budget process. Each year, SBA evaluates legislative changes and other possible factors affecting revenues and expenses and recalculates the subsidy rates.

The chart depicts fees the SBA charges for its programs with a description of each fee.

SBA Program Fees

Program	SBA Fee Type	Fee Description
Financial Assistance	7(a) and 504	Loan servicing and guarantee fees.
SBIC	Leverage Fee	Nonrefundable fee payable upon commitment or draw down.
	Annual Fee	Annual fee paid to SBA on outstanding leverage issued on or after October 1996.
	Licensing Fee	Fees collected to process SBIC license applications.
	Examination Fee	Fees collected to perform SBIC examinations.
Surety Bond Guarantee	SBG and PSB	Contractor and surety fees.
Office of Lender Oversight	Examination Fee	Fees charged by and paid directly to SBA Contractor to assist with performance of PLP 7(a) lender reviews
Small Business Publications	Publications for Sale	Amounts collected with publication orders.

Management Controls

The SBA's internal controls work to assure the attainment of the Agency's mission objectives, maintain efficient operations and reduce fraud and the misuse of taxpayer provided resources. The SBA's Standard Operating Procedures are the primary source of the Agency's internal control. Reports of program results provide information to assess the attainment of Agency objectives, and the adequacy of the data in these reports is discussed in this section. In addition, audits and reviews performed by the Inspector General and the General Accounting Office review the Agency's internal controls, and lead to improvements in them. Annually, the Agency reviews the state of its internal controls and the Administrator's assurance letter reports on the result of this assessment.

Statement of Assurance

Internal Controls

FMFIA Assurance Statement FY 2002

The Small Business Administration (SBA) continues to strengthen its internal control program. However, I am providing a "qualified" assurance for FY 2002 due to an issue related to the Agency's loan asset sale program. Ongoing analysis has raised concern as to the accuracy of the forecasts and financial results of the loan asset sale program. These financial results, as compared to sale projections and budgetary reestimates of disaster program costs, have caused anomalies on SBA's financial statements since FY 2000. This problem was confirmed by the General Accounting Office (GAO) in its January 6, 2003 report GAO-03-87, *Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain*. Using information from the GAO report as well as analysis provided by the Agency on loan asset sale budgeting and accounting, the SBA's independent auditor withdrew its previously issued "unqualified" opinions for FY 2000 and FY 2001, and issued a "disclaimer" for FY 2002.

The loan asset sale issue, however, is confined to financial management systems issues, primarily for the disaster loan program. It does not reflect on the internal controls over the rest of the SBA's program operations. In fact, the internal controls for SBA's program operations have continued to show improvement this year and the system in place is basically sound. The SBA's internal control process is discussed in detail in this report. It is continuous throughout the year and requires the active involvement of field and Headquarters managers. At the end of the year, Agency managers issue their assertion as to the status of their internal controls. These assertions are supported by checklists, reviews and other management activity, and form the basis for this internal control assurance letter.

The SBA's independent auditor also reported that the SBA does not meet the requirements of Federal Financial Management Improvement Act (FFMIA). Therefore, I cannot certify that SBA is in compliance with FFMIA. This qualification is primarily related to the loan asset sale issue.

I am providing a "qualified" statement of assurance, considering the loan asset sale issue, that the SBA's internal controls are achieving their intended objectives in accordance with the Office of Management and Budget Circular A-123 and the Federal Managers Financial Integrity Act. The supporting documentation for this statement of assurance is maintained by the Office of the Chief Financial Officer, the Inspector General and the independent auditor.

The SBA has already begun to work on this weakness and it will be corrected for FY 2003 reporting. I will continue to take corrective action until resolution of the loan asset sale issue is achieved. Also, the SBA is modernizing and improving its program, administrative management and human capital systems. These improvements will further strengthen the SBA's management and control in the future.

Hector V. Barreto

Hector V. Barreto
Administrator

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 on both outputs and outcomes. 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, and 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* its 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 its financial data systems. However, SBA must assess the quality of loan and program data provided by its resource partners and will include data verification in its lender and resource partner oversight. The OIG has carried out performance measure reviews on the following programs -7(a), SBIC, Surety Bond Guarantee, 8(a) and the disaster program. As an 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.
? **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.

In FY 2000, SBA began implementing a more formal quality process. This 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. As a result, 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 of and reporting on data, 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 annual budget submissions.

In FY 2002, SBA continued to train its managers to improve data quality and to ensure data quality through internal controls. Data verification procedures and improvement plans, with milestones, after completion of the course, were subjects of the training. Feedback was 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 OIG's audits of data validity and verification.

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

Measure	**Regulatory cost savings to small businesses**
Definition	Cost savings to small businesses because of changes to proposed regulations as a consequence of Office of Advocacy actions.
Source	Regulatory cost savings are based on changes to final regulations or the delay in the implementation of final regulations that result in decreased costs or increased revenue for small entities as a result of intervention by Advocacy, small entities (businesses, communities, and not for profits), and SBREFA panels. The source for the estimated savings is usually the regulatory analysis of the Agency but it may also be based on an estimate provided by the industry.
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 other agencies' 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.

Measure	Jobs created by Capital Access programs
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 database. 7(a): 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. 504: 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; the 504 program contributes to jobs retained. SBIC: 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.
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 7(a) job coefficient is based on a study done in the early 1990s. The Bureau of Labor Statistics at the Department of Labor has recently used their data to estimate the job coefficient for SBA loans made in 1998. This estimate uses the number of jobs created divided by the change in jobs between 1997 and 2000 to estimate the job coefficient. For 7(a) this estimate varied with the size of the loan. The average number of disbursed dollars per job created for SBA's 7(a) loans made in 1998 was $ 53,895. This estimate is a lot higher than the previous method and points to the need for further analysis.
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	See limitations.

Measure	Provide gap lending and investment financing
Definition	Dollar volume of approved loans (gross) for 7(a) and 504 program and dollar financings provided by the SBIC program.
Source	Loan accounting database for 7(a) and 504. SBIC program database for SBIC financing data.
Validation	External auditors review the data.
Limitations	The dollar volume is based on approved loans. SBA's OIG has recommended that SBA use disbursed dollar loan amounts for 7(a) and 504. The measure is an output measure.
Remedies for Limitations	Use disbursed amounts for 7(a) and 504.
Verification	Through audits and independent reviews.

Measure	Loans to women-owned businesses
Definition	Number of 7(a) and 504 Loans to firms 51 percent owned by women.
Source	Loan accounting database.
Validation	The measure provides the share of approved loans to 51 percent women-owned firms.
Limitations	Census uses the 51 percent women-owned definition. However, SBA also collects data on the number of loans to firms with 50.0 percent to 50.99 percent women ownership.
Remedies for Limitations	Provide data on loans to 50 percent women-owned firms in addition to 51 percent women-owned firms.
Verification	Consistency checks.

Measure	Loans to minority-owned businesses
Definition	Number of 7(a) and 504 Loans to firms 51 percent owned by minorities.
Source	Loan accounting database.
Validation	The measure provides the share of approved loans to 51 percent minority-owned firms.
Limitations	Census uses the 51 percent minority-owned definition, but it would be useful to know what impact a 50 percent definition would have.
Remedies for Limitations	Provide data on loans to 50 percent minority-owned firms in addition to 51 percent minority-owned firms.
Verification	Through audits and independent reviews.

Measure	Loans to veteran-owned businesses
Definition	7(a) and 504 Loans to firms 51 percent owned by veterans.
Source	Loan accounting database.
Validation	The measure provides the share of approved loans to 51 percent veteran-owned firms.
Limitations	Census uses the 51 percent veteran-owned definition. But it would be useful to know what impact a 50 percent definition would have.
Remedies for Limitations	Provide data on loans to 50 percent veteran-owned firms in addition to 51% veteran-owned firms.
Verification	Provide data on loans to 50 percent veteran-owned firms in addition to 51% veteran-owned firms.

Measure	Number of Start-up Firms Financed by 7(a) & 504
Definition	Number of 7(a) & 504 approved loans to start-up firms. Start-up firms are 0-24 months old. The definition is the one used by Census.
Source	SBA Loan Approval Database (TTS001).
Validation	This indicator is a valid as it measures the degree to which SBA is providing access to capital for an important market segment.

Measure	Number of Start-up Firms Financed by 7(a) & 504
Limitations	The measure would be slightly improved if disbursed loans were used instead of approved loans.
Remedies for Limitations	See above.
Verification	No independent verification carried out.

Measure	Export sales assisted by SBA loans
Definition	The total dollar volume of sales supported by export loans.
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	Export loans are often for revolving lines of credit. It is difficult to track all sales made through revolving credit. Consequently the measure may underestimate the sales volume generated by the line of credit.
Remedies for Limitations	Improve reporting process to ensure that most export sales 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 is correct. SBA has not yet independently verified this data.

Measure	Federal Procurement Prime Contract Dollars to small firms, to small disadvantaged businesses including 8(a), to women-owned, minority-owned, service disabled veteran-owned firms, and HUBZones-certified firms.
Definition	This indicator measures the extent to which these different categories of small business ownership receive Federal Prime Contract dollars.
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 then requiring agencies to provide this information on separate reports.

Measure	Federal Procurement Prime Contract Dollars to small firms, to small disadvantaged businesses including 8(a), to women-owned, minority-owned, service disabled veteran-owned firms, and HUBZones-certified firms.
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 from FPDS system. The General Services Administration is responsible for working with the Agencies on the accuracy of the FPDS database.

Measure	8(a) client success rates 3 years after graduation
Definition	The percentage of 8(a) firms three years after graduation that are independently operated – that is have not been sold or gone out of business.
Source	SBA surveys of all graduated firms and uses Dun and Bradstreet data on individual firm status.
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 database to ensure accuracy.

Measure	Customer satisfaction rate for WBC, BICs, SBDC and SCORE
Definition	Surveys are used to ascertain clients' attitudes regarding the usefulness and relevancy of the assistance they received as well as whether the assistance received resulted in the clients' modifying their behavior or actions to improve the management of their businesses.
Source	The WBC and SCORE surveys were done by ACSI at the University of Michigan. The SBDC study is done by SBDC Chrisman study, and the BIC was done in house.
Validation	The ACSI surveys were based on random samples for a total of 200 interviews per survey.

Measure	Customer satisfaction rate for WBC, BICs, SBDC and SCORE
Limitations	The three different surveys (ACSI, BIC and SBDC) use different methods and are therefore not comparable with each other. The surveys measure satisfaction and there is not necessarily a correlation between customer satisfaction and subsequent customer business success.
Remedies for Limitations	Use same survey instrument for all surveys. Expand the scope of the surveys to include attribution measures.
Verification	The surveys have not been verified. As surveys are done in the same way over time, consistency checks can be applied.

Measure	Field presence within 3 days of a disaster declaration
Definition	Percentage of Disasters where effective field presence is provided within 3 days of a physical disaster declaration. Field presence is defined as SBA disaster office personnel on site to coordinate the provision of disaster assistance with appropriate Federal, state and local officials.
Source	Closeout reports prepared by the disaster area office after each disaster.
Validation	This indicator is a valid measure of SBA's assistance to disaster victims because timely assistance is critical to re-establishing lives and communities in the aftermath of a disaster.
Limitation	Currently, this information is not received for approximately 6 months after a disaster is declared and there is some inconsistency in what is meant by "effective field presence" among the area offices.
Remedies for Limitation	SBA will consider options for obtaining this information much sooner after the disaster has been declared including, but not limited to, making a revision to the automated loan control system so that this information can be inputted as soon as it is accomplished. SBA will also provide further guidance to the area offices to define "effective field presence" and its scope.
Verification	Audits.

Measure	Loan applications processed within 21 days
Definition	Share of applications where the disaster office has provided applicants with a decision within 21 days of receiving a complete disaster loan application.
Source	Disaster automated loan control system.
Validation	This indication is a valid measure of SBA's assistance to disaster victims because timely assistance is critical to re-establishing lives and communities in the aftermath of a disaster.
Limitation	It measures the processing time when the application has been completed, not when the application process begins.
Verification	Audits.

Measure	Customer satisfaction rate (Disaster)
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. Determining how satisfied the clients were with the service received can in part capture this.
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.

Internal Controls

The SBA has a variety of monitoring and review activities that support the internal controls. These include lender oversight, QSRs of the district offices, follow up of OIG and GAO audits, and other management oversight and review activities. An OCFO internal control project team helps SBA program managers and promotes internal controls throughout the Agency.

SBA has taken proactive action to improve its internal control program requiring the active involvement of field and Headquarters managers. Annually, senior Headquarters managers submit to the CFO assertion letters on the status of their respective organizations' internal controls. The managers employ various assessment tools in their internal control assessments, including risk and control assessment models, functional checklists, facilitated workshops and computer based training. The managers' assertions take into account the results of various internal control methods employed by their organizations and discuss corrective actions taken on any weaknesses identified by the GAO, OIG or Quality Service Reviews (QSRs) or through the local internal control process.

Each year, the Office of Field Operations (OFO) reviews the assertion letters from the field managers to ensure that any areas of concern noted by these managers, and any reported trends were incorporated into the Agency's internal control efforts, especially the QSRs. Based on its review of the field assertion letters, the OFO provides comments to the CFO. The CFO reviews the OFO comments and the assertion letters from the senior Headquarters managers to determine whether outstanding audit issues were adequately addressed and whether each manager took the appropriate corrective action. For FY 2002, the CFO reports that no serious operational concerns or issues arose for FY 2002 and that all senior Headquarters managers and the OFO have addressed any corrective actions outstanding from FY 2001.

The SBA's OIG conducts audits and inspections of the Agency's operations and its financial reports. The OCFO works closely with SBA management and the OIG to complete actions necessary to respond to recommendations in final audit reports issued by the OIG. Managers receive and analyze audit reports and provide timely responses to the OIG and the OCFO, taking corrective action when appropriate. The OCFO tracks the completion of these audit recommendations. For managers' information, the OCFO also posts on the SBA's Intranet the status of all open OIG recommendations.

The GAO conducts audits and reviews of Agency programs and operations. Some of the reports contain specific recommendations for improving Agency program delivery and operations. All GAO audits are scheduled through the OCFO, which tracks replies to the GAO and Congress. For managers' information, the OCFO also posts on the SBA's Intranet the status of all GAO reviews and recommendations.

Management of the SBA works with the OIG to develop the Agency's Management Challenges and actions needed to address the challenges. The OCFO tracks the completion of these action items and posts the status of the Management Challenges on the SBA's Intranet for managers' information.

The OCFO also makes members of the internal control project team available to assist managers with internal control issues. Strong internal controls promote sound stewardship through more effective working relationships with SBA's resource partners. The internal control program also provides both internal and external parties assurance that SBA programs and activities are administered soundly and taxpayer funds are used responsibly.

OIG Audits

Summary of OIG Reviews

Throughout the year, the OIG conducts audits of the SBA's processes, procedures and programs and makes recommendations for improvement. These recommendations are very beneficial to SBA's management. The Agency has the option to agree or disagree with OIG recommendations. Once management agrees with a recommendation, it becomes a "management decision." Management also provides a specific action plan accompanied by a target date for completion. The completed corrective action is referred to as "final action."

The OCFO is responsible for monitoring the final actions and reporting on their status of implementation. To track and report these to management, the OCFO established a database and developed a status report available on the SBA Intranet page. This is updated as corrective actions are completed. Program offices also provide monthly updates on final action status that are used to update the database.

The following two charts depict the SBA's monetary final action activity (audit recommendations with disallowed or questioned costs, and with funds put to better use). The status of all audit recommendations is reconciled with the OIG often to ensure actions are posted promptly and accomplished in accordance with the agreed-upon target dates. (Details for these charts appear in Appendix 2.)

Final Action on Audit Recommendations with Disallowed / Questioned Costs
October 1, 2001 – September 30, 2002

	Number of Recommendations	Disallowed Costs (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	2	$121
B. Recommendations on which management decisions were made during the period.	8	$587
C. Total recommendations pending final action during period.	10	$709
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	6	$574
(b) Property	0	$0
(c) Other	0	$0
2. Write-Offs	0	$0
3. Total	6	$574
E. Recommendations needing final action at the end of the period.	4	$135

Final Action on Audit Recommendations with Funds Put To Better Use
October 1, 2001 – September 30, 2002

	Number of Recommendations	Funds to be Put to Better Use (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	1	$266
B. Recommendations on which management decisions were made during the period.	5	$743
C. Total recommendations pending final action during period.	6	$1,009
D. Recommendations on which final action was taken during the period.		
1. Value of recommendations implemented (completed).	6	$949
2. Value of recommendations that management concluded should not or could not be implemented or completed.	0	$60
3. Total	6	1,009
E. Recommendations needing final action at the end of the period	0	$0

GAO Audits

The GAO was very active in reviewing all aspects of SBA operations during FY 2002. At the beginning of FY 2002 there were 9 on-going GAO reviews and during the year they initiated 23 additional reviews. The GAO issued 15 final reports during the year, 4 reports contained a total of 13 recommendations to the Administrator.

The following chart lists the GAO reviews conducted in FY 2002 and the status of each.

Status of GAO Reviews Conducted at SBA in FY 2002

Review Title	Status:Open/Closed	Recommendations
Verification and Validation of Subcontracting Goals	Closed	2
Single Audit Act Requirements Under A-133	Closed	0
Review of Government Information Security Program Implementation	Closed	0
Enterprise Architecture	Closed	0
IT Investment Request in FY 2001 and FY 2002	Closed	0
Challenges and Costs Associated with Foreign Patents	Closed	1
Hiring Practices at CFO Agencies	Closed	0
Human Capital Flexibilities at Federal Agencies	Closed	0
Strategic Information Resource Management	Closed	0
Commercial Market Representative Role Review	Open	
Purchase Card Transactions	Open	
Selected Federal Agency Implementation of Wage Garnishment	Closed	4
Delinquent Debt Reporting Practices	Closed	0
Implementation of DCIA	Closed	0
FFMIA	Open	
FY 2002 Audited Financial Statements	Open	
SBA's Loan Asset Sales Program	Open	
7(a) Preferred Lender Oversight	Open	
Community Development Block Grants	Open	
SBA Performance and Accountability, 2003	Open	
Veterans Corporation	Open	
Office of Small and Disadvantaged Business Utilization	Open	
Homeland Security IT Funding	Open	
Loan Accounting System(II)	Closed	6
Privacy Act of 1974	Open	
Continuing Operations After Disaster	Open	
Loan Monitoring System Spending Plans and FY 2003 Budget Request	Closed	0
Achieving Outcomes Through Crosscutting Programs	Open	

Review Title	Status:Open/Closed	Recommendations
Analysis of Major Management Challenges and High-Risk Areas	Open	
Government Contract Opportunities for Medium Sized IT Firms	Open	
Non-Manufacturing Rule in Small Business Procurement	Open	
Cost Management Practices	Closed	0

During FY 2002 the GAO started to publish the status of agencies' implementation of recommendations on their web-site. Recommendations remain open until they receive written documentation substantiating the correction. At the end of FY 2002 the GAO listed 14 reports containing a total of 43 recommendations as open for the SBA. Four of the 14 reports were issued during FY 2002 and the remainders were from prior years. A large number of open recommendations concerned improving the management of information technology (IT) in five major areas: investment management, architecture, software development and acquisition, information security, and human capital. The SBA has made significant progress in all five areas and continues to focus on improving the management of the agency-wide IT resources. Completion of the recommendations involves the development, purchase and implementation of an Agency-wide automated program and financial management system. The GAO is continuing follow-up audits to monitor the SBA's progress toward full implementation. (A chart showing the status of all outstanding GAO recommendations is included in Appendix 3).

The following chart lists open GAO recommendations at the end of FY 2002.

Number of Open GAO Recommendations at End of FY 2002.

