

APPENDICES

Appendix 1 – IG Annual Report

**Small Business Administration
Office of Inspector General
FY 2002
Annual Performance Report**

MESSAGE FROM THE INSPECTOR GENERAL

I am pleased to present this report on the performance of the Small Business Administration (SBA) Office of Inspector General (OIG) during Fiscal Year (FY) 2002. In accordance with the Government Performance and Results Act, this report highlights overall OIG efforts and accomplishments by summarizing the progress achieved in pursuing our two primary statutory goals and one internal management goal.

While we have recently revised our Vision Statement and Strategic Plan for FY 2003 through 2007, this report addresses our progress under the previous performance goals. The entire OIG Team continues to strive towards achieving our goals and objectives while improving our measurement processes.

I would like to express my appreciation for the ongoing support of SBA's Administrator and the Agency's senior staff. OIG's staff is dedicated to fulfilling its mission to promote the economy, efficiency, and effectiveness of SBA programs, and to detect and prevent fraud and abuse. In a spirit of cooperation and teamwork, we are very pleased to report that SBA is making progress on many of the key issues facing the Agency.

Peter McClintock
Acting Inspector General

**OFFICE OF INSPECTOR GENERAL
SMALL BUSINESS ADMINISTRATION**

PERFORMANCE REPORT FOR FISCAL YEAR 2002

VISION

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

To accomplish this vision, we will—

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

OIG MISSION

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

OIG STATUTORY RESPONSIBILITIES AND ORGANIZATION

The IG Act 1978 (P.L. 95-452) established OIG as an independent and objective organization within SBA. As prescribed by the Act, OIG's duties are to:

- Promote economy, efficiency, and effectiveness in SBA programs and supporting operations; and detect and prevent fraud and abuse.
- Conduct and supervise audits, investigations, and reviews of SBA programs and supporting operations.
- Review existing and proposed legislation and regulations and make appropriate recommendations.
- Maintain effective working relationships with other Federal, State, and local Governmental agencies and non-Governmental entities regarding the mandated duties of the Inspector General.
- Inform the SBA Administrator and Congress of serious problems and recommend corrective actions and implementation measures (Semiannual Report, 7-day letter, and other).
- Comply with audit standards established by the Comptroller General and avoid duplication of General Accounting Office activities.
- Report to the Attorney General when any violation of criminal law is detected.

OIG also has other significant statutory responsibilities. They include responsibilities under the Small Business Act of 1958, the Small Business Investment Act of 1958, the Federal Managers' Financial Integrity Act of 1982, the Chief Financial Officers Act of 1990, the Right to Financial Privacy Act, the Freedom of Information Act, and the Privacy Act.

To fulfill its mission and statutory responsibilities, SBA OIG is composed of the Immediate Office of the Inspector General, and the Auditing, Investigations, Inspection and Evaluation, Legal Counsel, and Management and Policy Divisions. In addition to headquarters staff, OIG currently has audit staff in Atlanta, Dallas, and Los Angeles, and investigative staff in Atlanta, Chicago, Dallas, Denver, Houston, Kansas City, Los Angeles, New York, Philadelphia, San Juan, and Seattle.

CONTEXT OF FY 2002 PERFORMANCE REPORT

Performance management is an iterative process. As a result of becoming more knowledgeable about the Government Performance and Results Act (GPRA), in FY 2000 OIG provided to the Congress a new FY 2001-2006 Strategic Plan. To address SBA's continuing modernization efforts more effectively, efficiently, and economically, adjustments were necessary in OIG's strategic direction. SBA has moved increasingly farther away from the direct delivery of products and services and is focusing on centralized business loan approval and processing, asset sales, privatization, and increased use of technology. As a result, OIG streamlined its strategic goals, and clarified its long-term objectives. Increasingly in FY 2002, our efforts were directed toward SBA's:

- o financial management systems;
- o information systems and computer security;
- o lender oversight;
- o other selected high risk issues; and
- o new initiatives.

In addition, as part of the process of continual data improvement, performance measures must change over time. Most of our original measures were outputs required by the IG Act and consistent with the reporting by the President's Council on Integrity and Efficiency (PCIE). While we continue to report on those in this report's statistical section, we have also developed performance measures that are more focused on outcomes. OIG began using the new strategic plan and focus in FY 2000 to identify and mitigate emerging vulnerabilities as SBA modernizes and changes its business practices, work systems, and procedures.

Consequently, OIG's FY 2002 Performance Report uses the streamlined strategic goals and improved measures developed in FY 2000. We have, however, completed a new strategic plan for FYs 2003 through 2007. Our FY 2003 Performance Plan will reflect the new goals and performance measures.

PERFORMANCE MEASUREMENT LIMITATIONS

OIG has developed a mix of output, intermediate outcome, and outcome measures to assess the effectiveness, quality, relevance, and timeliness of our work. Not all performance goals reach the same level of importance. While we selected the measures that address the primary direction of our efforts, they should be interpreted in light of a number of external factors. Some of these factors are predictable, such as mandatory statutory requirements. Others are unpredictable, such as the budget, or the discovery of individual cases of fraud with a potential to yield such substantial court-ordered results or settlements in a single year that they cannot be easily compared to other work. Moreover, it often takes several years after the completion of work on a given audit, inspection, or investigation for its outcome to be final and its results known. Nevertheless, the measures are subject to a number of external factors. About 75 percent of our work is in response to referrals of suspected fraud, complaints, and requests for auditing and inspection services. Over a period of time, achievements can be projected based on historical performance. During a specific year, actual accomplishments may vary substantially from the norm. The ultimate authority in implementing OIG recommendations and improvements rests with the Agency. OIG also cannot control the results of judicial or administrative proceedings.

To mitigate these factors, OIG is continuing on-going efforts with SBA's policy and program officials to underline the importance of OIG findings and encourage the implementation of OIG recommendations. Likewise, we work closely with judicial and administrative officials to ensure that criminal and administrative cases are appropriately handled. Within these parameters, OIG strives to improve the performance of SBA programs and operations and deter fraud and other forms of misconduct.

DATA COLLECTION AND VALIDATION

In FY 1998, OIG began enhancing its Management Information System (MIS) by integrating it with other types of software. OIG also continued its efforts to ensure the security of all of its systems.

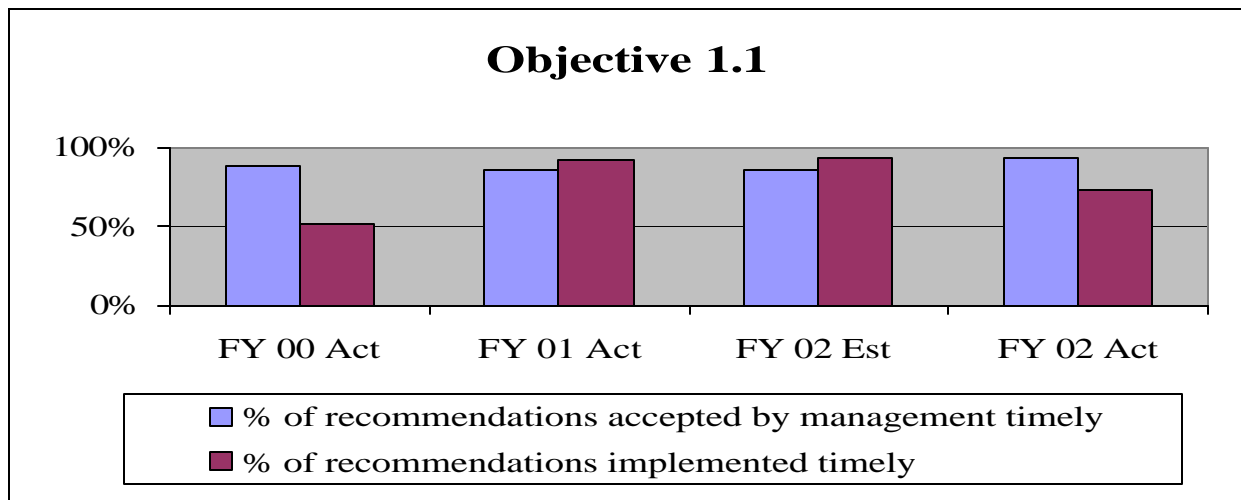
As appropriate, quantitative data was collected and stored in the MIS. While much of the quantitative data has been collected for several years, baselines still need to be established for some of the measures. Monetary results will be reported at the time of management decision in accordance with OIG legislative requirements. SBA's Office of the Chief Financial Officer (OCFO) tracks actual collections. Each OIG division is responsible for collecting, verifying, and validating all data in the Performance Report. The appropriate divisions document all qualitative data. In FY 2003, the data have been reviewed quarterly and consolidated by the Management and Policy Division. OIG believes that the data are reasonably accurate.

SBA OIG FY 2002 Performance Scorecard

Goal 1. Improve the economy, efficiency, and effectiveness of SBA programs and operations.

Objective 1.1 Conduct reviews of major program activities, with emphasis on high risk and high priority areas, and assess whether SBA can be reasonably assured that its programs are meeting their goals in an economical, efficient, and effective manner.

	FY 2000 Actual	FY 2001 Actual	FY 2002 Estimate	FY 2002 Actual
Output Performance Goals				
Percentage of all recommendations on major program activities accepted by management or otherwise resolved within 6 months of report issuance.	88%	86%	86%	94%
Intermediate Outcome				
Percentage of recommendations from reviews of major program activities implemented or corrective actions taken by management within the timeframe agreed to by OIG and management.	52%	93%	93%	74%



OIG issued 20 reports covering various SBA program activities and operations, financial management activities and computer security program. These reports identified a number of top management challenges and needed improvements in SBA activities and operations including: processes to improve its managing for results efforts, human capital management, lender and loan oversight, business development programs, as well as processes to detect ineligible

borrowers, and the follow-up actions to address findings of the Small Business Lending Company (SBLC) exams. Also, an audit of sponsorship activities identified a number of significant deficiencies and led to the issuance of new procedures to improve the integrity of SBA's operations. Two inspection reports recommended improved human resources processes and approaches to adequately support the Administration's human capital initiatives; and revision of SBA's public information and data base with respect to franchise entities to clarify definitions and reflect SBA funded research regarding these entities.

While the percentage of recommendations accepted by management exceeded the estimate by 8 percentage points for FY 2002, the percentage actually implemented was 74 percent or 19 points below the estimated target rate. This can be attributed to changes occurring in SBA under the leadership of the new Administrator that included designating new senior leaders for key offices, the challenging nature of the systemic issues identified, work to develop a new strategic plan, development of a workforce plan and the ancillary planning and implementation activities to address new program directions including the President's management agenda and emphases for SBA as outlined in these plans. This resulted in some recommendations being affected by organizational and leadership changes and others by a different strategic direction in certain programs and operations. As a result, some actions have been delayed or required reassessment.

Objective 1.2 Audit contracts, grants, surety claims, and defaulted loans to determine whether the costs claimed are allowable.

	FY 2000 Actual	FY 2001 Actual	FY 2002 Estimate	FY 2002 Actual
Output Performance Goals				
Percentage of all recommendations in audits of contracts, grants, surety claims, and defaulted loans accepted by management or otherwise resolved within 6 months of report issuance.	96%	92%	95%	100%
Percentage of dollars in questioned costs, funds to be put to better use, settlement recoveries, and cost corrective measures in audits of contracts, grants, surety claims, and defaulted loans accepted by management or otherwise resolved within 6 months of report issuance.	44%	82%	97%	100%
Intermediate Outcome				
Percentage of all recommendations in audits of contracts, grants, surety claims, and defaulted loans implemented by management within the timeframe agreed by to OIG and management.	44%	67%	67%	82%

All (100 percent) recommendations and monetary results identified were accepted by management during the period, exceeding the estimated target levels by five and three percentage points. OIG issued 15 audit reports on early defaulted loans, surety companies and grantees that identified over \$1.5 million of erroneous payments, recommended funds for better

use, and other non-monetary recommendations to improve controls over SBA programs and operations. Seven reports addressed erroneous payments to a large SBLC involving defaulted Section 7(a) business loans. In addition, another audit of a defaulted loan identified significant deficiencies and recommended recovery of the erroneous payment and pursuit of action against the lender under the Civil Fraud Remedies Act.

More than 131 recommendations (82 percent) were implemented by management within the timeframe agreed to by management and the OIG during the period. The rate of implemented recommendations was 15 percentage points higher than the estimated target rate for this period.

Outcome for Goal 1: Identification and implementation of corrective actions taken by the Agency of the major management and operating problems in SBA; OIG activities that improve the economy, efficiency, and effectiveness of SBA programs.

SBA has taken action to address a number of weaknesses and recommended improvements. OIG's FY 2002 Agency Management Challenge report identified ten challenges facing SBA. During this past fiscal year, the Agency took significant actions on two of the ten items (Information Technology Security and the Guaranty Purchase Process) and continues to make progress in addressing its top challenges. Audits of defaulted loans have led to better internal SBA processes to reduce erroneous payments in the Section 7(a) business loan program and raised awareness of poor loan processing among the SBA lending industry. The issuance of new procedures to address longstanding issues needing clarification in the Agency sponsorship activities was the direct result of an OIG audit of one District Office's activities in this area. In addition, SBA issued information and procedural notices to address recommended improvements in the timeliness of character determinations area affecting loan applicants and to make the coordination among service providers more efficient in the District Offices for its Entrepreneurial Development programs.

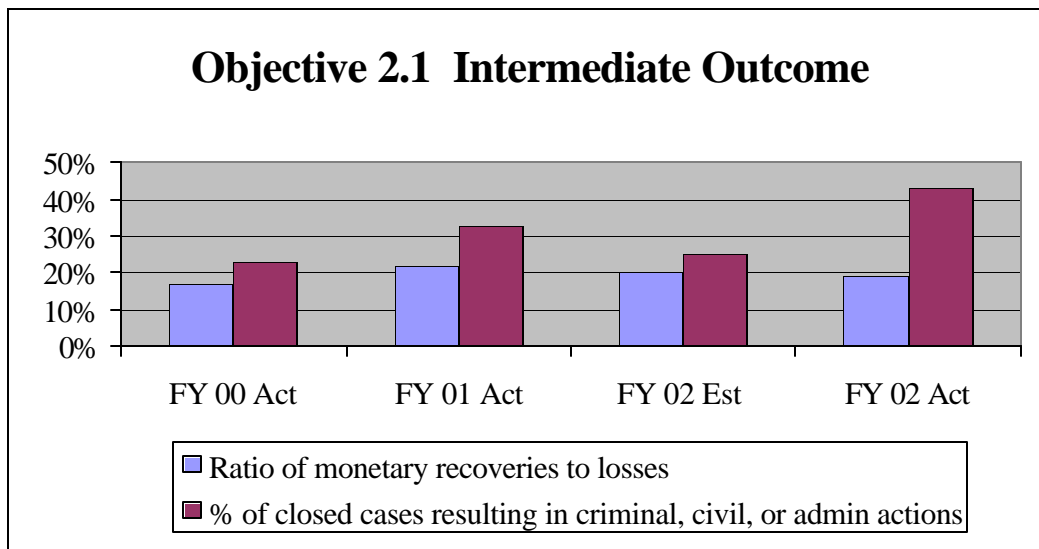
OIG audits resulted in actual recoveries of over \$1.2 million dollars of erroneous payments involving defaulted 7(a) business loans. In addition, management agreed to over \$100,000 of recommended disallowed costs and other monetary and non-monetary improvements.