GAO Report Number and Title	Year Issued	Number of Recommendations
GAO-GGD-00-82. Limited Information Available on Contract Bundling's Extent and Effects	2000	1
GAO-01-551. Small Business: More Transparency Needed in Prime Contract Goaling Program	2001	5
GAO-01-346. Federal Procurement: Trends and Challenges in Contracting with Women-Owned Small Businesses (WOSBs)	2001	2
GAO-02-57. HUBZone Program Reporting an Implementation Difficulties	2002	3
GAO-RCED-00-197. 8(a) Information System	2000	4
GAO-RCED-00-196. 8(a) Program	2000	2
GAO-RCED-99-114. Evaluation of Small Business Innovation Research Can be Strengthened	1999	1
GAO-02-313. Administrative Wage Garnishment	2002	3
GAO-02-789. Foreign Patent Challenges	2002	1
GAO-02-789 Foreign Patent Challenges	2002	1

GAO Report Number and Title	Year Issued	Number of Recommendations
GAO-01-192. Action Needed to Strengthen Small Business Lending Company Oversight	2001	1
GAO-00-124. Substantial Progress, Yet Key Risks and Challenges Remain	2000	13
GAO-00-124. Substantial Progress, Yet Key Risks and Challenges Remain	2000	1
GAO-00-170. SBA Needs to Establish Policies and Procedures for Key IT Processes	2000	5

Achieving Green on the President's Management Agenda

The President's Management Agenda lays out a vision of Government that is citizen-centered, results oriented and market-based. Five core management initiatives are used to hold agencies accountable and measure their progress. They are:

1. Strategic Management of Human Capital
2. Competitive Sourcing
3. Improved Financial Performance
4. Expanded Electronic Government
5. Budget and Performance Integration

Strategic Management of Human Capital

SBA has begun and will continue to implement a transformation plan that realigns its organization, operation and workforce to better serve its small business customers in the 21st Century. The plan FY 2002 through FY 2007 includes major implications for SBA's workforce through the assessment of their skills and increased training; through provision of appropriate tools to assist them better accomplish their job responsibilities; through delegation of additional program and decisional authorities and responsibilities; and through their strategic placement within the SBA organization to effect closer customer and resource partner relations. SBA will also implement several succession planning efforts, including executive and leadership developmental programs and strategic hiring to ensure it has the appropriate numbers and types of employees to succeed in the future. SBA will also revise its performance management and appraisal systems to focus increased attention on results.

Major components of the transformation plan include the following:

- Consolidating credit administration and management activities and 8(a) review activities that are considered "backroom" activities into centralized locations using a high degree of automation to increase efficiencies of process, improve customer service and make additional front-line resources available for direct customer support and delivery of programs.
- Enhancing SBA's management and support of small business customers and resource partners through implementation of customer and resource partner relationship models

and concepts leading to more comprehensive and effective small business support. This includes eliminating traditional program "stove pipes" and better integration of all programs and delivery systems through coordinated delivery mechanisms and/or supply chain management techniques.

- More strategic use of resource partners to increase their levels of authority and responsibility, and to better integrate their service delivery with that of SBA and all program resource partners.
- Increasing the authorities, responsibilities, decision-making and management of field offices through better integration of regional offices into field program delivery and management; through realignment of Surety Bond and GC/BD activities with the field organizational structure; through designation of senior career management officials in each regional office to assist with program and operational management; and through delegation of additional Office of Entrepreneurial Development program responsibilities to field offices. Responsibility for lender oversight and risk management of the loan portfolio will be further centralized at Headquarters.
- Implementing technology solutions to reengineered business processes, resulting in the transition to virtual workloads that can be managed and administered centrally, allowing for the full use of available technical and expert staff at any location and at any time Nationwide. Redesigned business processes will include expert tools that guide customers through processes interactively and provide for immediate and on-going follow-up and status reporting. Per unit costs of transactions will decrease; customer and resource partner response times will decrease; and customer and resource partner satisfaction will increase. These activities, coupled with further delegations to resource partners and continued asset sales, will result in a more efficient and effective administration of backroom activities and better utilization of limited staff and resources to serve the "other 24 million" small business customers.
- Competitively sourcing commercial activities, leading to most efficient and effective operations—whether performed by the SBA or private-sector contractors.
- Realigning, over time, SBA's staff Nationwide to expand their reach into local communities and to provide closer coordination with SBA's resource partners through the use of storefronts, one-stop centers, consolidation with resource partners and various telecommuting arrangements.
- Completing comprehensive assessments of the skills required of SBA staff to be successful in implementing the necessary small business programs and services in the 21st Century. Completing an inventory of current employee skills. Developing the training curriculums necessary to address identified "gaps." Delivering the training in a cost effective and efficient manner, including the use of video training, Internet training and on-site training.
- Continuing successful executive and leadership development programs to provide a cadre of capable and competent managers able to step in when needed to assist SBA in its management and administration of the Agency in the future.
- Identification of appropriate performance goals and objectives for each manager and responsible employee and including these in formal performance agreements to increase attention to and focus on results, and to enable the appropriate recognition for successful accomplishments.

- Ongoing identification of strategic hiring needs, and implementing effective position management strategies to ensure SBA has the right people with the right skills in the right jobs at the right times.

Competitive Sourcing

SBA will complete its annual inventory of commercial activities required under the Federal Activities Inventory Reform (FAIR) Act. In addition, SBA will initiate the appropriate actions and study to result in increased efficiency and effectiveness of operations, including direct conversion and competitive sourcing analysis and study with participation by the private-sector, leading to the Most Efficient Organization (MEO).

SBA's Competitive Sourcing Plan includes the annual completion of the required FAIR Act inventory to identify commercial activities. Consistent with Administration goals, SBA will undertake appropriate activities to identify commercial activities for direct conversion and/or competitive sourcing analysis and study with the private-sector. In order to complete necessary studies, SBA will use the services of consultants who are expert in OMB Circular A-76 guidelines and competitive sourcing analyses. SBA's plans will include, to every extent possible, the continued utilization of all current on-board staff to perform high priority Agency functions.

The following specific activities are:

- For FY 2002, SBA identified 190 full-time equivalents (FTEs) representing commercial activities performed in the Office of Disaster Assistance that will be directly converted to private-sector contract.
- For FY 2003, SBA contracted for consultant services to provide expert assistance in the review of the FAIR Act inventory and the development of strategies and options to meet competitive sourcing targets.
- For FY 2003, SBA contracted with a consultant expert in A-76 and competitive sourcing analysis techniques to facilitate necessary actions to directly convert and/or conduct competitive sourcing analyses and studies on commercial activities identified in the FAIR Act in accordance with goals agreed on between SBA and OMB.
- For FY 2004 and out years, SBA will follow the same strategies used in FY 2003, with plans leading to the direct conversion and/or competitive analysis and study of additional FAIR Act inventory positions in accordance with goals agreed to between SBA and OMB

Improved Financial Performance

The emphasis of this initiative is to improve financial accountability through increased timeliness of reporting, increased accuracy and usefulness of financial information. Because SBA is a credit Agency, this area includes the development and implementation of an effective lender oversight program and Loan Monitoring System (LMS); the development and implementation of an econometric loan performance model to support Section 7(a) and other loan subsidy costs;

and the institutionalization of the loan asset sale program at 3 sales per year, or as necessary and prudent to manage the portfolio.

Subsidy Rate Calculations

Econometric Modeling is used to identify economic factors that have a statistical influence on the performance of SBA's loan portfolio. Using this technique, the SBA intends to develop and implement a computer model to more accurately estimate the loan subsidy cost used for budgeting. The 7(a) project effort included economic analyses developed in conjunction with the Office of the Comptroller of the Currency (OCC), supplemented by analyses conducted with the Office of Federal Housing Enterprise Oversight (OFHEO). OFHEO and SBA, in concert with OMB, spent much of FY 2002 building the econometric model for use by SBA in modeling the 7(a) loan program for the FY 2004 *Performance Plan and Budget Request*. Furthermore, in FY 2003, SBA intends to expand this work effort into the 504 loan program for FY 2005.

Improved Risk Management and Lender Oversight

The Office of Lender Oversight (OLO) is responsible for providing objective, efficient and coordinated monitoring and oversight of SBA's lending resource partners and lending programs by utilizing risk management techniques and approaches.

The benefit of effective lender oversight is more prudent financial management of the SBA's loan programs, including identification of risk characteristics and predictors of default and, ultimately, projections of lender and/or portfolio performance. OLO will assess SBA's lending activities from the perspective of (1) the performance and risk profile of individual lenders making SBA loans (SBA's delivery system for its loan products), and (2) the loan portfolio as a whole or segmented by program, region, industry, loan size or other key characteristics. These benefits are achieved by tracking and analyzing performance trends, assessing credit quality and identifying geographic and industry concentrations. By utilizing this information to develop early warning systems that identify potential problems, SBA can make better informed management and program decisions with regard the Agency's loan programs and lender resource partners.

At the present time, lender oversight objectives are achieved through on-site lender reviews and off-site analysis. With more than 5,000 lenders, current processes are labor intensive, inefficient and do not adequately focus resources on the greatest need. Automation is critical to implement a risk management approach to lender oversight. The LMS will provide the necessary analytical tools to identify and regularly monitor those lenders representing the most risk to SBA and to monitor, as deemed appropriate, those lenders who represent minimal risk to SBA. LMS is the primary vehicle by which lender oversight will be conducted for the vast majority of SBA's lenders. Strategic on-site operational reviews will be conducted with those lenders whose risk profiles indicate a high level of financial risk to the Agency. Financial risk is measured in terms of both the amount of outstanding dollars guaranteed by SBA and a lender's performance with SBA lending and other financial characteristics.

With regard to SBA's overall loan portfolio, LMS will allow the data on individual lenders to be aggregated with other lender data to assess the portfolio or components of the portfolio and identify risk characteristics and predictors of default.

Loan Monitoring System

During FY 2002, SBA contracted with KPMG Consulting to assess the Agency's actions to date with regard to LMS, identify priorities for LMS and make recommendations for re-scoping and re-orienting LMS objectives, given the remaining funds available for this project. KPMG issued its report in June 2002. KPMG recommended the following priorities for LMS given the remaining funds available (approximately $14 million):

- Comprehensive Project Management
- Develop and Implement Lender Oversight/Risk Management System
- Assess Data Quality
- Complete Electronic Application and Resource Partner Information Management System
- Leverage Existing Analytical Tools
- Develop Plan to Replace the Loan Accounting System

SBA adopted the recommendations made by KPMG and began implementation. A project management board was established by the Administrator and comprised by senior executives (COO, ADA for Capital Access, CFO, CIO and AA/Lender Oversight) to provide high level policy guidance and direction to the project teams developing the various components of LMS. A contract was issued on September 30, 2002 to provide project management services for LMS.

Subsequently, due to the urgent need for loan and lender monitoring services in order to effectively oversee its lenders, SBA determined to outsource these services. A procurement action will be initiated in January 2003 to obtain these services. Once the contract is awarded, SBA expects to have comprehensive loan and lender oversight services available to it for monitoring and evaluation purposes in FY 2003.

Asset Sales

SBA initiated the Asset Sale program in FY 1999. The sales are part of a Government-wide effort to better manage the Government's credit portfolios. The program was designed to sell almost $10 billion in loans owned by the SBA to private sector investors, and to establish an ongoing sales program for new loans as they become available.

The Asset Sale program's goals and objectives are to: (a) maximize sales proceeds, (b) protect the public policy goals of the Agency's loan programs, (c) improve portfolio management and (d) create an opportunity to re-deploy staff to mission critical functions. While all four objectives are important, the need to re-deploy staff to mission critical functions is paramount in the existing atmosphere of critical budgetary reductions.

The Agency's core mission is to provide financing for small businesses and for homeowners and businesses that are the victims of disasters. SBA staff work associated with collection and processing of loan payments—commonly referred to as loan servicing—does not further these goals. Had SBA not implemented the Asset Sale program, the Agency would have been servicing 534,224 additional loans by the end of FY 2002. After six sales, there are 382,313 loans being serviced by 173 staff. The Asset Sale program also meets the Administration's policy of privatizing those functions that can be conducted efficiently by the private sector.

By institutionalizing the sale of owned loans and freeing servicing staff to perform mission-critical functions, such as loan origination, lender monitoring, risk management, etc., the Asset Sales Program has provided the Agency much needed flexibility in an ever tightening budget environment. The sale of assets has allowed the Agency to continue to provide essential loan servicing services and maintain capacity for future major disasters while coping with the loss of staff through attrition in the servicing centers and field offices. The Asset Sale program will continue to free up limited resources to focus on the Agency's core mission.

Federal Financial Management Improvement Act (FFMIA)

As part of the Agency's financial statement audit, the IPA reported for FY 2001 and again for FY 2002 that the SBA is not in compliance with the systems and accounting requirements under FFMIA.

FFMIA Remediation Plan Update

Following is the page from the FFMIA remediation plan required by OMB beginning in 1996 and dealing with the financial reporting issues. This page has been updated to include the two new items from the current audit results.

SBA Remediation Plan
Tracking number: FFMIA-99-04
Title of Noncompliance: Financial Reporting

Description: Improved financial reporting processes are needed to insure compliance with the Government Management Reform Act (GMRA), which requires agencies to submit Agency-wide financial statements. Specifically:

1. manual processes are prone to errors
2. internal controls and verifications of reports are not implemented
3. financial statements are not submitted timely
4. the transition of the reporting function from Washington to Denver must be rigorously managed in order to meet FY 1999 requirements and timelines

Comments: This noncompliance item is related to FMFIA 98-02.

SBA FMFIA Remediation Plan

Corrective Actions	Target Completion Date	Status	Project Lead
Perform mainframe reports BPR	1997	Complete	
Automate selected reports creation processes	1997	Complete	
Implement conversion of mainframe reports to electronic format	1998	Complete	
Develop plan for fiscal yearend reporting	2000	Complete	
1) Implement conversion of admin reports to electronic format	1999	Complete	
Transition reporting function from DC to Denver	1999	Complete	
Implement new administrative accounting system (Oracle)	2001	Complete	Director, Denver Finance Center, OCFO
Implement quality assurance function and flux analysis process	2000	Complete	Director, Denver Finance Center, OCFO
Reinvent financial reporting process using new Combined General Ledger application	2000	Complete	Director, Office of Financial Systems, OCFO
Automate monthly recurring joumal vouchers	2001	Complete	Director, Office of Financial Systems, OCFO
Automate manual reporting processes	2001	Ongoing	Director, Office of Financial Systems, OCFO
Meet Government standards for internal controls	2002	Ongoing	Director, Denver Finance Center, OCFO
Improve reliability of data produced by the reporting system	2002	Ongoing	Director, Denver Finance Center, OCFO
Reduce errors in the preparation of initial financial statements	2002	Ongoing	Director, Denver Finance Center, OCFO

Expanded Electronic Government

SBA's e-Government vision can be stated as follows:

- To meet or exceed small business expectations by offering a "single face of Government" with anytime-anyplace access to information, service, and transactions

Simply put, SBA's vision is not about technology. It is about delivering improved customer service to help small businesses start and grow. It is more about satisfying small business expectations, transforming the Agency and changing the way it interacts with small businesses. Today you can use the Internet to find answers to almost any imaginable question, buy or sell products or services, even enjoy art and music. So, why shouldn't all 25 million small business owners in the United States be able to get what they need electronically?

More than two thirds of the small business community use the Internet. Many, if not most, find it extremely difficult to deal with Government. Repeatedly, small firms have argued that the difficulty in finding business-related information, the complexity in receiving essential service and the unnecessary regulations/paperwork cost them money and impair their growth. By allowing an individual to access information and services from the bureaucracy, the Internet is shifting power from public institutions to the citizens. But to make SBA truly "citizen-centered," the Agency must work with state and local resource partners to build tools that meet the needs of the small business owner. Delivering products and services electronically —anytime/anyplace— will save the business owner money, permit increased outreach, transform the way business is done and improve productivity.

Elements of SBA's Expanded e-Gov Effort

- Create an e-SBA with a single portal for small businesses to access everything Government has to offer. The new portal will offer comprehensive information organized in a logical and functionally-driven manner as well as more dynamic and interactive solutions that include electronic access to all of SBA goods and services (e.g., compliance with laws and regulations, e-Loans, asset sales, international trade, disaster help, online eligibility and certification, integrated acquisition portal, and a small business learning network). The first effort involves building a startup module that the aspiring entrepreneur can use. The new web presence will also include links to other Government goods and services of value to small business.
- Manage the Business Compliance One Stop Initiative (Regulatory Advisor). Lead nine regulatory and six state agencies in developing a "single face of Government" to help businesses find, understand and comply with laws and regulations at all levels of Government. Access to laws and regulations, compliance assistance tools, and online transactions form the core of this 24 month effort to create a web services portal.
- Participate in various cross-agency e-Government initiatives. SBA must represent the interests of small businesses and incipient entrepreneurs in a number of cross-agency e-Gov projects, to include: asset sales, international trade streamlining, e-loans, integrated acquisition portal, coordinated disaster assistance, online rulemaking, electronic tax tools for business, USA Service, GovBenefits.gov (online eligibility and certification), e-Grants, and Integrated HR.

As the single point of entry for all that businesses need, SBA will offer web services: interactive, personalized information and service that is cross-agency, multi-functional, and intergovernmental and features a number of cross-agency initiatives:

- Legal and Regulatory Burden Reduction: Regulatory Advisor (Business Compliance One Stop);
- Easy Access to Financial Assistance: asset sales, e-Loans, and international trade streamlining;
- Distance learning network: online tools, courses, tutorials, and customer relationship management;
- Coordinated Disaster Assistance: paperless loan application and processing, harmonized loss verification;
- Integrated acquisition portal: online eligibility for 8(a) firms, marketplace created for small business buying and selling, and registry of small firms interested in selling to the Government, plus an online tool for how to sell to the Government; and
- Online administrative management systems (e.g., travel, procurement, personnel).

Budget and Performance Integration

The President's Budget and Performance Integration initiative requires the SBA to be results oriented. It demands that the Agency allocate resources only to programs that deliver high value at low cost to the American people.

To accomplish this goal the SBA will implement a management process that measures both the performance and cost of all SBA programs. SBA's budget will be tied to results promised by program managers in their operational plans. Budget decisions will be supported through estimates of the unit costs for SBA services and products developed by using SBA's activity based costing (ABC) model.

Strategy

Each program's operational plan is summarized in a scorecard highlighting critical performance measures, cost information and project milestones. A monthly report will be produced to assist SBA's senior leadership in tracking progress throughout the year. Quarterly reviews will ensure that a systematic assessment of progress is made and management actions can be taken to ensure that planned goals are met.

The SBA will reward managers who produce results by integrating operational plans into each senior manager's performance agreement with the Administrator. Performance criteria for all managers will be tied directly to the measures and project milestones identified in operational plans. Decisions about funding levels for future years will also be tied to results achieved under the plan.

Improvements in budget and performance integration should place a strong emphasis on IT capital planning processes since IT costs represent a significant portion of SBA's operating budget, and most IT activities are a multi-year expense. The strategy for improvement is simple: SBA managers must focus on doing better and with more consistency those things that are already defined under existing rules and policies (Clinger-Cohen Act, OMB Circulars A-130 and A-11, etc.). Strengthened methods -- for capital project selection, cost control, performance and benefit calculation, project management and post-project evaluation – will enable SBA to wisely invest scarce resources among varied IT proposals in ways that deliver measurable benefits on time and in response to key objectives.

e-SBA: $9.9 million

SBA will become a virtual organization that maximizes opportunities to serve its customers through the Internet. SBA requests $9.9 million in funding for three initiatives to meet the e-Government goals set forth in the President's Management Agenda.

SBA will invest $5 million to make it easier for small businesses to comply with state and Federal laws and regulations. The cost of complying with laws and regulations is too 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 FY 2000. This translates to roughly $7,000 per employee in firms with less than 20 employees. SBA will create and implement a Business Compliance Assistance One-Stop website with assistance from its Agency resource partners. This website will save businesses time and money by making it easier to comply with laws and regulations. The funds will be used by SBA and its resource partners to build compliance assistance expert tools and to establish online processes business registrations/transactions with Government. This initiative is a crucial part of the President's e-Government initiative and has cross-agency support.

SBA requests $4.3 million for the operation and enhancement of its Information Technology (IT) security program. SBA is a systems intensive organization that has demanding IT security requirements that must be met. SBA will continue implementation of the Agency's PKI architecture required by the e-Government/e-Authentication initiative and expand the effort to include SBA lending resource partners. Planned IT security infrastructure improvements will increase the Agency's security monitoring, detection, and reporting capabilities, thereby assuring information integrity and security.