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

Objective 2.1 Detect/identify waste, fraud, abuse, and integrity problems in SBA programs and operations and take appropriate action.

	FY 2000 Actual	FY 2001 Actual	FY 2002 Estimate	FY 2002 Actual
Output Performance Goals				
Percentage of criminal cases referred that are accepted by the U.S. Attorneys	N/A*	26%	50%	22%
Percentage of Affirmative Civil Enforcement (ACE) cases referred that are accepted by U.S. Attorneys	N/A*	35%	35%	N/A
Intermediate Outcome				
Ratio of monetary recoveries to losses	17%	22%	20%	19%
Percentage of closed cases resulting in criminal, civil or administrative actions	23%	33%	25%	43%

* Investigations' management information system (MIS) did not record when a referral, either criminal or ACE, is "accepted" by a Federal prosecutor until FY 2002.



OIG's Investigations Division refers evidence of potentially-prosecutable SBA-related crimes or potentially-actionable SBA-related civil frauds to U.S. Attorney's Offices. While we strive to perform the best possible investigations there are many uncontrollable, and even unpredictable, factors that may cause the prosecutor to decline to pursue it. We are currently evaluating the continuing use of this type of quantitative measure versus a qualitative measure of our efforts. The percentage cited indicates that of 39 cases referred for criminal prosecution, six were

accepted. During this same period there were five civil referrals made resulting in three cases being accepted for prosecutive consideration, no cases were reportedly referred to the Affirmative Civil Enforcement Division of the Department of Justice.

Regarding the percentage of monetary recoveries to losses, at the initiation of each OIG investigation, we estimate the actual (or potential, as appropriate) SBA-related dollar loss associated with the case. Many successfully prosecuted cases generate court-ordered restitution, civil penalties, and other financial recoveries. The typical lengthy process of investigating and prosecuting complex white-collar schemes, and our experience with defendants who claim poverty, has caused us to estimate the recovery/loss ratio realistically at 20 percent. We believe, however, that data such as the ratio of recoveries as a result of our investigations to the amount of loss at initiation of those same investigations can provide the basis for trend analyses regarding our relative effectiveness in maximizing recoveries of SBA-related losses from fraud. In FY 2002, the Investigations Division's cases produced "settlements and court-ordered restitution and fines" totaling \$17,571,031 (151 percent of our results last year). This represents 19 percent of the \$92.4 million originally estimated as potential losses from those cases. This number is impacted by many factors including the ability of entities to repay funds.

Historically, we track the percentage of closed cases resulting in criminal, civil, or administrative actions. A primary factor in OIG's decision to initiate an investigation is our informed opinion that, if the allegations are substantiated, the case will result in criminal, civil, and/or administrative actions. While we also consider an investigation successful by disproving false allegations, we believe data such as the percentage of closed cases that resulted in criminal, civil, and/or administrative actions can provide a basis for identifying, both at the beginning and subsequently, those investigations that are likely to have substantive results. Of the 80 cases closed by the Investigations Division in FY 2002, 35 (or 43.8 percent) resulted in criminal, civil, or administrative actions.

Objective 2.2 Prevent and deter fraud and abuse, and other misconduct through studies and education programs for employees and participants.

	FY 2000 Actual	FY 2001 Actual	FY 2002 Estimate	FY 2002 Actual
Output Performance Goals				
Number of SBA employees attending integrity briefings	222	107	120	340
Number of private sector partners attending integrity briefings	282	556	491	357

OIG conducted 13 Fraud Awareness Briefings for employees of SBA and its private sector partners. Through a dedicated effort we were able to reach nearly 697 individuals this Fiscal Year, 14 percent more than our cumulative goal. We have found that such outreach by this office has a very positive impact on the perception of our partners on our work and value. During this reporting period, 59 percent of our cases were derived from SBA employees. This year we are developing a method to deliver these briefings through an electronic media, in the hope of reaching more individuals.

Objective 2.3 Preclude persons not of good character from participating in SBA programs and employment.

Output Performance Goals

Narrative assessment of the work of the Office of Security Operations in conducting criminal background checks of SBA program partners and participants, and administering SBA applicant/employee/contractor background investigations.

Pursuant to provisions of the Small Business Act and the Small Business Investment Act, SBA requires applicants for assistance to meet certain character standards before participating in Agency programs. OIG's Office of Security Operations (OSO) provides a vital service to help SBA ensure that Agency program participants meet the standards by processing name checks and, where appropriate, fingerprint checks on applicants. To make character eligibility determinations, OSO makes use of its online connection with FBI's Machine Readable Data system. When program applicants appear to be ineligible for assistance based on character, OSO makes referrals to program officials for adjudication. During this reporting period, OSO make referrals that resulted in SBA's business loan program managers declining 73 applications and disaster loan program officials declining 13 applications, totaling over \$21.8 million and nearly \$1 million respectively, for character reasons. Those declinations make available that amount of credit for applicants in whom SBA can have confidence of repayment. In addition, officials of SBA's Section 8(a) and surety bond programs declined, respectively, 13 applications for certification and 3 applications for guaranty.

OSO also performs background checks to comply with Federal regulations that require Agency employees to have security clearances appropriate for their positions. During this reporting period, OSO initiated 64 background investigations and issued 41 security clearances. OSO also reviewed and adjudicated 92 background investigative reports in accordance with Executive Order 10450 and Office of Management and Budget (OMB) Circular A-130, and coordinated with SBA's Office of Disaster Assistance to ensure the timely adjudication of 34 derogatory background investigative reports forwarded for review and appropriate action.

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

During FY 2002, OIG investigations resulted in 47 convictions and 42 indictments resulting in potential fines and recoveries of approximately \$17.6 million. The Office of Investigation's efforts also resulted in withdrawn or cancelled loans or contracts of nearly \$63.4 million, through our investigations and name check programs. These two areas show our continuing commitment to not only prosecute those who abuse SBA programs but to avert potential vulnerabilities.

Our investigative efforts have continued to show patterns of: (1) fraud involving loan agents and (2) fraud involving borrowers who do not disclose prior histories (bankruptcies and criminal convictions). We are providing information to SBA officials to enable them to deny guarantees to those lending partners not performing due diligence in their lending capacity. In FY 2002,

over \$25 million in cost avoidances was the result of withdrawn guarantees, based upon investigative findings.

Also during this period, OIG began development of its policies and procedures relating to suspension and debarment investigations and referrals. It is our intention to begin aggressively pursuing administrative actions to protect the integrity of SBA programs. The use of this vehicle to preclude certain entities from involvement in SBA programs and operations will greatly enhance the current protections for the Agency.

OIG audits of defaulted loans resulted more than \$1.2 million in actual recoveries of erroneous payments. The media has published this information in periodicals distributed to the SBA lending industry. Although not quantifiable, the identification of the problems that lead to the erroneous payments will have a deterrent effect on potential fraud and abuse if lenders take action to prevent the kinds of problems identified.

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

Objective 3.1 Provide the tools, services, and supportive work environment necessary to improve employee productivity.

	FY 2000 Actual	FY 2001 Actual	FY 2002 Estimate	FY 2002 Actual
Output Performance Goals				
Percentage of staff that received the training established by OIG for their career needs	84%	100%	94%	100%
Percentage of employees provided the IT products necessary to do their jobs, as established by OIG	100%	100%	100%	100%
Intermediate Outcome				
Percentage of employees satisfied or very satisfied with their jobs in annual employee surveys	62%	N/A	65%	N/A*
Achievement of unqualified opinions on audit's quality controls by external peer reviews	N/A**	100%	N/A**	N/A**

* SBA OIG is awaiting the results of a FY 2002 Office of Personnel Management survey on employee satisfaction.

** Peer reviews are conducted every 3 years.

OIG devoted resources toward implementing a workforce transformation plan that focuses on aligning our human capital with our strategic goals. The plan was transmitted to OMB and other OIG stakeholders in June 2002. As part of the restructuring and refocusing of the office, OIG shifted to a biennial office-wide operating plan and reporting process.

In FY 2002, OIG held its annual OIG-wide training conference. OIG provided training in areas such as: the Office of Special Counsel Whistleblower program; professional liability; diversity and positive work environments; quantitative methods in inspections; bankruptcy fraud; issues in SBA purchased denials of Section 7(a) guaranteed loans; suspension and debarment; effective communication and briefing techniques; OMB's erroneous payments' initiative; blood borne pathogens; and post-incident procedures and the legal and liability issues.

OIG issued an FY 2002 Individual Development Plan (IDP) for every OIG employee. The plans were developed and negotiated by the employees and their immediate supervisors to address short and long-term professional goals and organizational needs. In FY 2002, all OIG auditors completed at least 40 hours toward the 80-hour requirement for Continuing Education within the established 2-year time frame and 100 percent of our employees received some type of formal training.

OIG devoted significant resources providing state-of-the-art IT equipment to its employees to improve productivity in FY 2002. OIG fully implemented Windows 2000 operating system and Office XP. In conjunction with the system upgrade, every desktop and laptop was upgrade or replace to meet the requirements of the new system. As part of the upgrade employees continued to have access to the Internet and remote access accounts that allowed them increased mobility for work assignments and the ability to telecommute.

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

Output Performance Goals

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

OIG designed our products and communication strategies to provide our customers and stakeholders with the information they need to make important decisions concerning small business programs. In FY 2002, we continued to develop effective working relationships and communications, which are critical and greatly impact our ability to influence positive change.

OIG published two Semiannual Reports to Congress and issued 12 Monthly Activity Updates that we distribute to Members of Congress, media contacts, and other private and public interested parties. The Office reviewed 222 legislative, regulatory, policy, and procedural proposals concerning SBA and Government-wide programs. We processed 90 Freedom of Information or Privacy Act requests making information available to the public. We also made many reports and other documents available electronically on OIG website, as well as updated current information about the office and its mission. OIG contributed to Agency efforts to improve its program and operational guidance and to address the potential for mismanagement by providing comments on proposed regulations, standard operating procedures, and other SBA issuances. We briefed congressional staff members on many significant work products recently issued or in progress, including OIG's FY 2001 through 2006 Strategic Plan and FY 2002 Annual Performance Plan, Agency GPRA issues, SDB audits and investigations, Small Business Lending Company Exams, and SBA information systems and security. Much of the work done in FY 2001 was a result of OIG stakeholder requests.

During FY 2002, several OIG personnel were able to contribute their subject-matter expertise either through participation in inter-agency taskforces, projects, planning groups, or through briefings and presentations. Specifically, OIG staff:

- Participated in a Government-wide Presidential Council on Integrity and Efficiency (PCIE) initiative to assess controls over the use and protection of the Social Security Numbers that agencies collect from individuals.
- Participated in a Government-wide effort to issue a report that found SBA procedures for repaying agencies for advances needed improvement.
- Made significant contributions to the national law enforcement response to the September 11, 2001, terrorist acts. OIG:
 - Detailed two criminal investigators who spent nearly 500 hours on the Federal Bureau of Investigation (FBI)-led New York City task force.
 - Detailed a criminal investigator to serve as an interim air marshal while the Federal Aviation Administration was expanding its permanent cadre.

- Coordinated with FBI offices on available information about known or suspected terrorist accomplices.
- Assisted the SBA Disaster Assistance response to small businesses harmed by the events, by instituting a variety of fraud deterrence activities.
- Served on the Executive Committee of the Federal Audit Executive Council. The Executive Committee is responsible for coordinating any PCIE Council directed activity, study, project, advise the Chairperson on issues to be brought to the Council's attention.

Objective 3.3 Develop and maintain a planning process that will provide for effective monitoring of operations and identify opportunities for improvement.

Output Performance Goal/Intermediate Outcome

Narrative assessment of the results of the OIG planning process.
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OIG's vision is to improve SBA programs by identifying key issues facing the Agency, ensuring that corrective actions were taken, and promoting a high level of integrity. OIG continues to focus on serving the needs of our customers and stakeholders and on safeguarding SBA resources from, waste, fraud, and abuse. During FY 2002, OIG developed a new strategic plan covering FY 2003 through FY 2007.

OIG also devoted resources toward implementing a workforce transformation plan that focuses on aligning our human capital with our strategic goals. The plan was transmitted to OMB and other OIG stakeholders in June 2002. As part of the restructuring and refocusing of the office, OIG has shifted to a biennial office-wide operating plan and reporting process beginning in FY 2003. In FY 2002, OIG developed an annual operating plan and tracked progress against the plan.

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

This outcome is difficult to measure, however, in assessing our achievement of our intended outcome for Goal 3, we draw upon the outputs of the three objectives to measure our success.

As noted in objective 3.1, OIG exceeded its goal for the number of employees trained and met its goal for providing IT equipment to its employees. However, career development and maintaining a current IT environment is an ongoing process. Thus, we will continue our efforts to enhance the skills and growth of our workforce and provide the necessary tools.

As is evidenced by the numerous examples given in objective 3.2, OIG focused its efforts on disseminating information to its stakeholders, customers, and interested parties. In addition to providing information, we participated in many interagency initiatives and forums to ensure that SBA/OIG's views were expressed and understood. As we receive feedback, we continue to reassess and redirect our attempts to meet the needs of interested parties.

OIG took dramatic steps toward achieving objective 3.3 by revising its vision statement and strategic plan, and developing a workforce transformation plan. These three documents provide a solid foundation for achieving the desired outcome. OIG operates in a dynamic environment and our challenge is to follow through with these new plans while adapting to the changing needs of the Agency and our stakeholders.

Through our FY02 annual performance reporting process, we are assessing the effectiveness and impact of our efforts in this area and are using the information to further improve our ability to achieve our goal of economical, efficient, and effective OIG operation.