SBA requests $600,000 to create an electronic grant system. Public Law 106-107 requires the SBA to implement a plan by October 31, 2003 that would simplify the application, administration and reporting process for the financial assistance programs that the Agency administers. By creating and implementing an electronic grant program, SBA will enable grant applicants to electronically apply for, and report on the use of grant funds. By using electronic and Internet tools as a means of service delivery, SBA will reduce the time and expense that the public spends doing grant business with the Agency. In order to move this e-grant project forward, SBA has created an e-Grants team. The SBA e-Grants team members will seek input from the Agency's grantees to identify and establish goals and objectives that will lead to a more efficient method and less burdensome process for receiving and processing grant applications utilizing technology. The SBA e-Grants project will transform the entire "grant life cycle" from announcement to completion and closure of the grant process. As required by P.L. 106-107, the e-Grants team will cooperate and coordinate with other agencies' efforts in the e-Grants cross-agency initiative.

FY 2002 Accomplishments

Responding to the 9/11 Tragedy. SBA played a major role in helping Americans recover from the effects of terrorist attacks. As of September 1, 2002, more than $885 million in disaster loans were made to 9,300 businesses with more than 148,000 employees. SBA initiated the Supplemental Terrorist Activity Relief (STAR) program, which helped 3,196 small businesses with $1.1 billion in loans. The Agency's recovery was also supported by the efforts of SBA's entrepreneurial development resource partners, particularly the Small Business Development Centers (SBDCs) and SCORE.

Expanding SBAExpress Program. SBA implemented changes to the SBA*Express* pilot program that will significantly expand the number of lenders participating in the program. Many new small and rural lenders will be able to make loans to serve small businesses in remote areas.

SBA will now allow an estimated 2,400 experienced lenders to participate in the SBA*Express* program.

Conducted First Ever SBA Matchmaking Fair. In partnership with the U.S. Chamber of Commerce, and as part of the Annual Industry/SBA Procurement Conference, SBA organized the first Matchmaking Fair to allow small businesses to market their services directly to agencies and private industry firms. Approximately 400 small businesses attended the event and met with 20 Federal agencies and 17 large corporate prime contractors. As a result, 1,000 meetings were conducted that day between buyers and small businesses.

Adjusted Revenue Based Size Standards. SBA increased the revenue-based size standards to account for inflation for the first time since 1994. This increased the number of firms eligible for SBA programs.

Expanded Office of Advocacy's Efforts on Behalf of Small Businesses. The Office of Advocacy estimates FY 2002 savings to small business through intervention in rulemaking processes will exceed $3.5 billion. President Bush signed an executive order requiring agencies to work with the Office of Advocacy in determining the impact of their regulatory actions on small businesses before taking final action.

Reinvigorated the Office of the National Ombudsman. SBA increased the number of RegFair hearings from four in 2001 to 22 in 2002. More than 10 emerging markets meetings were held to introduce the services of the Office of the National Ombudsman to women, minority and veteran small business owners. The number of small business comments has increased over tenfold from 22 in FY 2001 to 262 in the first 10 months of FY 2002. The newly-designed and interactive Ombudsman web site will be accessed over a million times during FY 2002.

PERFORMANCE

During FY 2002, SBA developed a new strategic plan which will be published in March, 2003. The new strategic plan establishes three strategic programmatic goals — championing small business interests; empowering entrepreneurs; and helping families and businesses recover from disasters.[2] The new strategic plan also creates program-based performance goals that measure SBA's progress toward achieving its strategic goals. The improved goal structure shows the link between SBA's programs, their specific performance measures, and the Agency's strategic goals.

To facilitate the transition to the new approach to measuring results, this chapter presents SBA's FY 2002 performance data in accordance with the goal structure of the new strategic plan. The chapter is organized by strategic programmatic goal, with a detailed analysis of results achieved and resources expended for each program listed under the goal that it supports. In many cases new performance measures that are more program-specific than those published in the *FY 2003 Budget Request and Performance Plan* have been created. Where possible, performance data for new measures is presented, although formal goals for FY 2002 had not been established. Goals for the new measures will be published in the *FY 2004 Budget Request and Performance Plan*.

In the *FY 2003 Budget Request and Performance Plan* SBA established 49 outcome and output goals.[3] SBA's progress toward achieving those goals is summarized in the following table.

FY 2002 Goal Achievement

Program Area	# of Goals	# of Goals Achieved	# of Goals not Achieved	# of Goals Data Not Available
Advocacy	1	1	0	0
Capital Access	21	13	8	0
GC/BD	11	2	1	8
Entrepreneurial Development	12	6	1	5
Disaster	4	2	0	2
Total	49	24	10	15

SBA exceeded its goals for many crucial performance measures such as the number of 7(a) loans and Entrepreneurial Development clients. In the capital Access program area SBA failed to meet goals related to 7(a) and 504 loans to start-ups, 7(a) and 504 loans to women-owned firms, SBIC financings, and the 504 loan program. These failures were largely due to national economic conditions that limited new venture capital investments and loans to new businesses. In the GC/BD program, SBA has not received FY 2002 data from the Federal Procurement Center and is not yet able to determine the success of its procurement programs. SBA has not yet completed

[2] In the *FY 2003 Budget Request and Performance Plan* SBA revised the goal structure that was published in the *FY 2002 Budget Request and Performance Plan*. This revision was made to reflect the new Administration's priorities and the funding level that SBA received in the FY 2002 appropriation.

[3] *FY 2003Budget Request and Performance Plan*, See the "Results and Resources" tables on pages 12, 17, 24, 28, and 33.

the tabulation of the FY 2002 customer satisfaction data for its ED programs. The Tribal BIC program was terminated and therefore the goal was not achieved. SBA has determined that the performance goals for homes and business restored was inappropriate. The details for each goal are discussed in the program analysis section below. Based on FY 2002 Results SBA, SBA made substantial modifications to its FY 2003 goals. The new FY 2003 goals are reflected in the *FY 2004 Budget Request and Performance Plan.*

Using an activity based costing model, SBA is able to estimate the full cost of each of its programs. Full cost includes not just the direct operating expenses of a program, but also the indirect costs of supporting the program, such as rent and the efforts of field staff, and an allocation of the program's share of SBA's overhead expenses, such as the cost of financial management and congressional liaison. This cost information is used to measure the efficiency of SBA programs by presenting the unit cost of producing program outputs.

SBA was unable to complete program evaluations in FY 2002 due to lack of funding. SBA recognizes the need to evaluate the impact of its programs and has requested funding for program evaluations in FY 2003 and FY 2004.

Through the combination of improved performance measures and the estimates of the full cost of each program, SBA meets the President's goal increasing the transparency and integration of budgets and performance measures.

Strategic Goal One: Champion Small Business Interests

Small businesses need a champion to ensure that the burden of Government regulation does not stifle their ability to succeed in the marketplace. SBA helps reduce the cost of regulations to small business by advocacy on behalf of small businesses during the process of creating new regulations, by providing easy-to-access information about how to comply with government regulations, and by ensuring that the regulatory process treats small businesses fairly. The following table shows how SBA's programs champion small business interests.

SBA Programs and Goals: Strategic Goal #1

Outcome Goals	Performance Goals	Programs
Minimize the regulatory burden on small businesses		
	Cost savings for small businesses due to Advocacy	Advocacy
Provide small businesses with easy access to information about how to comply with government regulations		
	Number of users of BusinessLaw.gov	Businesslaw.gov
	Reduced cost to businesses and regulatory agencies	Businesslaw.gov
	Increased rate of compliance	Businesslaw.gov

Outcome Goals	Performance Goals	Programs
Ensure that small businesses are treated fairly in the Federal regulatory enforcement process		
	Increased compliance assistance	Ombudsman
	Decreased excessive enforcement	Ombudsman

Strategy

During FY 2002 the Office of Advocacy, the Office of the National Ombudsman and SBA's e-government initiative, BusinessLaw.gov, worked together to champion the interests of small business.

The Office of Advocacy worked to ensure that Federal government policies and regulations do not impose an unnecessary or disproportionate burden on small businesses. It produced research that informs public policy debate on the effect of laws and regulations on small businesses. SBA's new website, BusinessLaw.gov, provided small businesses with information about how to comply with laws and regulations. The Office of the National Ombudsman (ONO) help to protect small businesses from excessive Federal regulatory enforcement actions such as repetitive audits or investigations; abusive fines or penalties, and retaliation against small businesses that complain about unfair enforcement action taken by a Federal agency.

FY 2002 Accomplishments

- The Office of Advocacy saved small businesses $21.1 billion in forgone regulatory costs through intervention in the legislative, rulemaking and policymaking processes of the federal government.
- The ONO increased the number of public hearings and roundtables from 2 in FY 2001 to 22 during FY 2002.
- The ONO provided regulatory enforcement fairness orientation and training to 15 SBA district offices in FY 2002 compared to none in FY 2001.
- For the first time, 12 Emerging Markets meetings were held in FY 2002 to introduce ONO services and SBA programs to women, minority, and veteran small business owners.
- Created the award winning Business.gov and BusinessLaw.gov web portals

The following is an analysis of the results achieved and the resources required by SBA programs that contribute to championing small business interests.

Advocacy

The Office of Advocacy acts as an independent small business proponent through statutorily mandated involvement in the regulatory process and through producing research products that articulate the role of small business in the economy. The positions forwarded by the Office of Advocacy to Federal and state policy officials advance the views, concerns and interests of small business before Congress, the White House, Federal regulatory agencies, Federal appellate courts (as an amicus curiae) and state policy makers.

Office of Advocacy FY 2002 Results & Resources

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Regulatory Cost Savings to Small Business	$3.2B	$4.3B	$3.6B	$4.4B	$3.5 B	$21.1B
Research Publications[4]	NA	10	25	17	New Measure	18
Program Cost Estimate [5]($000)	NA	$6,168	$7,126	$7,175	NA	$8,024
Cost per $1 million in savings	NA	$1,169	$1,979	$1,631	NA	$368

Advocacy Results Analysis

In FY 2002, revisions made to the Cross Media Electronic Reporting and Record-Keeping Rule (CROMERRR) by the Environmental Protection Agency resulted in an estimated savings of $18 billion. This is an extremely unusual and unpredictable event and, despite a valid cost savings, by its sheer magnitude alone is an aberration and should not be used in any performance or target calculation. Excluding CROMERRR, the Office of Advocacy's FY 2002 cost savings were $3.8B, exceeding the target of $3.5B.

Advocacy Resource Analysis

SBA estimates the total cost of the Advocacy program for FY 2002 to be $8 million. The costs of the Office of Advocacy accounted for 50 percent of the total cost. This represents the efforts of the Office of Advocacy to maintain the small business database, provide information to the public, identify and reduce capital access barriers, improve agency compliance with the RFA, ensure small business participation in the regulatory and legislative process, and improve coordination between federal and state regulatory agencies. Funding for economic research amounted to $1.1 million, or 14 percent, of the total cost. SBA's executive direction support, for the Office of Advocacy was 11 percent of the cost, or $0.8 million. Fixed costs which include rent, telecommunications, and other costs was 16 percent of the cost, or $1.2 million. Human resource, information technology and procurement support by Management and Administration accounted for 9 percent of the cost, or $0.7 million.

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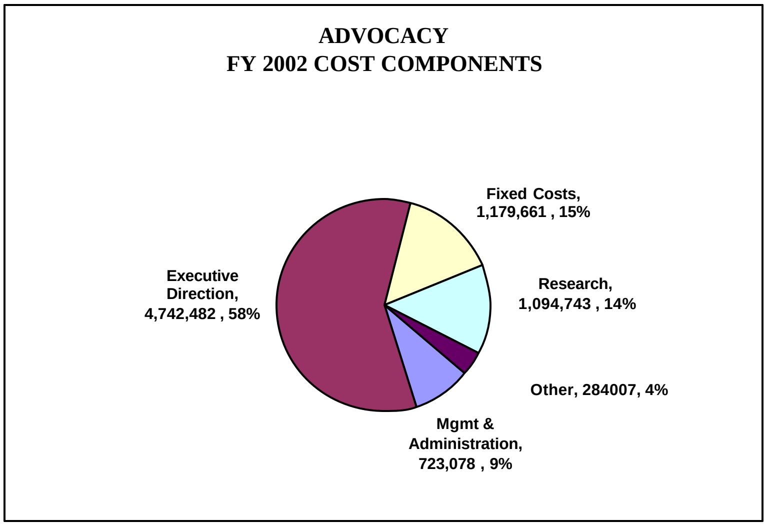
[4] This is a new measure which did not have a goal in the FY 2002 performance plan. Future goals for this measure are established in the *FY 2004 Budget Request and Performance Plan.*.

[5]No cost data is available for FY 19998 because SBA's cost allocation system was not developed until FY 1999. SBA did not establish efficiency goals for FY 2002.



BusinessLaw.gov/Business Compliance One Stop

SBA provides small businesses with easily accessible information about how to comply with laws and regulations. The website BusinessLaw.gov provides 24/7 access to solution-driven Internet tools.

BusinessLaw.Gov FY 2002 Results & Resources

BusinessLaw.gov BCOS	FY 2002 Goal	FY 2002 Actual
Performance Indicators		
Number of users[6]	New Measure	170,000/ week
Reduced costs to businesses and regulatory agencies	New Measure	$20M
SBA Program Cost Estimate ($000s)	NA	$402
SBA Cost per user	NA	$.04

BusinessLaw.gov/BCOS Results Analysis

Currently, there are 170,000 accesses each week on the site. During FY 2002, BusinessLaw.gov was named one of the top 25 cross-agency Internet Services, received the Showcase of Excellence award as the best of the Government-to-Business (G2B) Internet web services, given the Pioneer Award for an outstanding e-Government best practice application and received the 2002 e-Government Performance Leader award for using effective partnerships and strategic alliances. In its spring issue, *Forbes* magazine named BusinessLaw.gov's platform, the *U.S.*

[6] These are new measures which did not have a goal in the FY 2002 performance plan. Future goals for this measure are established in the *FY 2004 Budget Request and Performance Plan.*

Business Advisor (http://www.business.gov), "Best of the Web" services for entrepreneurs (one of three web sites).

BusinessLaw.gov/BCOS Resource Analysis

For FY 2002, SBA received $840,000 from OMB and GSA to augment the $200,000 provided by SBA to build the Business Compliance One Stop. These funds were used to help business users find and understand relevant laws and regulations, create additional expert tools and offer two on-line transactions as prototypes. The additional cost represents SBA staff and overhead costs.

Office of the National Ombudsman (ONO)

ONO acts as an impartial liaison between small businesses and federal agencies with regulatory authority. The National Ombudsman receives small business comments regarding small business disputes with various Federal agencies, transmits them to the relevant agencies, and requests a fair review and prompt response. ONO is assisted by ten Regional Fairness Boards made up of volunteer independent business owners or officers. These boards also receive comments from small businesses in their communities regarding unfair regulatory enforcement which are transmitted to the National Ombudsman for processing.

Office of the National Ombudsman FY 2002 Results & Resources

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators					
% Federal Agency Responses[7]				New Measure	50%
# Small Business Awareness				New Measure	250,000
Program Cost Estimate ($000)	$2,923	$1,427	$935		$2,945

Ombudsman Results Analysis

During fiscal year 2002, ONO used its resources to facilitate a more small-business-friendly Federal regulatory enforcement environment and to begin the process of making its mission a core function of SBA. It worked to increase its outreach to small entities through public hearings, roundtables, speeches, media, and the Internet. By the end of FY 2002, ONO had

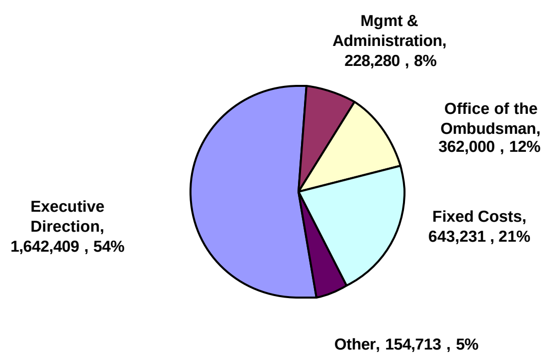
[7] This is a new measure which did not have a goal in the FY 2002 performance plan. Future goals for this measure are established in the *FY 2004 Budget Request and Performance Plan.* Federal agencies respond to comments/complaints about enforcement actions as submitted through the ONO by small business owners. Although SBREFA requires agencies to respond to all comments, they have actually responded to about 50% of comments received to date.

received over 300 small business comments compared to around 20 the year before. Many of these comments represent entire industries, such as fishing, mining, ranching, small meat producers, importers, and restaurants and will have helped improve the regulatory enforcement environment substantially. ONO anticipates that its newly designed and interactive web site will be accessed over one million times during fiscal year 2002. SBA did not establish formal GPRA goals for ONO in FY 2002. SBA has included goals for ONO in its FY 2004 performance Plan and Budget Request.

Ombudsman Resource Analysis

The majority of the ONO's costs – 66 percent or $2.0 million funds salaries for personnel who perform marketing, reach out to stakeholders, recruit, train and support 50 volunteer board members, produce and attend ONO public hearings and roundtables, obtain small business feedback, improve the Federal regulatory enforcement environment for small entities, write reports and respond to public enquiries, as well as develop, maintain and manage public e-services on the Internet. Finally, this amount also includes travel costs for the 50 volunteer board members to more than 20 regional regulatory fairness meetings to hear public testimony. The remainder of the costs, $1.0 million, includes overhead costs for rent, and support for information technology, legal, human resources, procurement, and executive direction.

OFFICE OF THE OMBUDSMAN
FY 2002 COST COMPONENTS



Regulatory Fairness Board Assists Small Business Owners

As co-owner of Libertyville Brewing Company, Bill Sugars was shocked to learn from the U.S. Department of Labor (DOL) that his brewers were not exempt from the minimum wage and overtime provisions of the Fair Labor Standards Act (FLSA). After all, trying to keep daily time records for brewers would not be very practical based on their brewery schedule. Brewers brew when they have to – sometimes in the morning, sometimes in the evening, and sometimes, not at all. Additionally, with the brewers' other numerous daily duties, Bill felt their classification as salaried employees was warranted. However, the Wage-Hour inspector stood by the laws that had been in place long before brewpubs came into being. Although Bill felt the employees were exempt, his main concern focused on the field investigator who stated he would place a negative opinion in the company's file that could be accessed by the press and show up in newspapers. Bill also expressed concern that he would be subject to additional fines due to his alleged non-compliance. After spending approximately $7,000 in legal fees, Bill Sugars' brewers were classified exempt from the FLSA. However, Bill feels the legal avenue might not have been necessary had the Department of Labor informed Libertyville Brewing Company of their rights under the Small Business Regulatory Enforcement Fairness Act (SBREFA). Small business owners with concerns, comments or complaints about Federal regulatory enforcement can voice their comments through the SBA's Office of the National Ombudsman, Michael Barrera. "Small businesses want and deserve a fair Federal regulatory enforcement process," Barrera said. "They want a common sense approach to problem-solving, and a strong voice in the regulatory process." After being referred to the Ombudsman's Office by his Congressman, Rep. Mark Kirk, R-Ill., Bill Sugars attended a Regulatory Fairness Hearing in Indianapolis in early December to testify about the situation the small business had encountered. The National Ombudsman forwarded information to DOL, and later Bill received information from the DOL stating that, after "further investigation, the case is being resolved in favor of the small business owner."

Strategic Goal Two: Empower Entrepreneurs

SBA empowers entrepreneurs with a mix of services designed to provide assistance to small businesses at each stage of their growth. SBA's financial and technical assistance programs are instrumental in helping thousands of small businesses start each year. SBA assists the growth of small business with access to capital, training, counseling and procurement opportunities. SBA also helps to overcome longstanding barriers to economic opportunity. The ultimate outcome is to increase small businesses contribution to our nation's economy.

This section is organized by the Agency's three major programs divisions — Capital Access (CA), Government Contracting/Business Development (GC/BD), and Entrepreneurial Development (ED). The following table shows the relationship between SBA's outcome goals and programs. The specific performance indicators used to measure success may be found in each program's Results and Resources.