Activities Statistics

Office-Wide Activities Overall Summary Results	FY 2000	FY 2001	FY 2002
Potential Investigative Recoveries and Fines	\$7,555,827	\$11,630,313	\$17,571,031
Management Avoidances As a Result of Investigations and Name Checks	\$28,741,121	\$25,716,960	\$63,420,121
Disallowed Costs Agreed to by Management	\$1,153,535	\$3,622,085	\$102,312
Recommendations That Funds Be Put to Better Use Agreed to by Management	\$9,762,700	\$5,984,419	\$742,600
Goal 1			
Reports Issued	33	30	35
Number of Recommendations Made	126	157	121
Disallowed Costs Agreed to by Management	\$1,153,535	\$3,622,085	\$102,312
Recommendations That Funds Be Put to Better Use Agreed to by Management	\$9,762,700	\$5,984,419	\$742,600
Number of Reviews of Proposed Legislation, Regulations, Standard Operating Procedures, and Other SBA Issuances	323	221	345
Goal 2			
Cases Closed	132	73	157
Indictments	73	50	42
Convictions	38	42	47
Potential Investigative Recoveries and Fines	\$7,555,827	\$11,630,313	\$17,571,031
Loans/Contracts not Approved as a Result of:	\$28,741,121	\$25,716,960	\$63,420,121
1) Investigations	\$1,404,529	\$115,347	\$27,658,669
2) Name Check Program	\$27,336,592	\$25,601,613	\$34,732,914
Number of Integrity Briefings	15	14	13
Goal 3			
Number of FOIA Responses and Other Disclosures	43	90	87
Number of Subpoenas Issued	135	80	81
Number of External Reports Issued	14	14	14
Number of Employees Trained	94	110	100

Appendix 2 – Detail of OIG Audit Final Action Activity

Disallowed / Questioned Costs

Report # 0-05, Early Defaulted Loan To Dixieland Events / Tamingo Farms

Summary: The audit objective was to determine if the early default was caused by lender or borrower noncompliance with SBA's requirements. The audit recommended recovery of \$485,051 from the lender for one loan.

Final Action: \$485,051.00 collected.

Report # 1-17, Vermont Women's Business Center

Summary: The objectives of this audit were to determine if Trinity College of Vermont (1) complied with the financial management terms and conditions of the award, (2) met statutory matching requirements and (3) reported only allowable costs and in-kind contributions. The audit recommended the Acting Associate Administrator for Administration require Trinity to remit \$36,185 to SBA due to a cash under match and unallowable expenditures.

Final Action: The SBA determined a portion of the amount was allocable. \$35,954.00 collected and \$231.00 written off.

Report # 1-18, Farmington Casualty Company

Summary: The primary objectives of this audit were to determine if (1) Farmington complied with policies and procedures, including SBA's policies and standards generally accepted by the surety industry, in issuing SBA-guaranteed bonds, (2) claims and expenses submitted to SBA were allowable, allocable and reasonable, and (3) Farmington accurately calculated fees due to SBA and remitted them in a timely manner. The audit recommended the Associate Administrator for the Office of Surety Guarantees take appropriate actions to recover \$49,916.51 for unsupported claim payments.

Final Action: \$49,916.51 collected.

Report # 2-06, Audit of CNA Surety Companies

Summary: The primary objectives of this audit were to determine if (1) CNA Surety Companies complied with policies and procedures, including SBA's policies and standards generally accepted by the surety industry, in issuing SBA-guaranteed bonds, (2) claims and expenses submitted to SBA were allowable, allocable and reasonable, and (3) CNA accurately calculated fees due to SBA and remitted them in a timely manner. The audit recommended the Associate Administrator for the Office of Surety Guarantees take appropriate actions to recover \$2,837.01 for the amount of a duplicate claim payment.

Final Action: \$2,837.01 collected.

Report # 75H01126, Business Loan Guarantee Purchases

Summary: The audit objective was to determine whether SBA's decisions to purchase guaranteed business loans were appropriate. The audit recommended SBA seek recovery of \$333,730 where a full purchase decision should not have been made.

Final Action: The issue was resolved through review by the SBA's Office of General Counsel. \$0.00 collected.

Report # A1-05, SBA's Use Of Government Cars And Hired Car Services

Summary: The Senate Small Business Committee requested the Office of Inspector General review the SBA's use of hired car services. The audit recommended the Acting Associate Administrator for Administration seek reimbursement from the hired car service for double payments of \$207.00.

Final Action: \$103.50 collected and \$103.50 written off.

Funds Put To Better Use

Report # 0-11, Early Defaulted Loan to NADI Manufacturing, Inc.

Summary: The audit objective was to determine if the early loan default was caused by lender or borrower noncompliance with SBA's requirements. The audit recommended repair of the loan guarantee by recovering \$266,311 from the lender.

Final Action: \$206,929.00 implemented and \$59,382.00 not implemented.

Report # 2-03, SBA Loan to Darshan's Paradise Inn

Summary: The objective of the audit was to determine if the lender originated, disbursed and liquidated the loan purchased by SBA in accordance with SBA rules and regulations. The audit recommended SBA seek recovery of \$62,401.50 from General Electric Capital Corporation on the guaranty paid Heller, less any subsequent recoveries, for one loan.

Final Action: \$62,401.50 implemented.

Report # 2-05, SBA Loan to Danbart Corp., d.b.a. Family Deli and Fruit Market

Summary: The audit objective was to determine if the lender originated, disbursed and liquidated the loan purchased by SBA in accordance with SBA rules and regulations. The audit recommended SBA seek recovery of \$308,228 from General Electric Corporation on the guaranty paid to Heller First Capital, less any subsequent recoveries, for one loan.

Final Action: \$308,288 implemented.

Report # 2-13, SBA Guaranteed Loan To CFM Bracket Company Incorporated

Summary: The audit objective was to determine if the lender originated, disbursed and liquidated the loan purchased by SBA in accordance with SBA rules and regulations. The audit recommended SBA seek recovery of \$116,772 from General Electric Capital Corporation on the guaranty paid Heller, less any subsequent recoveries, for one loan.

Final Action: \$116,722.00 implemented.

Report # 2-15, SBA Guaranteed Loan to Colorado Taco Corporation

Summary: The audit objective was to determine if the lender originated, disbursed and liquidated the loan purchased by SBA in accordance with SBA rules and regulations. The audit recommended SBA seek recovery of \$63,497 from General Electric Capital Corporation on the guaranty paid Heller, less any subsequent recoveries, for one loan.

Final Action: \$63,497.00 implemented.

Report # 2-23, SBA Guaranteed Loan To RSC Enterprises, Inc.

Summary: The audit objective was to determine if the lender originated, disbursed and liquidated the loan purchased by SBA in accordance with SBA rules and regulations. The audit recommended SBA seek recovery of \$197,751.97 from General Electric Capital Corporation on the guaranty paid Heller, less any subsequent recoveries, for one loan.

Final Action: \$191,457.48 implemented and \$294.49 not implemented.

Final Action On Audit Recommendations Not Completed Within One Year

Report # 43H006021, 8(a) Continuing Eligibility Reviews

Program: 8(a)

Date Issued: 9/30/94

Management Decision Date: 10/30/94

Explanation: The one remaining recommendation is to the Associate Deputy Administrator for Government Contracting and Minority Enterprise Development to establish procedures for determining whether 8(a) participants should no longer be considered economically disadvantaged based on their ownership interest in their 8(a) firms. SBA believes the current statute provides guidance to address this issue. To ensure proper application, a Procedural Notice is being prepared with specific guidance for evaluating the continued economic disadvantaged status of program participants.

Report # 87H002017, NOAA Computer Workstation Contracts

Program: 8(a)

Date Issued: 6/18/98

Management Decision Date: 3/1/99

Explanation: The one open recommendation is to the Associate Deputy Administrator for Government Contracting and Minority Enterprise Development to provide definitive guidance and definitions to evaluate the manufacturing criteria in 13 CFR 121.206. A proposed regulation has been developed that includes a new size standard for value added resellers. The regulation was sent to OMB for approval. We have also proposed changes to 13 CFR to redefine the definition of "manufacturing." These changes will be included in the SBA Size Regulation that is in clearance.

Report # 9-23, Survey of Electronic Records Management

Program: M&A

Date Issued: 9/15/99

Management Decision Date: 11/30/99

Explanation: This audit has one open recommendation to the Associate Deputy Administrator for Management and Administration to implement an electronic records management program that meets the requirements of 36 CFR 1222, 36 CFR 1228 and 36 CFR 1234. The implementation of an electronic records management (ERM) program is underway. This is expected to be finalized by 4/15/03.

Report # 0-14, 7(a) Service Fee Collections

Program: OCFO

Date Issued: 3/30/00

Management Decision Date: 8/22/00

Explanation: The one remaining open recommendation is to establish receivable accounts for 7(a) loan service fees. The Agency's Loan Monitoring System (LMS) will address this issue. The LMS project is currently being reevaluated. Anticipated completion is 9/30/03.

Report # 0-19, Small Disadvantaged Business Certification Program Obligations and Expenditures

Program: GC/BD

Date Issued: 6/30/00

Management Decision Date: 3/30/01

Explanation: The remaining open recommendation is to seek a basis to require mandatory reimbursement from other agencies to fund the Small Disadvantaged Business (SDB) Certification program through an Executive Order or amendments to the Federal Acquisition Regulations. The SBA's Office of General Counsel is reviewing a memo proposing elevation of this issue to the Deputy Administrator for resolution. When this review is completed, a decision memorandum will be prepared.

Report # 0-25, Results Act Performance Measurement For The SBIC Program

Program: SBIC

Date Issued: 9/7/00

Management Decision Date: 12/27/00

Explanation: The one remaining open recommendation is to assert to the accuracy and completeness of performance data, or if data is not currently accurate and complete, explain how the division plans to overcome any quality problems in the future. This recommendation has not yet been completed because the head of the Investment Division position was only filled recently. New data was requested to help him determine if the proposed regulation is actually needed.

Report # 0-26, Results Act Performance Measurement For The Surety Bond Guarantee

Program: OSG

Date Issued: 9/26/00

Management Decision Date: 1/30/01

Explanation: Three recommendations remain open to the Director, Office Of Policy, in conjunction with the Associate Administrator/Office of Surety Guarantees (OSG) to ensure Surety Bond Guaranty program goals include program outcomes, service quality and program costs, reflect program goals, and are complete and accurately presented. The OSG does not have the staff to do the things that need to be done and still run the program. They asked the Office of the Chief Information Officer to hire a programmer to make changes to the computer system for the necessary reports. OSG is working with OCIO to develop the necessary reporting tools to comply with these recommendations. The CFO has extended the target for final action to 3/31/03.

Report # 0-28, Rhode Island District Advisory Council

Program: SBA

Date Issued: 9/29/00

Management Decision Dates: 12/7/00 & 2/14/01

Explanation: Four recommendations remain open concerning the use of funds raised by the RI Advisory Council and other Advisory Councils. They are to determine whether the funds constituted impermissible augmentation of SBA's appropriations, the proper disposition of funds remaining in the RI Advisory Council's and District Advisory Council checking accounts, and ensure appropriate corrective action is taken. The OIG is working with the OGC to determine how to resolve the audit findings.

Report # 0-29, Minority Business Enterprise Legal Defense and Education Fund (MBELDEF)

Program: SDB

Date Issued: 9/29/00

Management Decision Dates: 3/26/02 & 3/30/01

Explanation: The two remaining open recommendations are for MBELDEF to reimburse SBA for unsupported expenses, duplicate payments, unrelated expenses and for claimed expenses that were not incurred, and to pay SBA any fees obtained in excess of the \$81,545 reported, if a full accounting shows that not all fees were reported. In October 2002, the OGC prepared a demand letter to recover unsupported expenses.

Report # 0-30, SBA's Administration of the MBELDEF Cosponsorship

Program: SDB

Date Issued: 9/30/00

Management Decision Date: 3/26/01

Explanation: Five recommendations remain open to the Associate Administrator for Business Initiatives (AA/BI) to incorporate safeguards into cosponsorships, require the cosponsorship program official to obtain appropriate training, determine the pro rata share of food costs for non-Government attendees versus the amount collected and ensure the responsible program officials report cosponsorship performance problems to the AA/BI, in accordance with SOP 90 75 2. Additionally, the audit recommends the Associate Deputy Administrator for Government Contracting and Minority Enterprise Development (GC/MED) take steps to ensure that GC/MED employees enforce the terms of cosponsorship agreements. (The event that was the subject of the OIG audit recommendation was a one-time event, and not a typical SBA practice.) Anticipated final date is 5/31/03.

Report # 0-31, Boscart Construction, Inc.

Program: SDB

Date Issued: 9/30/00

Management Decision Dates: 2/26/01 & 3/26/01

Explanation: There are two remaining open recommendations. One is for the Associate Deputy Administrator for Government Contracting and Minority Enterprise Development (GC/MED), in conjunction with the Associate Administrator for Field Operations to reinforce the need for staff involved in the acceptance of 8(a) awards to ensure program participants are in compliance with program requirements. GC/MED SOP 80 05 2 is currently in clearance containing restated and emphasized guidance for eligibility reviews prior to contract award. The second open recommendation is for the designated Agency Ethics Official to review the Agency's policies and procedures ensuring compliance with the Agency's Standard of Conduct Regulations. The Chief Operating Officer is working to correct this finding.

Report # 1-01, Results Act Performance Measurement For The 7(a) Business Loan Program

Program: 7(a)

Date Issued: 12/4/00

Management Decision Dates: 6/22/01 & 7/18/01

Explanation: Four recommendations remain open to the Associate Administrator, Office of Financial Assistance, in coordination with the Director, Office of Policy, to develop 7(a) program indicators to gauge mission effectiveness, key outcomes, quality of services and the delivery process, ensure program goals address the entirety of the program's mission, institute a strategy to verify and validate performance measurement data, and assert to the accuracy and completeness of performance data. Anticipated completion for these recommendations is 12/31/02.

Report # 1-09, SBA's Planning and Assessment For Implementing Presidential Decision Directive 63

Program: OCIO

Date Issued: 3/26/01

Management Decision Date: 9/27/01

Explanation: The one remaining open recommendation is to ensure the Chief Infrastructure Assurance Officer revises the Critical Infrastructure Protection Plan to address protection of the Agency's physical minimum essential infrastructure. The actions are partially completed; the OIG is working with Physical Security to resolve their part of this issue.