SBA Programs and Goals: General Goal #2

Outcome Goals	Performance Goals	Programs
Increase the opportunities for entrepreneurs to start a small business		
	Start up clients counseled and trained by Entrepreneurial Development Partners	SCORE, SBDCs, BICs, WBCs

Outcome Goals	Performance Goals	Programs
	Number of small business start-ups that receive 7(a) Loans	7(A)
	Number of small business start ups that receive 504 loans	504 loan program
	Number of micro-loans awarded	Micro-loans
	SBIC Financing to Start-ups	SBIC
Increase the opportunities for small businesses to grow		
	Gap lending and Investment	CA - 7(a) loan, Microloan, 504 loan, SBG ED – All programs
	Established firms counseled and trained by ED resource partners	SCORE, SBDCs, BICs, WBCs
	Number of established small businesses that receive 7(a) Loans	7(a)
	Number of established small businesses that receive 504 loans	504 Loan Program
	SBIC Financing to established firms	SBIC
	Number of surety bonds guaranteed	Surety Bond
	Export sales assisted by SBA loans	International Trade
Increase the opportunities for small businesses to compete for federal contracts		
	Percent of federal contracts that go to small businesses	Prime
	Contract dollars awarded to small businesses due to SBA assistance and intervention in contracting process	Subcontracting
Small businesses receive assistance in overcoming longstanding barriers to economic opportunity		
	Number of veterans assisted by SBA (all programs)	7(a) Loan, 504 Loan, SBG, ED Programs
	8(a) client success rate after graduation	8(a) Program
	Federal prime contract dollars awarded to HUBZone firms	HUBZone
	Federal prime contract dollars to small disadvantaged businesses (Including 8(a) firms)	Prime Contracting
	Federal prime contracting dollars awarded to service disabled veteran-owned small businesses	Prime Contracting
	Federal prime contracting dollars awarded to women-owned small businesses	Prime Contracting
	Loans emerging market firms (7(a) and 504)	7(a), 504, Microloans
	Loans to veteran owned businesses (7(a) and 504)	
Increased small business contribution to the Nation's economy		

Outcome Goals	Performance Goals	Programs
	Number of jobs created by Capital Access programs	7(a), 504, SBIC, SBG, Microloans, Bonds
	Number of jobs created by Entrepreneurial Development programs	SBDC
	Number of jobs created by Government Contracting Programs (Contracting, SBIR, HUBZone)	HUBZone

Capital Access

By providing access to capital, SBA provides crucial assistance to entrepreneurs at every stage of their growth. Access to capital supports the following outcome goals.

- Increase the opportunities for entrepreneurs to start a small business
- Increase the opportunities for small businesses to grow

The Office of Capital Access is responsible for managing programs that increase the availability of financing for America's small businesses.

Strategy

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's programs provide a full range of services to its customers. The 7(a) loan program provides general loan financing for a wide variety of purposes. The 504 program finances fixed asset investments and supports local economic development needs with long term rates. Microloans serve the very small entrepreneur, often in emerging markets. Small Business Investment Companies (SBIC) leverage private capital to expand the equity financing options available to small businesses. United States Export Assistance Centers (USEAC) provides export technical and trade finance assistance for new-to-export small businesses and small business exporters. The Surety Bond Guarantee Program expands the bond credit and capacity of small contractors who would not otherwise be able to compete for public and private work. The program offices that make up the Office of Capital Access work together to increase opportunities for America's small businesses.

SBA delivers financial assistance programs through a network of field offices and lending resource 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 resource partners for credit decisions.

FY 2002 Accomplishments

Fiscal Year 2002 was tremendously successful year for the SBA in its outcome goals related to its Capital Access programs. The Agency achieved record levels of lending to small businesses, approving 51,666 7(a) General Business loans worth $11.1 billion, 5,480 Certified Development Company (504) loans for $2.5 billion and 2,581 Microloans for $36 million. The office was also instrumental in assisting small businesses affected by the tragedy of September 11th attacks, approving more than 4,400 Supplemental Terrorist Activity Relief loans totally $1.7 billion. In total, SBA lending increased by more than 20 percent over the previous fiscal year. In addition, the office expanded the innovative and popular SBAExpress program to save time and cut paperwork for small businesses. This program reduces the Government risk by providing a 50 percent guarantee, as opposed to up to 85 percent guarantee on other SBA loan products, and helps reduce the loan size by allowing incentives for the lenders making smaller loans.

Capital Access licensed 41 new Small Business Investment Companies with private capital of $800 million. Approximately $4.5 billion in 4,004 financings extended to small business with 2,826 small businesses receiving funding. The office also completed 326 SBIC examinations.

Capital Access approved 7,372 bid bonds with an estimated contract amount of over $550 million, and assisted small businesses in the international trade area by approving 468, generating $616 million in export sales through the Agency's trade finance efforts. The accomplishments also included direct economic impact to the economy by aiding in the creation and retention of more than 529,000 jobs.

As part of Capital Access' program of lender oversight, the fourth cycle of Preferred Lender Program (PLP) reviews was completed with 385 reviews conducted. The fifth cycle of PLP reviews was initiated with 366 reviews anticipated for this cycle. As of September 30, 2002, 143 reviews had been completed in the fifth cycle. In addition, eleven safety and soundness examinations, out of a total of 14, of non-depository Small Business Lending Companies (SBLCs) were conducted.

Program Analysis

The results achieved and resources required for each Capital Access program are discussed in this section.

General Business 7(a) Loan Guaranty Program

SBA guarantees small business loans 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.

7(a) Loan Program FY 2002 Results & Resources

7(a)	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Number of 7(a) loans approved	42,268	43,636	43,748	42,958	47,500	51,666
Dollar volume of 7(a) loans (net)	$9.0B	$9.5B	$9.7B	$9.1B	$10.5B	$11.1B
Loans to start-ups	14,292	13,969 (32%)	13,552 (31%)	12,396 (28%)	NA[8]	13,427 (26%)
Loans to 51% minority owned firms	10,171	11,215	11,234	10,900	NA[9]	13,474
Loans to 51% women owned firms	10,271	9,471	9,216	9,012	NA[10]	10,360
Loans to 51% veteran-owned	5,492	4,993	4,810	4,690	4,699	5,438
Number of jobs created and retained	300,000	313,322	324,964	305,509	324,254[11]	370,000
Number of 7(a) loans below $150,000	26,001	26,464	26,227	27,107	25,900	33,185
Dollars of 7(a) loans below $150,000	$1.7B	$1.9B	$1.9B	$2.0B	$2.0B	$2.2B
Program Cost Estimate ($000)	NA	$53,059	$47,291	$42,039	NA	$32,189
Cost Per Loan	NA	$1,216	$1,081	$978	NA	$623

7(a) Loan Program Results Analysis

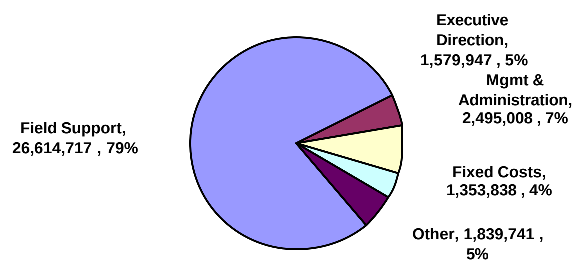
In FY 2002, 7(a) loan volume increased to $12.2 billion in gross approvals over the $9.9 billion approved in FY 2001. This is a 23 percent increase. The number of loans increased 20 percent from 42,958 to 51,666. This increase can be attributed to the weakening economy and its impact on small business lending. As it is typical in an economic downturn, lenders become more conservative as they evaluate the creditworthiness of potential borrowers. Similarly, additional businesses need credit enhancement because of the uncertain outlook for the economy. Finally, regulators also become more conservative as they assess the risks that lenders are taking with commercial lending.

[8] In the *FY 2003 Budget Request and Performance Plan* SBA established a combined goal for 7(a) and 504 loans to startups of 16,194. The combined number of loans made to start-ups was 14,416. See the SBA scorecard at the beginning of this report.
[9] In the *FY 2003 Budget Request and Performance Plan* SBA established a combined goal for 7(a) and 504 loans to minority-owned firms of 12,009. The combined total number of loans made to minority-owned firms was 14,588. See the SBA scorecard at the beginning of this report.
[10] In the *FY 2003 Budget Request and Performance Plan* SBA established a combined 7(a) and 504 goal for loans to 51% women-owned firms of 12,457. The combined total of FY 2002 7(a) and 504 loans was to 51% women owned firms was 11,279.
[11] In the *FY 2003 Budget Request and Performance Plan,* this measure was jobs created.

7(a) Loan Program Resource Analysis

The $33.9 million cost of administering the program in FY 2002 includes all categories of 7(a) loans including LowDoc, Express, PLP and Export. District office direct labor costs for reviewing and approving loan applications plus marketing and outreach to generate new loans are 79% or $26.6 million. The share of rent, utilities, and telecommunications to support the loan making staff is 4% or $1.4 million. General headquarters overhead costs for payroll, information technology, legal, accounting, and direct administration are 12% or $4.1 million.

7(A) LOAN PROGRAM
FY 2002 COST COMPONENTS



Desire for Family Life Provided the Spark for Electrical Contracting Firm

When his employer closed up shop, William "Willie" Hansuld was certain of one thing: his new job would pose as little disruption to his family as possible. That meant staying in Casper, Wyo., where his wife was a teacher and where he felt safe raising his young children. Using $12,000 of personal savings, Willie started Casper Electric. He hired a fellow electrician, bought two old trucks and personally furnished the tools and supplies for his co-worker and himself, and used his home garage substituted for his office, shop and storage area. The first few years were a struggle. "With enthusiasm, a willingness to make sacrifices, and the 'Total Quality Management' philosophy of W. Edward Deming, I was confident that eventually I would achieve my goal of a well established and highly reputable business," said Willie. "The first year's income from Casper Electric covered my employee and supplies. For all practical purposes I had no income. After the first year of business my income was $3,700." Willie's wife, Tia, made enough money at her teaching job at Casper College to buy groceries and pay bills. In 1990, with the help of an SBA-guaranteed $54,000 loan, the firm expanded into a larger office and storage space. Over the course of 16 years the business has grown into a highly competitive electrical contractor with a fleet of 16 vehicles, 26 employees and revenues exceeding $2.5 million. Willie's devotion to his business and to his family won him recognition as the 2002 Small Business Person of the Year for Wyoming. "This is the American Dream," Willie said. "I love it."

504 Certified Development Company (CDC) Loans

The 504 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.

504 Loan Program FY 2002 Results & Resources

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
504 Loans to start up firms	NA	1,027	925	978 (18%)	NA[12]	989 (18%)
504 Loans to established firms	NA	4,257	3,640	4,235	New Measure	4,491
Total number of 504 loans (gross)	4,930	5,284	4,565	5,213	6,480	5,480
Dollar volume of 504 loans (net)	$1.8B	$2.0B	$1.8B	$2.3B	$2.8B	$2.5 B
Loans to 51% veteran-owned	423	488	407	409	400	437
Loans to 51% minority-owned	744	917	893	1,110	NA[13]	1,114
Loans to 51% women-owned	837	787	717	974	NA[14]	919
Number of jobs created and retained	113,966	119,586	104,721	104,702	83,918	116,048
Program Cost Estimate ($000)	NA	$17,034	$14,110	$14,462	NA	$15,236
Cost per loan	NA	$3,223	$3,090	$2,774	NA	$2,780

504 Loan Program Results Analysis

In FY 2002, the 504 loan volume increased by 8.8 percent to $2.47 billion in gross approvals over the $2.26 billion approved in FY 2001. The number of loans increased 5 percent from 5,213 to 5,480. The original goal that was established for 504 loans was not met. The Agency goal for 504 loans was modified mid-year which made it difficult for banks to make the additional loans in the short time frame.

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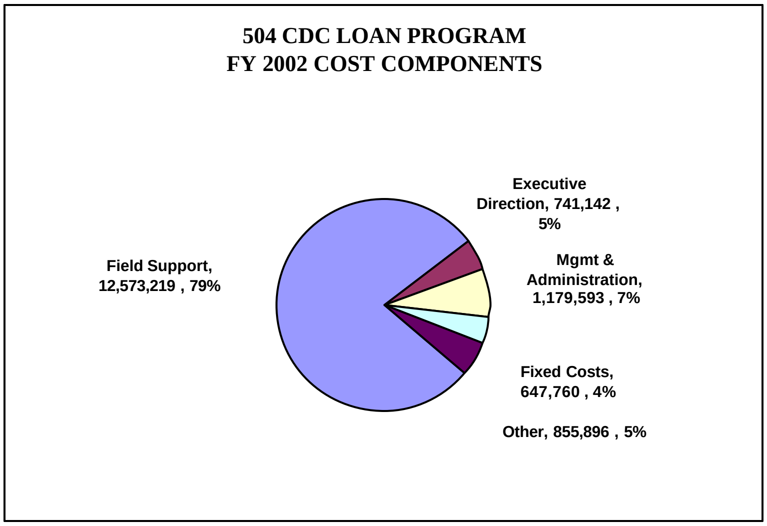
[12] In the FY 2002 performance plan SBA had combined goals for 7(a) and 504 loans to start-ups. SBA did not achieve the combined goal. See footnote 7 under the 7(a) loan program analysis and the SBA Scorecard at the beginning of this report.

[13] In the *FY 2003 Budget Request and Performance Plan* SBA had combined goals for 7(a) and 504 loans to 51% minority-owned firms program. See the relevant footnote under the 7(a) loan program analysis and the SBA Scorecard at the beginning of this report.

[14] In the *FY 2003 Budget Request and Performance Plan* SBA had combined goals for 7(a) and 504 loans to 51% women-owned firms program. See relevant footnote under the 7(a) loan program analysis and the SBA Scorecard at the beginning of this report.

504 Loan Program Resource Analysis

In FY 2002 the cost of the 504 loan program was approximately $15.3 million. The majority of these costs – 82% or $12.6 million - are for district office direct labor costs for reviewing and approving loan applications plus marketing and outreach to generate new loans. The direct overhead for rent, utilities, and telecommunications is 5 percent of the cost or $0.7 million. General headquarters overhead costs for payroll, information technology, legal, accounting and direct administration are 13 percent or $1.9 million.



504 Loan Helps Scottsdale Businessman Acquire New Facility

George Hertzberg credits the United States government with many successes in his life. George, president of one of the fastest growing high-tech retail companies in Arizona, says the company's success is due in part to financial assistance from the SBA. Most recent was a $575,000 SBA 504 Certified Development Company loan through Business Development Finance Corporation, which made possible the purchase of a 7,500-square-foot building for George's business headquarters. GHA Technologies, located in Arizona, sells computers and networking products to corporate America, educational institutions, government and small to medium sized businesses and has plans to expand into other major U.S. cities and Canada. When Hertzberg founded GHA in 1990, it was a one-man operation. At the time of the SBA 504 loan in 1999, GHA had 28 employees. Today, it employs approximately 50 people and foresees growth of four to five salespeople a month in the immediate future. Although Hertzberg modestly credits the Federal government with much of his success, his work ethic, hands-on management and customer service policies are clearly the reasons for the continuation of his success. His is a company committed to excellence. Arizona SBA Office District Director Robert Blaney said, "The SBA is very proud of what George Hertzberg and GHA has accomplished." Through hard work, organized planning and efficient utilization of financing they have become a true success story."

Microloans

Microloans 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) 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, through SBA grants, to provide technical assistance to the micro-business.

Microloan Program FY 2002 Results & Resources

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators					
Loans to start-ups	568	864	1,034	New Measure[15]	1,040
Total Number of loans	1,434	2,107	2,295	2,200	2,581
Estimated hours of technical assistance			118,521	New Measure	124,008
Number of jobs created and retained	4,910	8,303	10,635	New Measure	9,324
Loan Subsidy Cost Estimate ($000)	NA	$ 2,419	$ 2,827	NA	$ 1,153
Loan Making Cost Estimate	NA	NA	NA	NA	$ 636
Total Loan Costs	NA	$ 2,419	$ 2,827	NA	$ 1,789
Total Cost Per Loan	NA	$ 1,148	$ 1,232	NA	$ 693
Technical Assistance	NA	$ 1,919	$ 3,216	NA	$ 791
Technical Assistance Grants	NA	$ 19,243	$ 18,385	NA	$ 17,742
Total Technical Assistance Cost	NA	$ 21,162	$ 21,601	NA	$ 18,533
Tech Assistance Cost Per Hour	NA	NA	NA	NA	$ 149

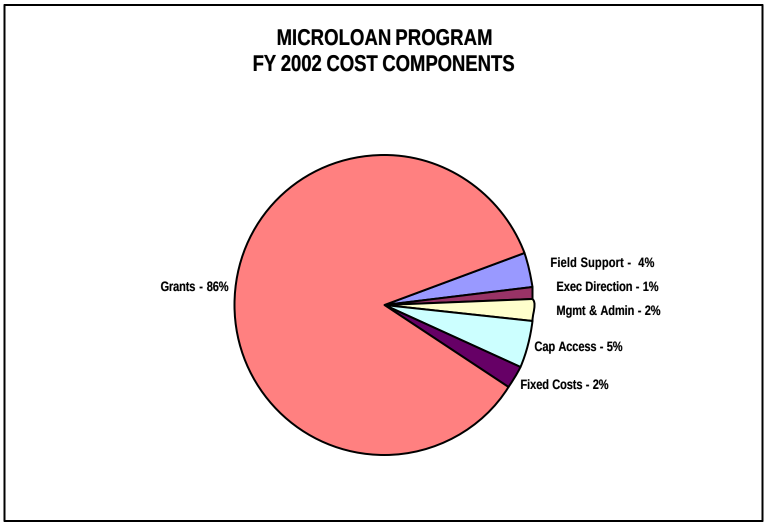
Microloan Program Results Analysis

As with all of SBA's loan programs, microlending increased because of the weakening of the economy and as a result of higher demand resulting from increased awareness of the potential for the program to assist borrowers who are not considered "bankable" by the traditional lending industry.

Microloan Program Resource Analysis

The majority of the $18.6 million cost for this program is $17.8 million for making technical assistance grants. The remaining $0.8 million represents an allocation from the Office of Capital Access for management of the program and overhead costs.

[15] These are new measures which did not have a goal in the FY 2002 performance plan. Future goals for these measures are established in the *FY 2004 Budget Request and Performance Plan*.



Small Business Investment Company Program

SBICs help 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 supplements investment companies' private capital with funds made available through SBA guarantees. SBA licenses and regulates SBICs. 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.

SBIC Program FY 2002 Results & Resources

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Financing to start-ups	1,452	1,171	2,149	1,719	1,800	1,178
Financing to established firms	NA	1,925	2,490	2,558	New Measure[16]	2,826
Total financings	NA	3,096	4,639	4,277	New Measure	4,004
Dollars of SBIC financings to start-ups	$1.6B	$1.8B	$2.7B	$2.0B	$2.1B	$0.8B
Number of jobs created and retained	92,554	120,000	156,000	127,000	148,571	78,000
Licenses issued	31	53	60	51	New Measure	41
Program Cost Estimate ($000)	NA	$11,800	$11,140	$13,808	NA	$15,286
Cost per SBIC Financing ($000s)	NA	$3,.8	$2,.4	$3,.2	NA	$3,8

[16] This is a new measure which did not have a goal in the FY 2002 performance plan. Future goals for this measure are established in the *FY 2004 Budget Request and Performance Plan.*

SBIC Program Results Analysis

The current economic climate has had a significant impact on the SBIC program. As with the venture capital industry overall, the dollars invested showed sizeable decline over the prior year. Although the number of financings were not down significantly, the average size of the financings declined by over 36 percent, or almost $375,000. Jobs created/sustained are calculated as one job per $36,000 invested.[17] Given the overall lower amounts invested, the jobs created/sustained figure showed a substantial decrease. When one aggregates the investments in startups and the add-on financings to companies that were startups when originally financed by the SBIC, the percentage increases to over 50 percent. SBICs, like the overall venture capital industry, are focused on maintaining the viability of existing portfolio companies.

The goal for Financings was not met. The initial number was developed based upon the presumption that the venture capital industry would experience an upturn after the significant downturn in FY 2001. However, the events of September 11 and the economic downturn have delayed this recovery. In reaction to this situation, financings to start-ups decreased from over 46% in FY 2000 and over 40% in FY 2001 to under 30% in FY 2002. Although the number of financings stayed relatively consistent between FY 2001 and FY 2002, SBIC's migrated to later stage financings in FY 2002 as a risk reduction move. This was reflective of the venture capital industry as a whole.