Report # 1-11, Results Act Performance Measurement For The Minority Small Business and Capital Ownership Development Program

Program: 8(a)

Date Issued: 3/27/01

Management Decision Date: 9/28/01

Explanation: The four remaining open recommendations are to the Associate Deputy Administrator for Government Contracting and Business Development (GC/BD) to ensure SBA measures the success of the 8(a) Business Development program in accordance with the measure of success prescribed in P.L. 100-656, the Performance Plans include indicators for determining how effectively and efficiently the 8(a) program is operating, the Performance Plans accurately describe and report performance indicators and data, and to implement a tracking system which ensures termination requests of 8(a) firms are tracked through final resolution. A Work Group has been established to restructure the 8(a) BD program and develop a two stage approach to train and develop program participants. GC/BD is also reviewing the Termination Tracking System to ensure it complies with audit requirements. Final action is anticipated by 7/31/03.

Report # 1-12, SBA's Information Systems Controls - FY 2000

Program: OCIO

Date Issued: 3/27/01

Management Decision Dates: 4/30/01, 7/3/01, 7/5/01 & 7/24/01

Explanation: Five recommendations remain open to the Chief Information Officer (CIO). These recommendations are to clearly define and document roles and responsibilities of the Office of the Chief Information Officer, Human Resources and SBA program offices as they relate to notifying security administrators of changes to SBA employee and contractor employment status, develop quality control program procedures to periodically review existing applications to assure documentation is kept current and accurately reflects the cumulative effects of program changes made over time, require review and approval of all proposed changes to server configurations, continue its efforts to identify and eliminate incompatible duties, responsibilities and functions, and expedite its review and establish standard procedures for storing backup and recovery tapes. A Notice has been developed and is in clearance.

Report # 1-16, SBA's Follow-Up On SBLC Examinations

Program: CA

Date Issued: 8/17/01

Management Decision Date: 9/25/01

Explanation: There are two open recommendations to Capital Access to develop and implement formal procedures for the SBLC examination follow-up process and ensure appropriate corrective actions are taken in a timely manner, and to develop and promulgate internal control standards for the Small Business Lending Companies (SBLC) program similar to those required for non-SBLC lenders subject to financial institution regulators. Awaiting issuance of final regulations for SBLCs. Proposed regulations are expected to be in clearance before the end of this calendar year. Final regulations are not expected before December 31, 2003.

Appendix 3 –Status of GAO Recommendations

GAO-GGD-00-82			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
<i>Limited Information Available on Contract Bundling's Extent and Effects.</i>	1. The Administrator, SBA, should develop a strategy setting forth how the Agency can best achieve the results desired from oversight of contract bundling. The strategy should take into consideration the number of PCRs needed and their assigned procurement centers, training needed, timely resolution of potential bundling cases and constraints the Agency faces in implementing the strategy.	The SBA, along with OMB's Office of Federal Procurement Policy and the Department of Defense, is drafting a strategy in response to direction from the President to develop recommendations to mitigate contract bundling. The report, which will cover the above concerns, is expected in September 2002. In addition, SBA reported in December 2001 to the House and Senate Small Business Committees on the extent of contract bundling for the first nine months of FY 2001.	Upon release of the OMB Report, SBA will work with OMB to implement the bundling strategy.

GAO-01-551			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
<i>Small Business: More Transparency Needed in Prime Contract Goaling Program</i>	1. Document clearly the approach and criteria used to establish individual agency goals. Put it in the annual guidance and in letters to procurement agencies (communicate).	1 Recommendation: The updated guidelines will have a section on methodology and another on criteria for establishing goals. A notice will be published in the Federal Register so the public will have an opportunity to comment. Once finalized, each agency will receive a copy and the document will be posted on SBA's Office of Government Contracting website.	Draft new Guidelines 8/30/02 Obtain all SBA clearances, get signed & forward to OMB

GAO-01-551			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
	2. Give all agencies an opportunity to negotiate goals for FY 2002 and beyond.	2 Recommendation: For FYs 2002/2003, SBA established goals using the statutory minimums. Agencies were given an opportunity to negotiate goals if they disagreed with the assigned goals. The revised guidelines will state SBA's policy and time period for negotiation. SBA will assign goals based on the minimum statutory requirement (unless the agency has proposed a higher goal). If an agency believes it should not have the assigned goal, it can negotiate starting from that position. When no agreement is reachable between SBA and an agency, the final arbitrator will continue to be the Office of Federal Procurement Policy in OMB. Meanwhile, the goals will be established based on the assigned goals so as not to delay the process for all agencies and to ensure that the Government-wide statutory goals are established.	Obtain OMB clearance 2/28/03 Forward to Federal Register Publish in Federal Register with 30 day comment period 4/21/03
	3. Evaluate the exclusion for the Federal Highway Administration (FHA) to see if appropriate.	3 Recommendation: This particular evaluation will be part of the overall evaluation of "exclusions" and the result of the evaluation will become part of the general topic on exclusions in the Goaling Guidelines. SBA's Guidelines will distinguish between types of contract actions that are "not reported" (such as actions not under FAR or actions not using appropriated funds) and actions that are reported, but later excluded. The rationale will be documented for each category. The entire process will be transparent and consistent.	Publish final in Federal Register (effective after 30 days). Implement new Guidelines when negotiating FY 2004 Goals.
	4. Document the rational for excluding contracts and be clear that the Mint is exempt from FAR.	4 Recommendation: This is another example of a specific 'exclusion' that will be covered in the new Goaling Guidance section on the topic of exclusions.	

GAO-01-551			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
	<p>5. Revise goaling guidance to:</p> <ul style="list-style-type: none"> ○ Clarify types of contracts that are excluded by FPDC at behest of SBA versus those not reported to FPDC ○ Delete reference to wholesale supply source (if it is determined to be inapplicable) ○ Reflect fact that the FPDC excludes contracts performed outside the US regardless where the contract is awarded with the exception of State Department embassies. 	<p>#5 Recommendation: Revise goaling guidance to:</p> <ul style="list-style-type: none"> ○ Clarify types of contracts that are excluded by FPDC at behest of SBA versus those not reported to FPDC. This distinction will be clear in the new section on exclusions and the general guidance will cover the specific cases GAO mentioned such as FHA and the Mint. ○ Delete reference to wholesale supply source (if it is determined to be inapplicable). According to the GAO text, this type of activity is not contracting; it is a transfer of funds between parts of the Federal Government, whereas a prime contract flows from an agency to a private contractor. This specific case will be covered in the general guidelines. ○ Reflect fact that the FPDC excludes contracts performed outside the US regardless where the contract is awarded with the exception of State Department embassies. Again this is one part of the general subject of exclusions. This specific case will be covered in the distinction discussed above between actions "not reportable" versus actions "excluded after reporting." The rationale for each type will be stated. The exclusion process will be transparent and consistently applied. 	