SBIC Loan Program Resource Analysis

SBA estimates that the cost of the SBIC program in FY 2002 was $15.3 million. The majority of the cost, 64% or $9.9 million, is for headquarters personnel who administer the licensing and oversight of the SBIC, and field examiners who perform SBIC regulatory compliance examinations. Headquarters support costs for information technology, procurement, human resources, legal and accounting are 19% or $3.0 million. Fixed costs for rent, utilities, and telecommunications are 16% or $2.2 million.

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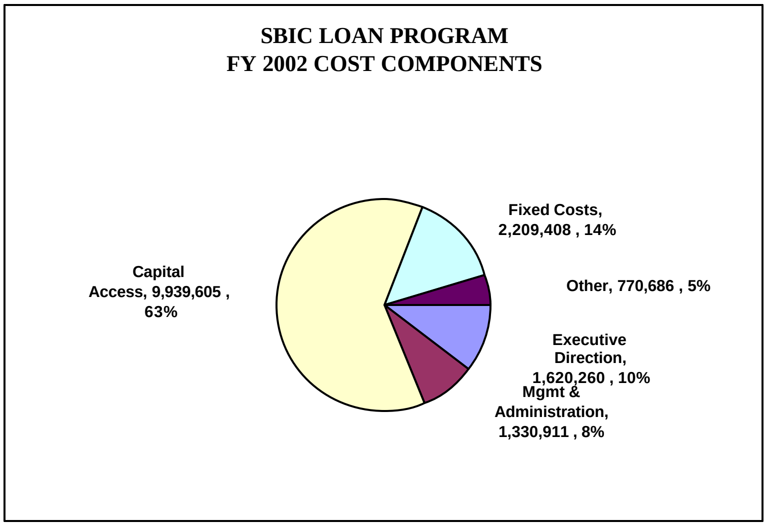
[17] The job coefficient is based on the National Venture Capital Association study by DRI-WEFA (2001)



SBA-Backed Funding Helps Out Outback Steakhouse

In February 1990, Outback Steakhouse had been in business about two and one-half years, employed approximately 300 people, and had a net worth of less than $2 million. That year, the SBA joined with a North Carolina-based small business investment company (SBIC), Kitty Hawk Capital, to provide $151,000 for use as working capital. Ten years later, Outback Steakhouse is one of the most successful restaurant chains in the casual dining industry in the United States, employing more than 38,000 people worldwide and posting revenues of $1.6 billion by the end of 1999. The SBA's SBIC program, established in 1958, is a unique tool that provides risk capital in the form of debt and equity financing to small businesses for their growth, modernization or expansion. There are currently 412 SBICs nationwide, with a combined capital base of $17 billion. SBICs are privately owned and privately managed investment firms, licensed and regulated by the SBA, that use their own capital, plus funds borrowed with SBA guaranties, to make venture capital investments in small businesses. Outback Steakhouse is a prime example of the role SBA can and does play in helping small businesses develop. Kitty Hawk Capital was one of the first institutional investors in the restaurant chain. With the funds from the SBA-backed SBIC and several other investors, Outback Steakhouse was able to attain sufficient size to become a public company in 1991. In 1994, Inc. magazine named founders Robert Basham, Timothy Gannon and Robert Sullivan Entrepreneurs of the Year.

International Trade and United States Export Assistance Centers (USEACs)

The Office of International Trade (OIT) develops, oversees and delivers SBA's technical assistance and export finance programs to small business exporters. It provides overall direction to staff located across the country at 19 USEACs and 70 SBA District Offices. OIT works extensively with other Federal agencies, such as the Department of Commerce and the Export-Import Bank, to coordinate the delivery of services to small firms and with the U.S. Trade Representative on small business-related trade issues. OIT also supports the Administration's trade policy and foreign affairs efforts, participates actively in bilateral initiatives, and is a key participant on the interagency Trade Promotion Coordinating Committee (TPCC).

International Trade and USEAC Program FY 2002 Results & Resources

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Number of Export Loans*	434	429	480	425	420	468
Export sales through financing	$171M	$349M	$675M	$608M	$537M	$616M
Program Cost Estimate ($000)	NA	$5,071	$3,318	$4,254	NA	$4,990

*Export Working Capital Program (EWCP), International Trade Program, and Export Express Program.

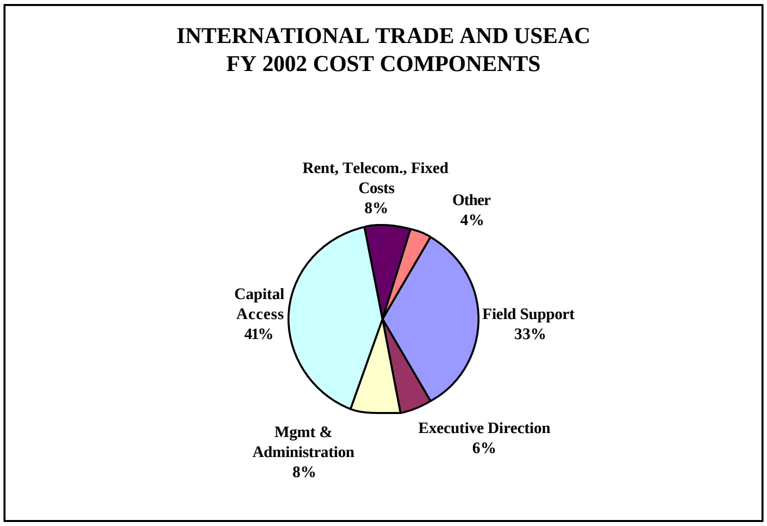
International Trade and USEAC Program Results Analysis

In FY 2002, OIT and USEACs exceeded its output goals in the number of Export loans by 10%, and exceeded its outcome goals in the dollars of export sales generated by export loans by 15%. In the export technical assistance area, OIT and USEACs provided counseling to 4,373 small business exporters; supported $411.3 M; conducted 58 E-TAP (Export Trade Assistance Partnership) programs, training 894 small business clients in export sales, participated in 311 trade events for small business; and recruiting 36 firms for trade missions/trade shows.

International Trade and USEAC Program Resource Analysis

The cost of SBA's international trade programs includes funding for the Office of International Trade, the USEAC program, support from other SBA offices, and overhead expenses. The total cost of this program is $4.9 million which consists of $1.7 million or 34% for labor costs for field support primarily for the USEAC program; $2.1 million or 43% million for labor costs for the office of International Trade; $436 thousand for overhead costs for procurement, human resources, and information technology; $285 thousand for executive direction that includes legal and accounting services; and $411 thousand for fixed costs including rent and various other centralized costs.

The overall budget for SBA's participation at the U.S. Export Assistance Centers (USEACs--19 centers) has been flat-lined at $3.1 million annually. One third of the resource at the USEACs is devoted to export financing assistance, the other two thirds of the resource at the USEACs is devoted to export technical assistance and trade promotion. Within the budget for USEACs, SBA shares costs with the Department of Commerce and Export-Inport Bank for certain administrative costs at the USEACs.



Surety Bond Guarantee (SBG) Program

The SBG Program provides 70-90% bid, payment, and performance bond guarantees on behalf of small businesses for construction, service and supply contracts up to $2 million. SBA's guarantee provides surety companies with the necessary incentive to extend surety bond credit to small contractors who could not otherwise compete in the contracting industry.

Surety Bond Program FY 2002 Results & Resources

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Bond Guaranteed	13,305	9,399	7,034	6,320	6,300	7,372
Increase small business contract revenue	530M	426M	329M	342M	New Measure[18]	461M
Number of jobs created	4,569	3,672	2,836	2,948	New Measure	3,974
Increase % of bonds to emerging markets	30%	28%	26%	29%	New Measure	29%
Program Cost Estimate ($000)	NA	$4,728,	$4,416	$3,686	NA	$4,203
Cost per Bond Guaranteed	NA	$503	$627	$583	NA	$570

[18] These are new measures which did not have a goal in the FY 2002 performance plan. Future goals for these measures are established in the *FY 2004 Budget Request and Performance Plan.*

Surety Bond Guarantee Program Results Analysis

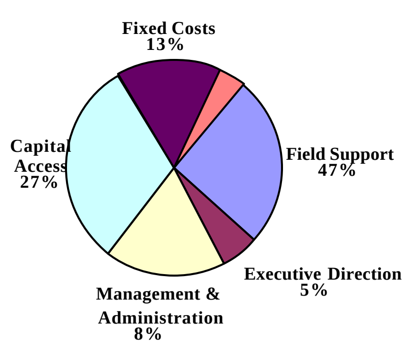
During 2002, SBA guaranteed 7,372 bonds on behalf of small business for contracts valued at $461,001,775. Of the 7,372 bonds guaranteed, 29 percent was on behalf of emerging market small businesses for contracts valued at $133,236,791. The total number of bonds guaranteed represents a 14.2 percent increase from fiscal year 2001. A weakening economy and substantial losses suffered by sureties in the commercial surety bond market had a ripple effect on other areas of insurance, including the contract surety bond market. Typically, when the insurance industry experiences heavy losses, re-insurers, used by sureties to absorb a percentage of its losses, do not renew reinsurance agreements or lower their portion of the risk under their reinsurance treaties. These factors contributed to SBA's participating sureties more frequent use of the Surety Bond Guarantee Program to absorb that exposure.

Surety Bond Guarantee Resource Analysis

The costs outlined in the chart below for the surety bond guarantee program include funding for the Office of Surety Guarantees, its Area Office personnel located in the district offices, and support from other SBA offices, and overhead expenses. The total cost of the program is $4.2 million. The majority of the costs, $1.9 million or 46%, is for labor costs for the area offices that administer the Plan A or SBG program and perform SBG marketing and outreach activities. Other costs include $1.1 million or 27% in labor costs charged to capital access for headquarters staff support, policy guidance, and oversight of the Plan A (SBG) Program, administration of the Plan B or Preferred Surety Bond (PSB) Guarantee Program, and headquarters marketing activities to enroll sureties, agents, and contractors. The remaining costs are $211,000 or 5% for executive direction, $355,000 or 9% in overhead expenses for procurement, human resources, and information technology, and $649,000 or 15% in fixed costs for rent and various other centralized costs. The program collects fees from its surety partners and contractors for bonds guaranteed. That funding is deposited into a revolving fund from which SBA pays claims on defaulted bonds. The fees collected have been substantial enough so that SBA has not had to request an additional appropriation from Congress for the revolving fund for several years, and will not need to do so in FY03 and FY04. In that sense, the program is self-funded.

The program collects fees from its surety partners and contractors for bonds guaranteed. That funding is deposited into a revolving fund from which SBA pays claims on defaulted bonds.

SURETY BOND GUARANTY PROGRAM
FY 2002 COST COMPONENTS



Government Contracting/Business Development

SBA's statutory mission includes ensuring a fair share of Federal procurement goes to small businesses. The Office of Government Contracting and Business Development (GC/BD) works to ensure that Federal agencies comply with Federal statutory procurement goal requirements to buy a portion of their goods and services from small businesses. Working with Federal agencies, SBA negotiates procurement goals, monitors performance, encourages the use of small business sources, and provides procurement training and technical assistance to small firms.

To achieve this mission, SBA's strategic plan establishes two outcome goals:

- Increase the opportunities for small businesses to compete for Federal contracts.
- Provide assistance to small businesses in overcoming longstanding barriers to economic opportunity.

FY 2002 Major Accomplishments

- **President's Small Business Agenda** - In March 2002, the President outlined the Administration's small business agenda - a detailed plan to fulfill governments role of creating an environment where entrepreneurs can dream and small businesses can flourish. Government contracting was an important part of that agenda. The President directed the SBA to work with OMB on a plan that ensured small businesses have access to government contracts in full and open competition and avoid unnecessary contract bundling. That plan is due to the President in October, 2003 and will help us achieve our national goal of increased entreprenuership in more communities across America.
- **Streamlining Electronic Government** - The SBA collaborated with the Department of Defense to build a more streamline vendor database approach in support of the President's Management Agenda to Expand Electronic Government. SBA, the Department of Defense, and the Office of Federal Procurement Policy worked together to integrate the PRO-Net and the CCR systems providing a single access point for contractor registry and information.
- **Creating jobs and supporting distressed communities** - The HUBZone Program exceeded by 43% its objective of increasing the number of HUBZone certified firms resulting in 6,772 certified firms at the end of the fiscal year. The continued improvements in electronic application processing had a significant impact on the ability to deliver results. The program devised new approaches and application of decision logic to expand the capability of the HUBZone electronic application and the new electronic verification feature has virtually eliminated paper form of the application submission and evaluation/decision making process. The HUBZone electronic application is one of only two fully operational electronic applications in the Federal Government and is considered to be one of the most advanced systems in the Federal Government. In FY 02, the HUBZone electronic application system received the Federal CIO Council of Excellence Award in the "Government to Citizen" category as one of the top 16 IT Projects in the Federal Government.

- **Changing the way America does business** - During FY 2002 the SBA introduced a new effort to promote procurement opportunities. The Small Business Matchmaking Initiative is a joint effort of the US Chamber of Commerce and the SBA. The initial matchmaking event was held on May 10, 2002 in Washington DC as part of the SBA and Industry 35th Annual Procurement Conference. Over 1000 meetings between small businesses and procurement officers were arranged through an innovative web portal that captured buying requirements, supplier capacity, and experience. It was a model for success that SBA will take to at least 10 more communities in FY 2003.

Strategy

The Office of Government Contracting and Business Development (GC/BD) utilizes the best business practices of the marketplace to ensure small, small disadvantaged, and women-owned businesses have the greatest opportunity possible to compete in the general marketplace and specifically for available procurement dollars. It does so through a coordinated and collaborative network of programs.

The HUBZone Program promotes job growth and economic development in 'historically underutilized business zones' HUBZones. HUBZones are distressed urban and rural areas characterized by chronic high unemployment and/or low household income, or are designated as Indian Lands. Firms that SBA certify as 'Qualified HUBZone Small Business Concerns' are eligible for Federal contract preferences. Through award of such contracts, SBA makes funds available in historically underutilized communities, by promoting job growth, capital formation, and economic development.

The Office of Business Development manages the 8(a) Business Development and 7(j) programs. The 8(a) Business Development program assists firms which socially and economically disadvantaged individuals own and control to enter and succeed in the economic mainstream. 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.

The Office of Government Contracting works with Federal agencies to seek top level commitment to accomplish small business procurement goals. It provides policy direction and guidance to Federal agencies and establishes performance targets in collaboration with the Federal agencies. The SBA and other agencies develop business strategies in pursuit of achieving these goals. Several of the governmental goals are statutory including small businesses, small disadvantaged businesses, women-owned small businesses, HUBZone small businesses, and service disabled veterans-owned small businesses.

The **Office of Contract Assistance for Women Business Owners** assures that the interests of women business owners, the fastest growing group of entrepreneurs in the nation, are championed across all GC/BD and SBA programming.

Other tools include:

- Formulating procurement policies relating to size standards, **the Small Business Innovation Research (SBIR) Program, the Small Business Technology Transfer (STTR) Program,** and other small business programs.
- Managing field staff that provide training and counseling to small businesses and review Federal procurement activities to ensure small business participation.
- Marketing and maintaining the **Procurement Marketing and Access Network (PRO-*Net*)** to empower small firms to market themselves to the acquisition community and to assist Federal agencies and prime contractors identify potential small business suppliers.

An analysis of performance of C/BD's programs follows.

Government Contracting – *Prime*

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.

Prime Contracting Program FY 2002 Results & Resources

Procurement	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Percentage of all Federal Prime Contractor Dollars awarded to small firms	23.4%	23.1%	22.3%	22.8%	23%	NA[19]
Percentage of all Federal Prime Contractor Dollars awarded to Small Disadvantaged Businesses	6.5%	6.5%	6.5%	7.12%	5%	NA
Percentage of all Federal Prime Contractor Dollars awarded to Women-Owned Small Businesses	2.2%	2.3%	2.3%	2.49%	5%	NA
Percentage of all Federal Prime Contractor Dollars awarded to Service Disabled Veteran-Owned Small Businesses		N/A	N/A	0.25%	3%	NA
Percentage of all Federal Prime Contractor Dollars awarded to qualified HUBZone small business concerns	NA	N/A	.30%	.72%	2.5%	NA

[19] Federal procurement data for FY 2002 is not yet available.

Procurement	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Jobs Created[20]				370,121	New Measure[21]	412,614
Program Cost Estimate ($000)	NA	$4,656	$7,162	$9,616	NA	$7,235

Prime Contracting Program Results Analysis

Because of the delay in getting accurate data from the Federal Procurement Data Center (FPDC), FY 2001 is the last year that full year Results are available. The Federal Acquisition Management Information System (FAMIS) is being developed to address these deficiencies.

During FY 2001, 22.8% of all Contracting Prime dollars went to small businesses as compared to a 23% goal. The agencies have historically exceeded the 5% small disadvantaged business goal—which includes awards under the 8(a) program—and will likely exceed the goal in FY 2002. Although some progress was made towards the women's and SDB goals, agencies failed to achieve the 5% goal, and are projected to be short of meeting the goals once 2002 fiscal year end data is available.

The acquisition reforms of the 1990s changed the way agencies obtain goods and services. Agencies are using Federal supply schedules, government-wide acquisition contracts, government purchase cards, and bundling contract requirements. While these streamlined contracting practices may provide for a more efficient procurement process, they often may not result in awards to small businesses.

SBA is working with an Interagency Acquisition Working Group under the Procurement Executives Council to develop supplemental performance measures to better evaluate the success of its programs. Currently, SBA only uses dollars spent with small businesses as a performance measure. Implementation of the recommendations from the task force on contract bundling will mitigate some of this impact.

SBA worked with the Federal agencies to seek top level commitment to accomplish small business procurement goals. SBA was successful in getting the Secretary of the Army to include more small business participation at the prime and subcontracting levels for the $8.4 billion Communications-Electronics Command (CECOM) Rapid Response procurement after SBA filed a Secretarial Appeal.

The SBA also developed training modules on the various small business procurement programs to include on the *Federal Acquisition Institute* web site. These modules will supplement the

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[20] Gross employment impact of Federal Procurements was produced using, as a base, the dollar receipts per employee figure generated within each industry sector for 1997, the year that the Census Special Tabulation was last developed for SBA. Inflationary increases are applied to each industry sector in each FY.

[21] This is a new measure which did not have a goal in the FY 2002 performance plan. Future goals for this measure are established in the *FY 2004 Budget Request and Performance Plan.*

traditional classroom training offered to Federal contracting officials and provide a way for Federal employees and members of the public to receive on-line training free-of-charge.

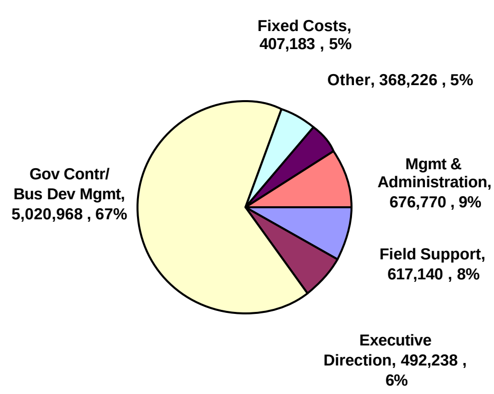
Maintaining the appropriate size standards continued to be an area of focus for the SBA in FY 2002. Final regulations were published that increased monetary-based size standards for inflation, increased the size standard from $1 million to $3 million for Travel Agencies applying for economic injury disaster loans as a result of the terrorist attacks of September 11, 2001, and streamlined the procedures Federal agencies must follow to obtain SBA Administrator to establish size standards for their program that differ from SBA's size standards. As a result, over 9,000 firms will be eligible for assistance under SBA's small business programs.

Additionally, SBA published proposed regulations to increase the size standard for Testing Laboratories from $6 million to $10 million, to establish a new industry category of Forest Fire Suppression and Fuels Management and increase the size standard from $6 million to $15 million, establish an industry category and size standard of 500 employees for Information Technology Value Added Resellers, and increase the size standard for Petroleum Refining from 75,000 barrels per day refining capacity to 155,000 barrels per day refining capacity. As a result, over 1,200 firms will be eligible for assistance under SBA's small business programs.

Prime Contracting Program Resources Analysis

In FY 2002 the program cost is estimated to be $7.2 million. The cost of the program decreased from the FY 2001 level due to a reduction in the amount of program support reported by field offices in SBA's cost allocation survey. In FY 2002 the largest cost component was 69% or $5.0 million, for GC/BD program management. District office support accounted for $0.6 million or 9% of the costs. The cost of executive direction, including financial management support, was $0.5 million. Management and Administration costs, including human resource, information technology, and administrative support, was $0.7 million. Allocated overhead costs for rent, telecommunications, and other fixed costs are 6%, or $0.4 million.

PRIME CONTRACTING PROGRAM
FY 2002 COST COMPONENTS



Government Contracting – *Subcontracting*

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.

Subcontracting Program FY 2002 Results & Resources

Procurement	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Percentage of all subcontracting procurement dollars awarded to small firms	NA	40.4%	39.7%	39.0%	40% [22]	NA [23]
Percentage of all subcontracting procurement dollars awarded to Small Disadvantaged Businesses (SDB)	NA	6.5%	6.7%	5.95%	5% [24]	NA
Percentage of all subcontracting procurement dollars awarded to Women-Owned Businesses	NA	4.3%	4.7%	4.5%	5%	NA
Percentage of all subcontracting procurement dollars awarded to Service Disabled Veterans	NA	N/A	N/A	.08%	3%	NA
Program Cost Estimate ($000)	NA	$2,165	$3,327	$4,234	NA	$3,961

Subcontracting Program Results Analysis

Again, because of the delay in getting accurate data from the Federal Procurement Data Center (FPDC), FY 2001 is the last year that full year results are available.

There has been a slight decline in the percentage of subcontracting dollars awarded to small businesses since FY 1999. The percentage of subcontracting to women-owned small businesses is significantly higher than for prime contracts. Collectively, agencies are achieving the 5% subcontracting goal for small disadvantaged businesses. Both the percentages of prime and

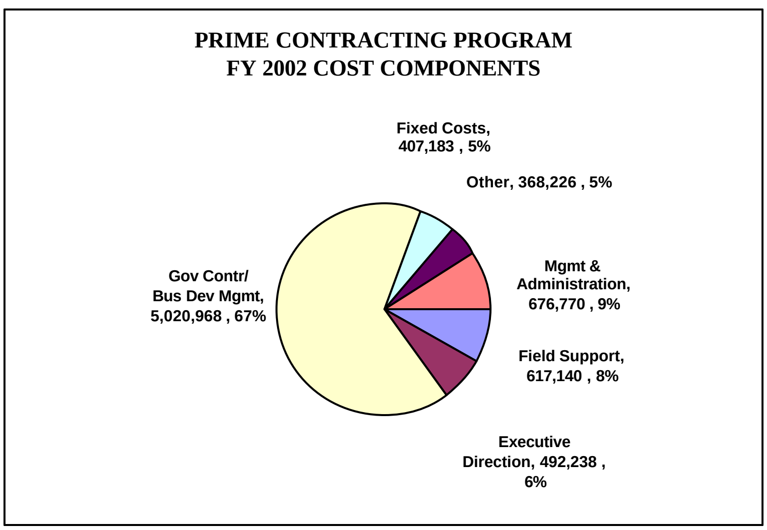
[22] The *FY 2003 Budget Request and Performance Plan* did not include subcontracting goals. This goal was negotiated with all Federal agencies.
[23] Procurement data from the Federal Procurement Data Center (FPDC) for FY 2002 is not available.
[24] The FY 2003 Budget Request and Performance Plan did not establish subcontracting goals. However, the SDB, women, and disabled veteran goals are established by stature.

subcontracting dollars to service-disabled veteran-owned small businesses are below the 3% goal. SBA continues to work with the agencies and Federal prime contractor to increase procurement opportunities for those categories of small businesses where the goal has not been met. The task force on contract bundling has developed recommendations that will support small businesses receiving subcontracting awards.

Access to information regarding subcontracting was made easier in FY 2002 by the Establishment of a hot link between the Subcontracting Network (SUB-Net) and Federal Business Opportunities (FedBizOpps). As a result, small businesses have access to additional information on subcontracting opportunities under Federal prime contracts.

Subcontracting Program Resource Analysis

SBA estimates that in FY 2002 the cost of the program was $3.9 million. The cost of the program decreased from the FY 2001 estimate of $4.2 million due to a reduction in the amount of support reported in SBA's cost allocation survey by field office personnel. In FY 2002 the largest cost component is 70% or $2.74 million for headquarters program management by GC/BD. The cost of the support efforts of district office staff is estimated to be 8% of the cost or $0.32 million. Headquarters costs include 11%, or $0.46 million, for executive direction support, including legal counsel and financial management. Administrative, procurement, and information technology support by the Office of Management and Administration is 9%, or $0.37 million. Overhead costs for rent, telecommunications, and other fixed costs are estimated to be 6%, or $0.25 million



Promote Procurement Matchmaking

Matchmaking Program FY 2002 Results & Resources

Procurement Matchmaking	FY 2002 Goal	FY 2002 Estimate
Performance Indicators		
Small business appointments conducted with procurement officials	New Measure[25]	1,000
Small businesses assisted via prescheduled selling meetings with procurement officials	New Measure	400
Small business procurement matchmaking events held	New measure	1

Matchmaking Program Results Analysis

During FY 2002, SBA introduced a new effort to promote procurement opportunities. The Small Business Matchmaking Initiative is a joint effort of the U.S. Chamber of Commerce and the SBA. The U.S. Chamber of Commerce, with sponsorship by Raytheon Company, was the major event underwriter for the initial matchmaking event held on May 10, 2002 in Washington, D.C. As part of the SBA and Industry 35th Annual Procurement Conference, meetings between small businesses and procurement officers were arranged through an innovative web portal that captured buying requirements, supplier capacity and experience.

The program provided more than 400 participating small businesses with 1,000 prescheduled appointments with procurement officials from Federal agencies and large corporations. Due to the overwhelming success of the May event, the U.S. Chamber of Commerce and the SBA launched a national rollout of the matchmaking program in October 2002. The SBA leveraged its resources and relationships to produce these results without obtaining additional budget funding. The program is funded within the scope of the existing operating budget. By collaborating with the U.S. Chamber of Commerce, SBA is leveraging its budget and increasing efficiency by linking with other organizations. SBA budget dollars are tied to resources from state and local governments and private industry, producing results for all participants.

The Matchmaking Initiative facilitates small businesses' access to contracts and related financing by helping to build a pipeline of future contracting opportunities. The small businesses are matched via prescheduled meetings with the buyers based on commodity or service needed by the buyer. As a result, both meeting participants share a mutual interest in addressing a need. Through these matchmaking events, the SBA assists government agencies and prime contractors in achieving procurement goals. SBA tracks results, but expects a 6-12 month lag before procurement awards occur.

The rollout of the Matchmaking Initiative provides a more citizen-centered approach to accessing government contracts. By delivering these events across the United States, SBA further opens access to contracts to businesses residing outside the Washington, D.C. area. At

[25] This is a new measure which did not have a goal in the FY 2002 performance plan. Future goals for this measure are established in the *FY 2004 Budget Request and Performance Plan.*

the Matchmaking event held in October, 2002 in Cleveland, OH, over 600 small businesses participated whereby approximately 1,700 matchmaking appointments were scheduled with federal and prime contracting officers.

Matchmaking Program Resource Analysis

The Procurement Matchmaking Initiative is highly cost effective for SBA. SBA works closely with the event's cosponsor, the U.S. Chamber of Commerce and the other regional chambers, corporations and government entities in order to maximize the use of limited federal budget dollars. Funding of the project is handled almost entirely by the U.S. Chamber of Commerce and its affiliates. SBA funds the initiative through Government Contracting & Business Development's annual operating budget allocation thereby leveraging federal dollars at a rate of approximately 30:1.

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. The program works 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.

8(a) Program FY 2002 Results & Resources

8(a)	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Number of small businesses participating in the program	4,931	5,969	6,383	6,942	6,500	7,000
8(a) client success rate 3 years after graduation	54.4%	68.0%	65.0%	64.0%	70.0%	NA[26]
Program Cost Estimate ($000)	NA	$31,329	$30,576	$34,114	NA	$40,847
Cost per firm 8(a) firm	NA	$5,248	$4,790	$4,914	NA	$5,836

[26] Data is being compiled. It will be available in the "Annual 8(a) Section 408 Report" due to Congress April 30, 2003.

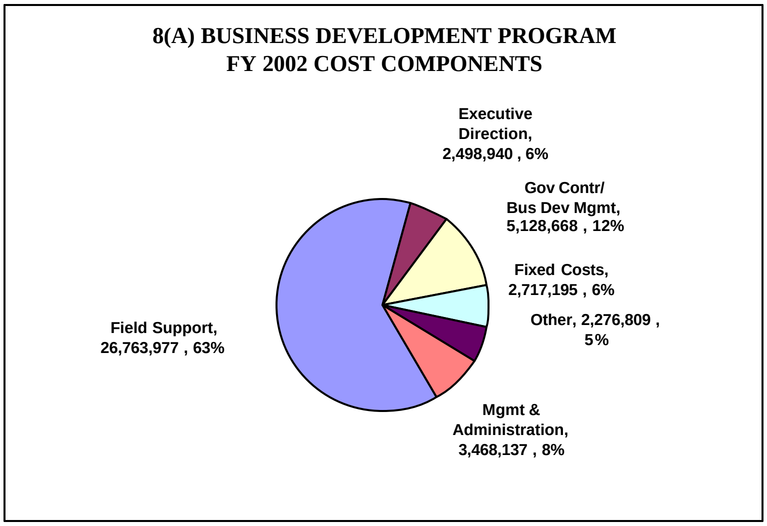
8(a) Program Results Analysis

In FY 2002 a key program focus area was on the modernization of the 8(a) Business Development Program. The 8(a) modernization initiative attempts to enhance and restructure the 8(a) program by consolidating the application and annual review processing into centralized location(s). An automated, on-line 8(a) application is being developed that will speed the decision-making process and create a more customer friendly application experience for the small businesses. This will be done by using data linkages and other electronic file sharing technologies. The goal is to process 3,000 applications and 7,000 annual reviews annually.

In FY 2002, SBA started negotiation with the General Services Administration (GSA) to ensure the correct implementation of the Surplus Property Program. This will ensure that 8(a) program participants get the maximum benefit from the Surplus Property Program. Likewise, an agreement was reached between SBA and the General Services Administration (GSA) to strengthen the process to give Agencies credit for the use of 8(a) firms off the Federal Supply Schedules. This will ensure that 8(a) firms continue to obtain work from the Federal agencies through the use of the Schedules. Also during FY 2002, planning and design work was in process for the implementation of the new 8(a) Procurement Academy which will be implemented in FY 2003. The 8(a) Procurement Academy initiative attempts to provide training to all firms that wish training. It is estimated that 4,700 firms will be reached annually with this training.

8(a) Program Resource Analysis

SBA estimates that the cost of the 8(a) program was $40.8 million. The largest cost of the 8(a) program is for field employees who support and implement the program. Field Business Opportunity Specialists act as case workers for each 8(a) firm, conducting site visits and developing personal relationships and trust with individual entrepreneurs. They provide marketing and technical assistance to firms either directly or through resource partners such as SCORE volunteers. They also ensure that firms comply with eligibility requirements. In FY 2002 field support accounted for 66%, or $26.7 million, of the program cost. In FY 2002 field support for the 8(a) program increased due to the introduction of a new District office performance goal for assisting 8(a) firms in obtaining contracts. Headquarters costs for GC/BD program management are $5.1 million. The program was supported by an additional $6.0 million for legal, accounting, human resources and information technology which are presented in the chart below as Executive Direction and Management & Administration costs. Allocated overhead costs for rent, telecommunications, and other fixed costs are 7%, or $2.9 million.



Westech International, Inc.
Betty Chao, President

Betty P. Chao's father had to tutor her in first-grade English after the family moved to the U.S. from Taiwan, but eventually she was able to work her way through college and earn a Ph.D. in Industrial and Systems Engineering. After working nine years at Sandia National Laboratories in Albuquerque, N.M., managing large multidisciplinary teams in the development of automated systems for various software projects, Dr. Chao founded WESTECH International, Inc., in 1992. The company started small, but soon got large contracts and hired more staff. In 1995, WESTECH was certified as a participant in SBA's 8(a) program. Relying on an excellent reputation for delivering high quality technical products and services, Dr. Chao expanded her company's customer base and contract backlog. In 1997, she teamed with MEVATEC Corporation on an 8(a) contract opportunity at Fort Huachuca, Ariz. WESTECH won the 8(a) competitive contract, providing test support and test planning, engineering services and support and instrumentation support services to the Intelligence Electronic Warfare Test Directorate. WESTECH, with 45 employees in three states, enjoys a reputation as one of the premier contractors providing outstanding support services at Fort Huachuca. Now president of her company, Dr. Chao believes that the source of the company's strength is its employees, who maintain the highest standards of professionalism and technical competence. In turn, WESTECH encourages initiative, fosters teamwork, recognizes individual achievements, and treats each person with respect.

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.

7(j) Program FY 2002 Results and Resources

7(j) Technical Assistance	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Estimate
Performance Indicators						
Number of small businesses that participated in 7(j) funded activities	NA	NA	694	1,964	New Measure[27]	605
Program Cost Estimate ($000)	NA	$3,213	$3,950	$3,241	NA	$4,365
Cost per small business participating in 7(j) funded activities	NA	NA	$5,691	$1,650	NA	$7,214

7(j) Program Results Analysis

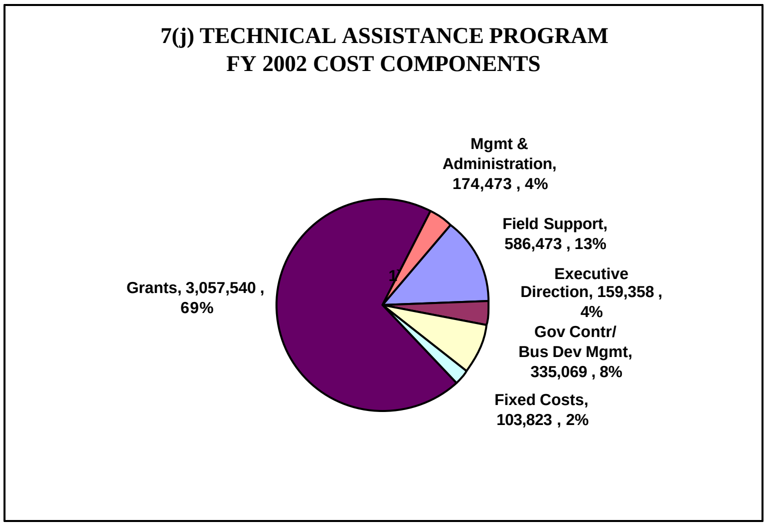
The 7(j) program is experiencing an increase in demand for its services, but budget constraint limits the expansion of training opportunities to significantly more firms.

7(j) Program Resource Analysis

7(j) program activities are funded through Grants, Cooperative Agreements and Contracts. Program expenses also include headquarters oversight and field office support for marketing and outreach.

In FY 2002 SBA's resource support for the 7(j) program is estimated to have been $4.4 million. The largest cost component is 69%, or $3.0 million, for grants, followed by 13%, or $0.6 million, for labor costs for district office employees who support this program. Headquarters costs for direct management include $0.3 million for the Office of Government Contracting and Business Development and $0.2 million for legal, accounting, human resources and information technology support. Allocated overhead costs for rent, telecommunications, and other fixed costs including pension liability are 2%, or $0.1 million.

[27] This is a new measure which did not have a goal in the FY 2002 performance plan. Future goals for this measure are established in the *FY 2004 Budget Request and Performance Plan.*



HUBZone Empowerment Contracting Program

The HUBZone Contracting Program provides for Federal contract set-asides, sole source awards, and price evaluation preferences in unrestricted procurements for qualified HUBZone small businesses. HUBZones are distressed urban and rural areas characterized by chronic high unemployment and/or low household income, or are designated as Indian Lands. Firms certified as "qualified HUBZone small business concerns" are eligible for Federal contract preferences. The following table summarizes the results achieved and the resources required by the HUBZone program.

HUBZone Program FY 2002 Results & Resources

HUBZone	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Percentage of all Federal PCDs awarded to HUBZone small businesses	NA	N/A**	0.3%	.72%	2.5%	NA[28]
Cumulative number of HUBZone firms certified	NA	329	1,843	3,986	6,000	6,772
Program Cost Estimate ($000)	NA	$4,581	$5,820	$5,889	NA	$6,294
Cost per firm certified	NA	NA	$3,157	$1,477	NA	$929

** FPDS did not track HUBZone contract award dollars until FY 2000.

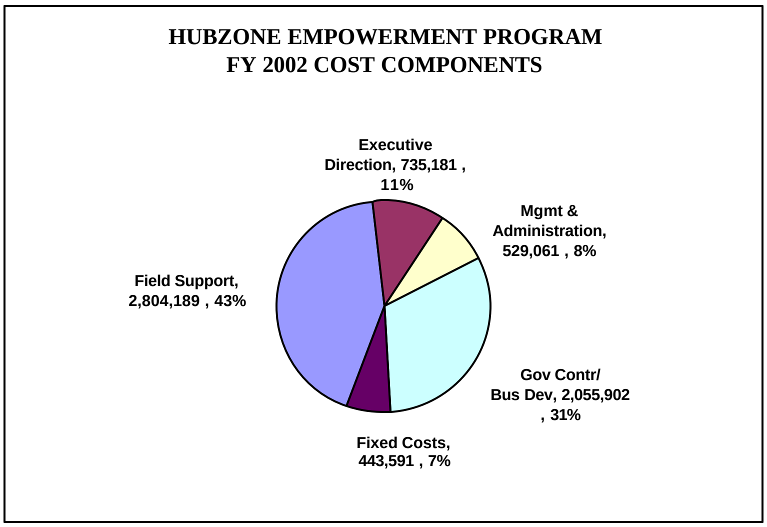
[28] Procurement data from the Federal Procurement Data Center (FPDC) for FY 2002 is not available.

HUBZone Program Results Analysis

The HUBZone Program exceeded by 43% its objective of increasing the number of HUBZone certified firms resulting in 6,772 certified firms at the end of FY 2002.
A series of compact disks (CD) were produced to support the external awareness of the HUBZone Program and helped drive the increase in certified firms. The marketing and education CDs includes video of general program material, frequently asked questions, professional training course and numerous direct links to the HUBZone home page and other informational web-sites. The CDs have been well received by the public and are recognized as one of the most creative new approaches for economical marketing and training by the SBA.

HUBZone Program Resource Analysis

The SBA's operating budget provides the remaining funding necessary for support costs including $2.8 million in district office labor for marketing and outreach support, $0.5 million in management and administration support, and $0.4 million in SBA executive direction.



PRO-Net

The Procurement Marketing and Access Network, PRO-Net, is the first step for any small business seeking to 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 as their first step in identifying small business vendors.

PRO-Net Program FY 2002 Results & Resources

PRO-Net	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual*
Performance Indicators						
Number of firms registered in PRO-Net	NA	183,750	204,148	212,300	212,000[29]	178,516
Average hits/visits per week	NA	22,962	29,146	29,840	New Measure[30]	21,321
Program Cost Estimate ($000)	NA	N/A	$785	$700	NA	$332
Cost per firm registered	NA	$4	$3	$2	NA	$2

PRO-Net Program Results Analysis

PRO-Net supports the President's Management Agenda to Expand Electronic Government. Through operation of PRO-Net, SBA plays an important role in offering electronic services to citizens and small businesses. During FY 2002, SBA, the Department of Defense, and the Office of Federal Procurement Policy worked together to integrate PRO-Net and the CCR. In preparation for this integration, SBA purged the PRO-Net database of approximately 40,000 inactive records. SBA expects that as a result of the integration of PRO-Net and CCR, PRO-Net will contain approximately 170,000 records.

PRO-Net Program Resource Analysis

In FY 2002 SBA reduced expenditures for the development of the PRO-Net system, leading to a significant reduction in the costs of administering the program. SBA spent $161,000 for contractor support to run the PRO-Net help desk, approximately $120,000 in labor costs, and $51,000 in administrative overhead to support the PRO-NET program in FY 2002.

Small Business Innovation Research and Small Business Technology Transfer Programs

SBA encourages small business innovation by establishing government-wide policy for the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) Programs. Through award of research and development assistance grants and contracts, these programs promote the flow of innovative products and services from small businesses to the federal and commercial markets. There are 10 participating federal agencies in the SBIR Program, and 5 in the STTR Program. Through the Federal and State Technology Partnership Program (FAST), SBA provides grants to a single representative of a state that is used to strengthen the technological competitiveness of small businesses. Each grantee under this program must leverage the amount of requested Federal funds with matching State funds as required by the FAST legislation. The SBIR Rural Outreach Program provides grants to approximately 25 states to increase participation in the SBIR Program. Below are the program

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[29] 44,374 inactive records were scrubbed out of the database in May 2002.
[30] This is a new measure which did not have a goal in the FY 2002 performance plan. Future goals for this measure are established in the *FY 2004 Budget Request and Performance Plan*

results for the SBIR program, the larger of the two programs. The STTR program awards $70 million annually to small businesses.

SBIR Program FY 2002 Results & Resources

SBIR	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Annual Awards	NA	4,590	4,496	4,748	New Measure[31]	4,980
Total Grant and Contract Dollars Awarded (000)	NA	$1,096,500	$1,190,200	$1,294,300	New Measure	$1,500,010
Commercialization rate[32]	NA	39%	39%	40%	38%	41%
Program Cost Estimate ($000)	NA	$2578	$1,576	$1,524	NA	$1,396

SBIR Program Results Analysis

In FY 2002, SBA published the SBIR Policy Directive which provides program management guidance to participating agencies. SBA also worked with participating agencies to implement strategic plans to facilitate and promote commercialization of their solicited SBIR and STTR technologies and to leverage the use of non SBIR and STTR funds to acquire the commercialized technologies of the firms. Federal and State Technology Resource Partnership (FAST) Program and the SBIR Rural Outreach Program (ROP) have an emphasis on assisting with the commercialization of technologies by firms that participate in the SBIR and STTR programs.

Program awards in FY 2002 were made in the amount of $2.5 million in grants to states for the Federal and Technology Partnership (FAST) program. Additionally, $450k in grant awards were made to states for the SBIR Rural Outreach program. The SBA also provided $200k in funding support through the Science and Engineering Alliance to Historically Black Colleges and Universities (HBCUs) through SBA HBCU Initiative.

The SBA is working closely with the National Research Council (NRC) to ensure that the indicators used in their upcoming comprehensive SBIR study are fair and equitable. Based on a 1999 survey, 39 percent of SBIR firms proceed successfully to Phase III commercialization. The SBIR Reauthorization Act of 2000 (P.L. 106-554) mandated a new SBIR program reporting system which could reduce the projected future commercialization rates if the program assessment indicators established by the National Research Council (NRC) are not fair and equitable to small business commercialization efforts. Annually, participating firms will provide information on their commercialization of SBIR project technologies to the new database.

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[31] This is a new measure which did not have a goal in the FY 2002 performance plan. Future goals for this measure are established in the *FY 2004 Budget Request and Performance Plan.*

[32] Commercialization rate: This is the measurement of the commercialization of SBIR technologies that have been fully transitioned into the marketplace.

SBIR and STTR Programs Resource Analysis

In FY 2002 the cost of supporting this program is estimated to be $1.4 million. The costs for this program include field staff outreach, $177 thousand; GC/BD program management, $448 thousand ; SBA executive direction, $94 thousand; Management and Administration, $110 thousand, and fixed costs, $119 thousand. The cost of the STTR program was $452,000.

Entrepreneurial Development

The vision of SBA's Office of Entrepreneurial Development (ED) is to enhance business expansion and entrepreneurship by providing cutting edge programs and services, through traditional and e-government methods, designed to provide existing and potential entrepreneurs with the knowledge, skills and tools to succeed and compete in the 21st century business environment, domestically and internationally.

Access to training and counseling supports the following outcome goals.

- Increase the opportunities for entrepreneurs to start a small business.
- Increase the opportunities for small businesses to grow.

Strategy

Lack of management knowledge and the inability to access knowledge are major underlying causes of small business failure. Therefore, empowering entrepreneurs through counseling, education, training and information is one of SBA's principal objectives. ED plays an important role in delivering and disseminating business information, providing education and training and counseling clients about starting or growing their businesses.

ED serves over 1.3 million clients annually through its programs including, among others, Women's Business Centers (WBCs), Small Business Development Centers (SBDCs), Business Information Centers (BICs), SCORE and various on-line activities. The Agency is also creating citizen-centered Internet applications that empower entrepreneurs to easily access government information when and where they want.

Most of ED's programs and services are leveraged with the private sector, requiring reduced government funding while providing the advantage of increased support, commitment and outreach for the programs locally. The SBDC and WBC programs are matching grant programs many of whom are highly leveraged with the private sector.

An analysis of the results achieved and resources expended for SBA's ED program, follows:

Business Information Centers

The Kauffman Foundation and Dun & Bradstreet indicate that 80% of new businesses discontinue operations within five years because of lack of "knowledge" of key business skills. Business Information Centers (BICs) assist small businesses, particularly the critical pre-venture and early start-up market, by providing access to these business skills. A national network of over eighty (80) community-based locations, BICs are a public/private cosponsorship with companies such as Microsoft, Adobe and Dell Computers. These cosponsors make it possible for SBA to install and keep current resources such as "state-of-the-art" hardware and software at BIC locations for use by counselors and small business clients. Counselors from SBA's resource partners -- SCORE, SBDCs, and WBCs – use the facilities and resources of the BIC as education and training tools for their clients, such as using BIC software for developing company business and marketing plans.

BIC Program FY 2002 Results & Resources

BIC	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Number of clients served	108,918	123,527	134,358	142,148	146,412	146,658
Customer satisfaction		N/A	88%	93%	80%	N/A[33]
Program Cost Estimate ($000)	NA	$5,920	$11,795	$12,132	NA	$11,942
Cost per client served	NA	$48	$88	$85	NA	$81

BIC Program Results Analysis

BICs have achieved annual client growth of 6% for the last three fiscal years and added 23 more locations while experiencing a 20% reduction in funding. In the 2001 customer satisfaction survey conducted by SBA, 93% of the clients surveyed rated BICs as very good to excellent. In FY 2002 SBA distributed to all BICs the International Trade Data Network to aid with export counseling and Spanish language publications.

BIC Program Resource Analysis

The estimated full cost of SBA's support for the BIC program is $11.9 million for FY 2002 This estimate includes $7.8 million for the field office staff who support BIC operations and the cost of rent for BICs that are located in SBA offices. The program management costs of the Office of Entrepreneurial Development were $1.7 million or 15% of total costs. Management and Administration costs for human resources, information technology, and procurement support approximate $1 million or 8% and fixed costs are $0.7 million. The BIC programs share of SBA's fixed costs amounts to 0.7 million..

The BIC program is leveraged with resources from the private sector. In FY 2002 the BIC program negotiated with private sector resource partners for cosponsorship gift support:

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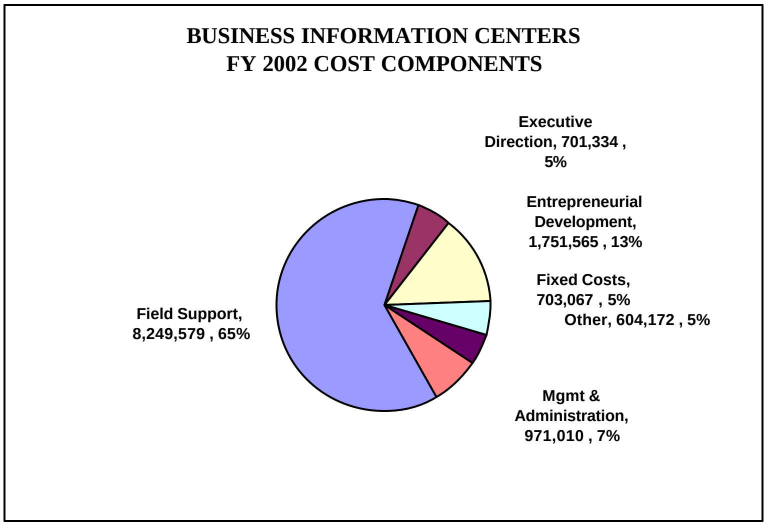
[33] The Office of Business and Community Initiatives began in FY 2001 to use an OMB approved questionnaire to collect information about client perceptions of the quality of customer service and the usefulness of the computer hardware, software, peripherals and reference libraries provided at BICs. FY 2002 survey data is currently being tabulated.

Microsoft for $750,000 of software for BIC upgrades; Adobe for $1 million of software for BIC upgrades. Many BICs are also located in donated space further reducing the cost of the program.



SCORE

SBA funds SCORE through a cooperative agreement with the National Score Association (NSA). SCORE volunteers provide face-to-face counseling from 389 chapter locations with 10,900 SCORE volunteers across the country. As SBA's leading resource partner handling the pre-venture market segment, SCORE helps clients set realistic business expectations through development of sound business and marketing plans, management advice and guidance. This counseling contributes to a reduction of small business failures and personal and company bankruptcy. The SCORE program complements SBA's other information, counseling and technical assistance programs by delivering its services at SBA District offices. SCORE counselors also travel to places of business for on-site evaluations.

SCORE Program FY 2002 Results & Resources

SCORE	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Number of clients counseled and trained	354,239	384,854	377,524	387,938	399,576	440,293
Number of clients trained	New Measure	New Measure	New Measure	New Measure	New Measure[34]	119,929
Number of clients counseled	New Measure	New Measure	New Measure	New Measure	New Measure	320,364

[34] This is a new measure which did not have a goal in the FY 2002 performance plan. Future goals for this measure are established in the *FY 2004 Budget Request and Performance Plan.*

SCORE	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Customer Satisfaction[35] (%)	NA	NA	86%	87%	NA[36]	NA
Program Cost Estimate ($000)	NA	$8,461	$9,792	$11,858	NA	$13,271
Cost per client served	NA	$22	$26	$31	NA	$30

SCORE Program Results Analysis

With over 1 million hours of mentoring, counseling and training by retired and active small business owners, the SCORE program provides "real world" expertise for pre-venture and start-up businesses. SCORE proactively anticipates and is meeting the needs and expectations of a diverse client base shown by a steady increase in minority, women and veteran clients. The FY 2002 funding increase resulted in program enhancements, such as electronic counseling, and improved customer service, as evidenced by improved ratings on the American Customer Satisfaction Index.

An extensive database allows entrepreneurs to search for SCORE counselors who are available on-line 24/7 and connects people coast-to-coast by matching client needs with counselor skill sets. In FY 2002, 1,100 e-counselors conducted 82,616 email counseling sessions. The SCORE website also has over 2,000 pages of content with "how to" information on practical solutions and suggestions for overcoming business obstacles

In FY 2002 SCORE increased workshop attendance by twenty percent over FY 2001 and counseling hours by nine percent over FY 2001. It opened 64 new branches and 7 new chapters this fiscal year. SCORE also concentrated on attracting new members, resulting in:

- Sixteen percent of new counselors being women;
- Twenty one percent of new counselors are actively employed;
- 73 percent being retired less than 4 years;
- Sixty-five percent of new members owning a small business at some point in their career.

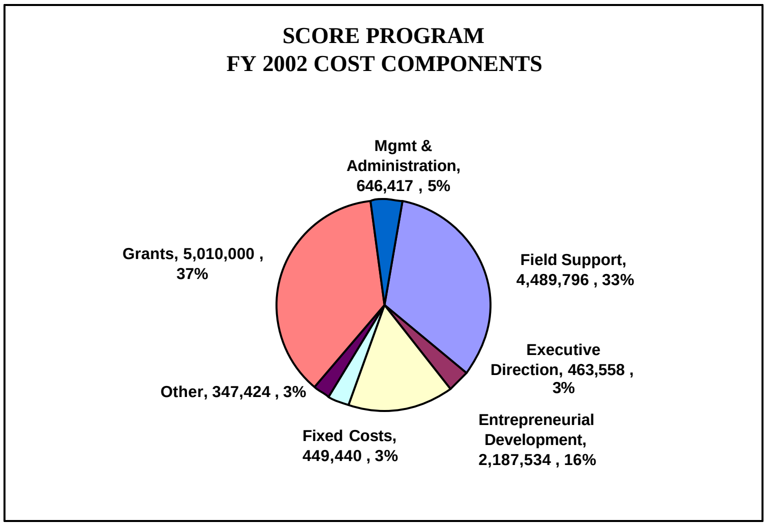
SCORE Program Resource Analysis

The estimated cost SBA's support to the SCORE program in FY 2002 were $13.2 million. The largest portion of costs, 38 percent or $5.0 million, was a grant to SCORE to cover travel and administrative costs for SCORE offices. Labor costs for SBA district office employees who support the SCORE volunteers are 34 percent or $4.5 million. Headquarters direct management costs of the office of Entrepreneurial Development amount to $2.2 million. All other costs

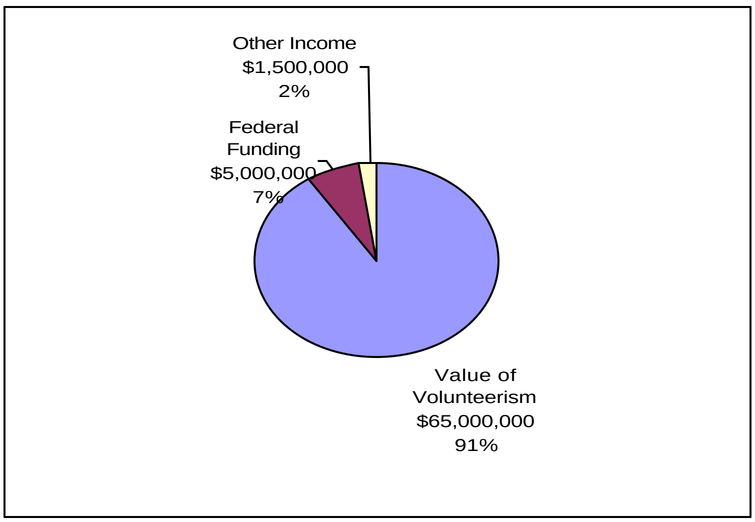
[35] Customer Satisfaction Survey being conducted by SCORE, SBA and a third-party independent firm, Communitypoll.com

[36] The goal was listed as 'TBD" in the *FY 2003 Budget Request and Performance Plan*. The final goal was never published.

including executive direction, rent, legal services, accounting, human resources, and procurement support was $1.1 million.



SCORE Leveraged Federal Funds



Small Business Development Centers (SBDC)

The Small Business Development Center (SBDC) program, delivered through 58 separate cooperative agreements, is SBA's largest management and technical assistance program, with more than 1,100 service locations in all 50 states and the territories. The SBDCs offer counseling, training, and other services tailored to the needs of the state and community in which it is located. The SBDC program provides counseling and training to small business owners to assist them in marketing and business strategy, financing, technology transfer, government procurement, management, manufacturing, engineering, sales, merchandising, accounting, e-commerce, exporting and other disciplines needed to help their small businesses grow and prosper. Federal dollars are matched minimally at 1:1 from non-federal sources (cash and non-cash) including universities, community colleges, state and local governments and chamber organizations. Program direction and accountability are negotiated on an annual basis between SBA district offices and SBDC State Directors.

SBDC Program FY 2002 Results & Resources

SBDC	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Number of clients counseled and trained	547,037	595,391	582,598	609,646	627,935	651,421
Number of hours served	NA	2,930,471	3,080,958	3,065,589	New Measure[37]	3,060,560
Number of clients trained	NA	331,464	324,292	354,706	New Measure	383,770
Number of clients counseled	NA	263,927	258,306	254,946	New Measure	267,536
Customer satisfaction[38]	NA	86%	87%	87%	87%	NA[39]
Jobs Created[40]	NA	70,398	60,395	131,770	50,000	NA[41]
Program Cost Estimate ($000)	NA	$101,267	$94,114	$100,327	NA	$100,150
Cost per client served	NA	$170	$161	$165	NA	$154

SBDC Program Results Analysis

The SBDC program has matured substantially over its twenty-year history. The client base has grown from 40,000 annually to a projected 651,421 clients in FY 2002. In FY 2001, this program helped to create over 131,000 jobs. Using a quantitative description of performance outputs and impacts such as counseling, training and economic impact data such as jobs created, jobs retained, sales, state and Federal taxes generated, the SBDC program provides a good return on the federal investment. The Chrisman Economic Impact Study concludes that the SBDC program is very effective and results oriented showing, for example, that counseling activities generate approximately $2.78 in tax revenues for every $1.00 spent on the entire program.

In FY 2002 SBDCs assisted New York after the 9/11 disaster by providing space and other assistance to directly support SBA's disaster assistance team in new York city. SBDCs

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[37] This is a new measure which did not have a goal in the FY 2002 performance plan. Future goals for this measure are established in the *FY 2004 Budget Request and Performance Plan.*

[38] The customer satisfaction rates are based on an independent biennial study conducted by the Association of Small Business Development Centers.

[39] Customer satisfaction results for FY 2002 are due to be completed by April 1, 2003.

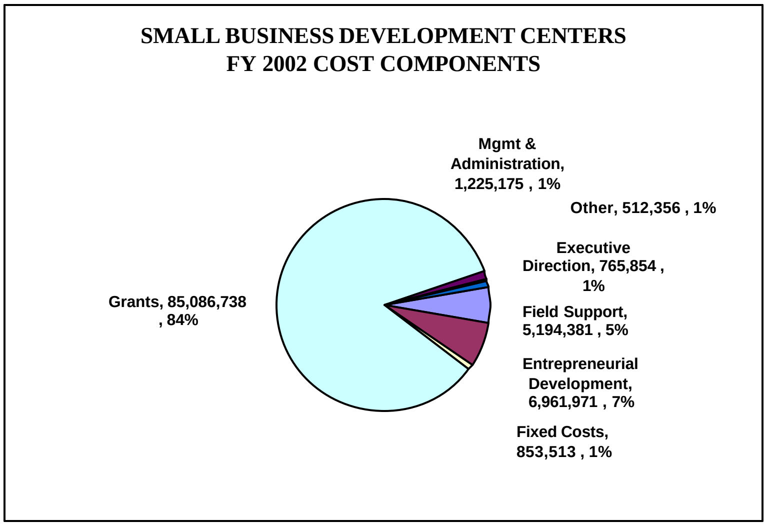
[40] Jobs created and retained are higher in FY 2001 because more SBDCs are reporting this measure.

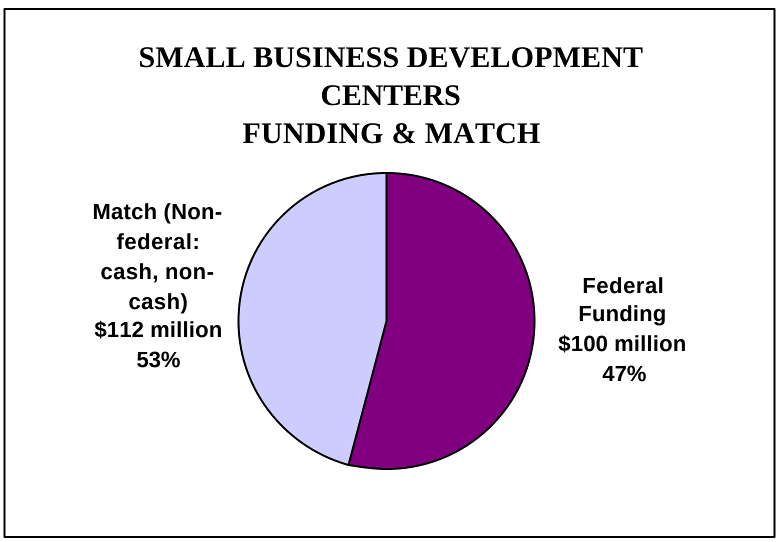
[41] Data is not due from SBDCs until March 31, 2003.

nationwide voluntarily pooled their resources to provide an additional $1.4 million to the NY SBDC to support its business recovery and retention program.

SBDC Program Resource Analysis

The cost components for this program in FY 2002 include 85% or $85.1 million for grants; 5% or $5.2 million for field labor support; 7% or $7.0 million for ED program management; and 3% or $2.9 million for overhead costs including rent, legal, human resources, and information technology support.





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Paul D. Coverdell Drug-Free Workplace Program (DFWP)

SBA, through its DFWP, funds SBDCs and other intermediary organizations to provide financial and technical assistance to small businesses implementing a DFWP. Some intermediaries have conducted extensive research on the businesses that established a DFWP. The results show that a DFWP leads to decreased employee turnover, absenteeism, tardiness, theft, and worker's compensation premiums. The results also show increased morale and productivity. Because of the connection between a DFWP and the bottom line, the Coverdell Program increases the opportunities for small businesses with a DFWP

DFWP Program FY 2002 Results & Resources

DFWP	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators					
Number of small businesses establishing drug-free workplace programs	New Program	977	1,671	New Measure[42]	1,365
Total number of firms educated about the benefits of drug-free workplace programs	New Program	9,726	11,021	New Measure	11,520
Program Cost Estimate ($000**)**	New Program	$3,469	3,498	New Measure	$2,800
Cost per firm educated	NA	$357	$317	NA	$241

* Funds were appropriated in FY99, but dispersed on 9/17/99. Therefore, the work performed with the FY99 funds actually took place during FY00. That continues to be the case for the years that follow.

DFWP Program Results Analysis

The Paul D. Coverdell Drug-Free Workplace Program (DFWP) is overseen and delivered through SBA's Office of Small Business Development Centers (SBDC). Begun in FY 1999, the program educates and trains about 11,000 small businesses annually on the benefits of establishing drug-free workplace programs. Of those 11,000, about 14% go on to actually establish programs in their businesses. Only about 3% of small businesses nationwide have drug-free workplace programs compared to about 98% of Fortune 200 companies. Yet a 1997 survey by the Substance Abuse and Mental Health Services Administration (SAMHSA) revealed that drug and alcohol abuse is nearly twice as prevalent in small businesses as in larger firms. The SAMHSA survey also revealed that small businesses are more vulnerable to drug and alcohol abuse by employees because small businesses are less likely to test employees for drug or alcohol use either before or during employment. This program has been very successful in bringing the issue of drug and alcohol abuse to the attention of small businesses, despite a decrease in the program's funding. For FY 2002, SBA awarded approximately $2.7M to 12 intermediaries and 5 SBDCs to educate small businesses on the benefits of a drug-free workplace; 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. Financial assistance includes such things as free and/or reduced fees for training sessions, policy development, EAP services, and drug testing. Estimates for FY 2003 may be slightly high due to this decrease.

[42] This is a new measure which did not have a goal in the FY 2002 performance plan. Future goals for this measure are established in the *FY 2004 Budget Request and Performance Plan.*

DFWP Program Resource Analysis

The majority of the $2.8 million cost for this program is Grants - $2.5 million or 89%, and the remainder is management costs and the overhead costs associated with management - $0.3 million.

Women's Business Centers (WBCs)

SBA's WBC program provides in-depth, long-term training, counseling, mentoring, access to capital and encouragement to emerging and existing women entrepreneurs. Each WBC focuses on the special needs of women, especially those who are socially and/or economically disadvantaged. Many offer child care, evening and weekend hours, scholarships and classes in different languages. SBA supports the Online WBC, which offers online business information and training in seven languages as well as individual counseling, mentoring, networking and links to other relevant Web sites, 24/7. WBCs are public/private partnerships funded through matching grants under cooperative agreements. Each undergoes quarterly on-site reviews and an annual programmatic and financial review before receiving another year of funding.

WBC Program FY 2002 Results & Resources

WBC	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Number of clients served[43]	9,000	30,630	45,223	60,767	62,590	85,748
Number of clients trained	NA	15,054	N/A	37,881	New[44] Measure	55,064
Number of clients counseled	NA	9,982	12,144	22,886	New Measure	30,684
Number of information transfer contacts	NA	176,200	NA	192,049	New Measure	194,427
Customer satisfaction[45]	NA	NA	NA	75	NA	NA
Program Cost Estimate ($000)	NA	$14,762	$14,990	$21,337	NA	$17,450
Cos per client served	NA	$481	$331	$351	NA	$204

WBC Program Results Analysis

Despite funding that has remained stable at $12 million since 2001, the WBC Program has more than doubled its GPRA goal of a 3 percent annual increase in the number of clients served in the

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[43] Counseled, trained and provided with relevant information.
[44] This is a new measure which did not have a goal in the FY 2002 performance plan. Future goals for this measure are established in the *FY 2004 Budget Request and Performance Plan.*
[45] The customer satisfaction rates for FY 2001 is based on studies conducted by the University of Michigan, using the American Customer Satisfaction Index. The government wide average is 69%. SBA did not publish a final WBC customer satisfaction goal for FY 2002.

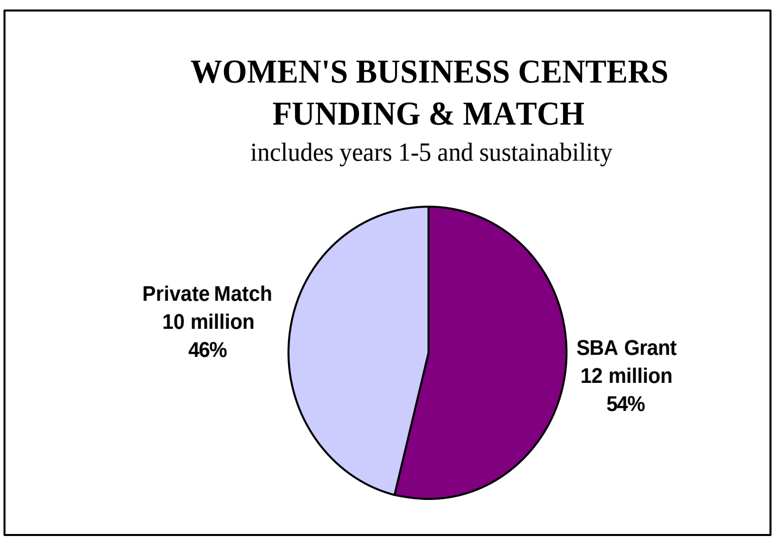
past two years. This is due in large part to the success of the sustainability grants, which enable established centers to continue to receive SBA funding. SBA expects this trend to continue as more centers become firmly established and as their reputations for excellence spread. The Online WBC provides a global impact, reaching women in more than 100 countries. Since FY 2000, the number of hits the Online WBC receives has increased dramatically, from 2 million to more than 5 million a month.

In FY 2002, the WBC program provided counseling and training to 85,961 clients and conducted more than 180 roundtables through its Women's Network for Entrepreneurial Training (WNET) program.

OWBO leveraged the resources of the SBA, the Department of Labor, the White House, the Public Forum Institute and numerous private-industry co-sponsors and contributors to produce the Women Entrepreneurship in the 21st Century Conference in Washington, D.C., and subsequent regional conferences in four states. More than 2,000 women leaders and business owners have so far attended Women Entrepreneurship in the 21st Century conferences (not including those who have viewed content online).

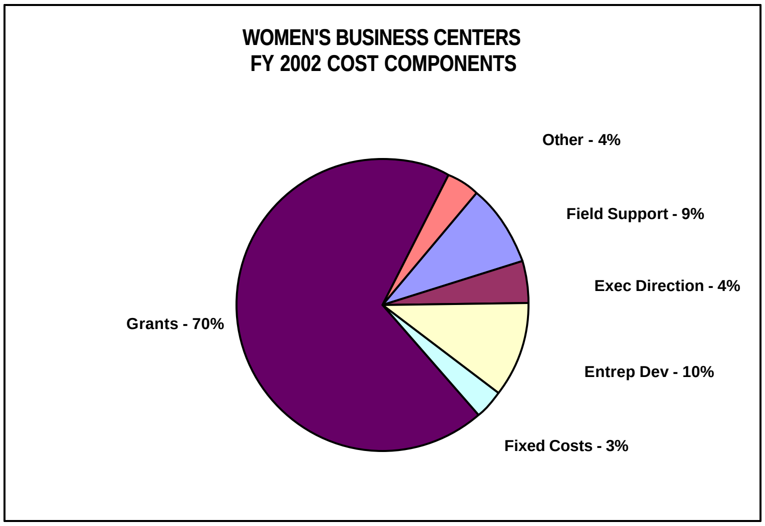
WBC Program Resource Analysis

WBCs leverage federal funds through matching requirements. Under current grant rules, centers must match one dollar for every two federal dollars for the first two years. During years three through five, and for the entire five years of a sustainability grant for the period beyond five years, the match is one-to-one. Many larger and more established centers exceed the matching requirements, often making SBA's contribution a small portion of the funds they raise.



SBA estimates that the program cost of the WBC program in FY 2002 were $17.4 million. The largest cost component for the program was $12.0 million for grants to WBCs. SBA requests the same level of grants in FY 2004. SBA will maintain a stable level of support for the WBC program in FY 2004. In FY 2002 SBA provided $1.6 million in field labor costs for district office employees who support this program. Program management costs of the Office of

Entrepreneurial Development were $1.8 million. Other support costs totaled $1.3 million for legal, accounting, human resources and information technology support.



e-Business Institute

ED operates an on-line training initiative through its web-based Small Business Classroom, which is being expanded and re-named the E-Business Institute (EBI). The new learning portal is designed to enrich, educate and enable small businesses. It operates like a virtual university—offering on-line courses, workshops, seminars, information resources, learning tools and direct access to electronic counseling, community learning environments and other forms of technical assistance.

EBI supports SBA's small business customers originating from SCORE, WBCs, SBDCs, BICs, the Veteran Business Outreach Program, SBA district offices and other Federal agencies. Currently, the virtual SBA classroom offers 19 on-line courses and numerous electronic resources for small businesses. The E-Business Institute, as it evolves, will reach a broader-base of small business clients more efficiently and more effectively.

e-Business Program FY 2002 Results & Resources

e Business Institute	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators			
Number of clients served	191,000	Goal Not Established	208,000

e- Business Institute Program Results Analysis

The EBI Institute is a dynamic on-line learning platform rendering SBA the ability to train significantly more clients more efficiently. With EBI the marginal costs associated with training additional users falls toward zero. As a result, per client training costs are very low relative to other training alternatives and will continue to decline each year.

e- Business Institute Program Resource Analysis

The cost of the EBI in FY 2001 and FY 2002 included nominal amounts of staff time that were not tracked in SBA's cost allocation model.

Veteran's Business Development

The Office of Veterans Business Development (OVBD) provides assistance to small businesses owned and controlled by veterans and service-disabled veterans. The office ensures veterans access to capital, technical assistance, and training through targeted marketing and outreach. The office also ensures that the 3 percent goal of Federal prime and subcontracts for service-disabled veterans and veterans is implemented.

The office supports the special efforts of all SBA program offices to assist veterans. It wo rks in partnership with the Department of Veterans Affairs' Center for Veterans Enterprise, the VA Vocational Rehabilitation and Employment service, the Department of Labor (DOL) Assistant Secretary for Veterans Employment and Training, the DOL Office of Disability Employment Policy, the Association of Small Business Development Centers, SCORE, the National Veterans Business Development Corporation, state Departments of Veterans Affairs, Congressionally Chartered Veterans Service Organizations and local community and faith based veterans service organizations to reach out to prospective veterans entrepreneurs, provide detailed resource materials about all SBA programs, and to gage the needs of the veterans and service-disabled veterans small business community. These efforts include helping to mobilize private sector resources.

OVBD Program FY 2002 Results & Resources

Veteran's Assistance	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Number of veterans assisted by SBA (all programs)	NA	73,188	98,332	101,924	New Measure[46]	107,190
VBOC clients	NA	NA	7,373	15,938	8,300	11,240[47]
OVBD funded district office outreach event participants	NA	NA	NA	233	New Measure	1,900
*Vet*Gazette newsletter recipients	NA	NA	NA	15,000	New Measure	55,000
Customer satisfaction	NA	86.6%	NA	NA	85%	N/A*

[46] This is a new measure which did not have a goal in the FY 2002 performance plan. Future goals for this measure are established in the *FY 2004 Budget Request and Performance Plan.*

[47] FY 2002 results includes data for only the first three quarters of the year. The final number will be approximately 25% higher.

Veteran's Assistance	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Program Cost Estimate ($000)	NA	$2,962	$2,299	$2,322	NA	$2,387
National Veterans Business Development Corporation				$4,000		

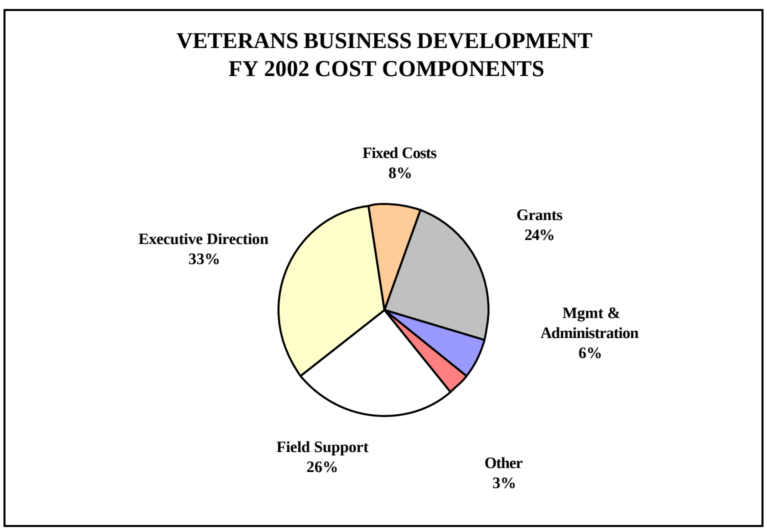
*Data for FY 2002 survey is not yet available.

Veterans Business Development Program Results Analysis

The four VBOCs created in 1999 are enhancing service delivery through increased use of Internet outreach, e-based counseling and training, coordination of local resources and development of private volunteer mentors. In FY 2001, OVBD provided funding to seven SBA district offices to conduct special outreach, needs assessments, and delivery of entrepreneurial assistance to veterans. In FY 2002, this was expanded to 25 district offices. In 2003, the effort will be expanded to 67 district offices. In FY 2001, the OVBD began publishing the *Vet*Gazette newsletter to inform veteran small business owners and entrepreneurs and veteran-serving professionals about the resources and services available from SBA and its resource partners. Since the publications inception, the number of recipients has grown to more than 55,000 quarterly. In FY 2002, SBA disseminated more than 500 comprehensive Veterans Business Resource Guides to veteran serving locations, organizations and individuals

Veterans Business Development Program Resource Analysis

The headquarters staff and grants to Veterans Business Opportunity Centers are the major costs of operating SBA's veteran programs. Field offices also provide significant support to veterans programs.



Strategic Goal Three: Help Businesses and Families Recover From Disasters

SBA disaster assistance promotes economic recovery in disaster ravaged areas. In the wake of physical disasters, SBA's loans are the *primary form of Federal assistance* for non-farm, private sector disaster losses for individuals and businesses. SBA's disaster loans help homeowners, renters, businesses of all sizes, and non profit organizations fund rebuilding. The loans also provide assistance to small businesses affected by the mobilization of reserve military units.

FY 2002 Accomplishments

During this fiscal year we processed 48,945 original applications with 97% being processed within the goal of 21 days. A total of 21,829 loans were approved for total of $1.3 billion. We successfully responded to a total of 207 disaster declarations, with the San Antonio Floods, Minnesota Floods and the typhoon Chata'an in Guam being the most significant disasters declared in fiscal year 2002.

Response to 9-11

- Provided $873 million in assistance to over 9,000 businesses employing 148,000 individuals across the country.
- Expanded the Economic Injury Disaster Loan Program to all small businesses throughout the country that were directly impacted by the terrorist attacks of 9-11.
- In cooperation with HQ staff, regions, districts and our resource partners (SCORE and SBDCs) we have successfully provided $480 million in disaster loan assistance to over 4,000 small businesses outside of New York and Virginia which has enabled them maintain operations.
- Approved over 5,000 loans for $425 million to the victims of these terrorist attacks in New York and Virginia.

Goals Met

Overall for this fiscal year we met or exceeded our GPRA goals.

- Processed 48,945 original applications, with 97% processed within 21 days.
- In addition to timely processing of applications we focused on closing loans and making initial disbursements which resulted in 96% of all initial disbursements being made within 5 days of loan closing.
- During this fiscal year we responded to a total of 207 disaster declarations with almost all declaration requests being processed with three days of receipt.
- Area Office field operations staff on site within three days of the declaration to make logistical arrangements to respond to the disaster.

Strategy

The disaster loan program is primarily demand driven based on the number and intensity of disasters, making it difficult to accurately plan for a given level of activity. To ensure that the American citizens have the necessary resources to recover from disasters, SBA focuses on ----

- Establishing an effective field presence within 3 days of a disaster declaration to coordinate program delivery.
- Processing applications within 21 days of receipt of a complete application.
- Making initial disbursement of loan proceeds within 5 days of closing a loan.
- Conducting customer satisfaction surveys to assess and improve program performance.
- Conducting "Quality Assurance Reviews" of each disaster area office to ensure compliance with program underwriting procedures.

Disaster Assistance Program FY 2002 Loan Making Performance Results & Resources

	FY 1998 Actual	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Goal	FY 2002 Actual
Performance Indicators						
Homes restored to pre-disaster conditions	28,811	23,070	43,519	31,853	N/A	No longer SBA goal
Businesses Restored to pre-disaster conditions	7,365	5,148	5,275	7,011	N/A	No longer SBA goal
Field presence in 3 days	80%	100%	100%	100%	98%	99%
Applications processed in 21 days	77%	60%	91%	94%	80%	96%
Initial disbursements in 5 days	N/A	NA	NA	NA	New Measure	96%
Customer satisfaction rate	N/A	NA	81%	NA	80%	N/A
Resources						
Administrative Expense	$ 79,116	$ 87,130	$ 83,929	$ 88,190	NA	$76,465
Loan Subsidy Cost	$150,000	$170,428	$173,869	$152,604	NA	$123,871
Total Cost	$229,116	$257,558	$257,798	$240,794	NA	$200,366
Loan Subsidy Rate	23.46%	22.36%	22.20%	17.46%	NA	14.26
Loan Program Level (Net)	$639,200	$762,200	$783,184	$874,018	NA	$844,345

Note: FY 02 resources excludes 9/11 costs funded out of emergency supplemental.

Disaster Assistance Program Results Analysis

As a result of the September 11, 2001 terrorist attacks, the Office of Disaster Assistance was called upon to process and approve more disaster *business* loans within any single fiscal year since the 1994 Northridge Earthquake. This terrible disaster adversely affected our country's economy nationwide and dramatically increased the demand for timely and direct financial assistance to the nation's business community. The outcome measures for the number of homes and businesses restored to pre-disaster conditions was not determined in FY 2002. SBA is in the process of reevaluating its outcome measures for the Disaster loan program. The methodology for measuring the number or percent of homes and businesses restored will be addressed as part of that review. The Office of Disaster Assistance exceeded its goals of placing disaster staff on site within 3 days of the date a disaster is declared, processing all disaster loans in less than 21 days and disbursing loan funds within 5 days of loan closing.

ODA enlisted the assistance of the marketing division of SBA and completed a Customer Service Survey to be issued to disaster loan recipients this fiscal year to help measure and analyze customer satisfaction. This survey was not issued during fiscal year 2002 because it had not received final clearance from OMB.

Disaster Assistance Program Resource Analysis

The total cost of the Disaster program, including Loan Making, Loan Servicing, and Loan Liquidation and Litigation is $151.4 million. The cost components included 61% or $92 million for field labor support; 12% or $18.5 for human resources, procurement and information technology support; 16% or $24 million for executive direction from 4 area offices and headquarters; 2% or $3.5 million for support from the Office of Capital Access; 6% or $9.4 million for rent and other fixed costs; and 3% or $3.8 million for retirement liability and other costs.

DISASTER ASSISTANCE
FY 2002 COST COMPONENTS