GAO-01-346			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
<i>Federal Procurement: Trends and Challenges in Contracting with Women-Owned Small Businesses (WOSBs)</i>	<p>1. The Administrator, SBA, direct the new Office of Federal Contracting Assistance for Women Business Owners to evaluate the benefits and effects of the suggestions for increasing Federal contracting with WOSBs.</p> <p>2. We recommend that the Administrator, SBA, include in SBA's mandated study of industries in which WOSBs are underrepresented sufficient analysis to establish more realistic agency-specific annual goals for prime and subcontracts with WOSBs.</p>	<p>1. SBA is currently evaluating the benefits of mentor-protégé programs, teaming and financing arrangements, and more efficient outreach efforts to benefit women. We plan to have the evaluation completed by September 30, 2002. In March 2002, SBA withdrew from OMB its proposed regulations and the required utilization study to implement P.L. 106-554, Section 811(m), the Women-Owned Small Business Federal Contract Assistance program. We are currently conferring with recognized experts in the field who can review the current capacity and utilization report and determine what further analysis is needed in order to conform the report to relevant court standards.</p>	<p>Recommendation Number 1: Evaluation completed by September 30, 2002</p>

GAO-02-57			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
<i>HUBZone Program Reporting an Implementation Difficulties</i>	<p>1. Improve accuracy of the data reported by Federal agencies; the Administrator, Office of Federal Procurement Policy, in consultation with SBA when appropriate; strengthen the guidance for all Federal agencies about reporting small business program contracting activities to the Federal Procurement Data Center (FPDC).</p>	<p>The SBA office of Procurement Policy, Planning and Liaison has consulted with OFPP regarding guidance for Federal agency reporting about small business program contracting activities. A meeting between SBA and OFPP is planned in the near future to formalize and issue specific reporting guidance.</p>	<p>11/30/2002</p>
	<p>2. To improve the accuracy of data at an agency-wide level, the GAO recommended the SBA develop guidance for all Federal agencies about identifying contracts to be reported to the FPDC that meet HUBZone criteria.</p>	<p>SBA and OFPP developed guidance for all Federal agencies about contracts to be reported to the FPDC that meet HUBZone criteria. This guidance was issued in a Memorandum For Agency Senior Procurement Executives and signed by OFPP Administrator Angela B. Styles on June 24, 2002.</p>	<p>COMPLETED. Documents submitted to GAO to close recommendation.</p>

GAO-02-57			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
	3. To help contracting officers identify firms with the appropriate capabilities the SBA inform small businesses listed in PRO-Net about the importance of entering and maintaining timely, complete and accurate data.	All Pro-Net listed firms have been notified of the importance of entering and maintaining complete and accurate data to ensure that contracting officers have the appropriate information necessary to identify capable firms for potential contracting opportunities. Also, an automated system has been developed that notifies all PRO-Net listed firms of the need to update their profiles on an annual basis.	COMPLETED. Documents submitted to GAO to close recommendation.

GAO-RCED-00-197			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
<i>8(a) Information System</i>	1. The Administrator, SBA, should ensure that staff, upon entering the planning phase of the 8(a) information systems modernization effort, design an integrated information system that provides a method for collecting data on appropriate performance measures, focusing on the assistance provided for 8(a) firms in addition to the number of 8(a) contracts awarded.	SBA has developed an information technology strategic plan to modernize all the systems that support the procurement programs in its Office of Government Contracting and Business Development.	COMPLETED Documents submitted to GAO to close recommendation.

GAO-RCED-00-197			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
	2. The Administrator, SBA, should ensure that staff, upon entering the planning phase of the 8(a) information systems modernization effort, design an integrated information system that takes advantage of the links to existing Federal contract information sources, such as the Federal Procurement Data System, to minimize (1) the reporting responsibilities of contracting agencies and (2) data entry duties required at the district office level, addressed in up-to-date Standard Operating Procedures. In the interim, SBA should not continue to require 8(a) district staff to enter contracting information into the current system.	SBA has developed an information technology strategic plan to modernize all the systems that support the procurement programs in its Office of Government Contracting and Business Development.	Except for issuance of updated SOP, this recommendation is COMPLETE. Expect issuance of SOP by 12/31/02
	3. The Administrator, SBA, should ensure that staff, upon entering the planning phase of the 8(a) Wednesday, October 30, 2002 information systems modernization effort, design an integrated information system that is designed in light of current software and data management development procedures and business processes and allows maximum flexibility and ease of use by all levels of staff.	SBA has developed an information technology strategic plan to modernize all the systems that support the procurement programs in its Office of Government Contracting and Business Development.	COMPLETED Documents submitted to GAO to close recommendation.
	4. The Administrator, SBA, should ensure that staff, upon entering the planning phase of the 8(a) information systems modernization effort, design an integrated information system that is protected at all levels by appropriate security controls, which are specifically in up-to-date Standard Operating Procedures. SBA should not continue to require 8(a) district staff to enter contracting information into the current system.	SBA has developed an information technology strategic plan to modernize all the systems that support the procurement programs in its Office of Government Contracting and Business Development.	COMPLETED. Documents submitted to GAO to close recommendation.

GAO-RCED-00-196			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
8(a) Program	<p>1. To better address the purpose of the 8(a) program, meet the needs and expectations of the firms in the program and improve SBA's ability to determine how well the program is working, the Administrator, SBA, should provide a method for collecting data on each firm's training needs for tracking the assistance provided.</p>	<p>The Office of Business Development, through the Office of Field Operations, has put in place three goals for all district offices that better address the purpose of the program and meet the needs and expectations of the firms. Goal 1: The field offices annually conduct four matchmaking/partnering events that create contracting opportunities with public and private sector for firms that have not received contracts. Goal 2: The field offices annually conduct four or more courses of business development assistance in the areas of marketing, finances, Federal contracts and strategic partnering. All firms are invited and encouraged to attend. Goal 3: The field offices provide contracts to at least 10 percent of the current program participants that have not previously received 8(a) contracts. These goals are being implemented for FY 2002. Since the program office has already complied with this recommendation, the documentation will be generated and submitted to GAO demonstrating compliance. Systems to track training needs and assistance provided are included in the Strategic IT Plan.</p>	<p>Except for implementation of the Strategic IT Plan, this requirement will be completed by 12/31/02</p>

GAO-RCED-00-196			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
	2. The Administrator, SBA, should reassess the Agency's use of 7(j) Management and Technical Assistance program funding. The reassessment should consider whether to devote most of the 7(j) program's funding to training designed to develop the abilities of 8(a) firms to obtain contracts or to retain the current business development focus, but restrict the training to firms with a demonstrated need.	We have re-evaluated the 7(j) program, with an emphasis on determining the most effective means of administering funds. We concluded that the current business development focus is the most effective. Also, the SBA has concluded that eligibility for 7(j) training is not limited to 8(a) firms, and includes all firms eligible for management and technical assistance, as defined by statute. Since the program office has already complied with this recommendation, the documentation will be generated and submitted to GAO demonstrating compliance.	9/30/2002

GAO-RCED-99-114			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
<i>Evaluation of Small Business Innovation Research Can be Strengthened</i>	To respond to the Government Performance and Results Act, the Administrator, Small Business Administration, should develop standard criteria for measuring commercial and other outcomes of the SBIR program and incorporate these criteria into the new Tech-Net database. The criteria should include uniform measures of sales, developmental funding and other indicators of success.	On May 1, 2002, SBA sent a letter to GAO with an update on this recommendation. SBA advised GAO that it is working with the National Academy of Sciences (NAS), the National Research Council and the SBIR agencies to develop commercial and other criteria. SBA plans to include these criteria in its TechNet database upon release of the NAS study, hopefully by December 2003. This effort is responsive to the recommendation.	

GAO-02-313			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
<i>Administrative Wage Garnishment</i>	To help ensure that agencies effectively incorporate Administrative Wage Garnishment (AWG) into their debt collection processes, GAO recommends that the Administrator of the Small Business Administration direct the Associate Deputy Administrator for Capital Access to take the following steps: prepare comprehensive written implementation plans that clearly define, at a minimum, the types of debt that will be subject to AWG, the policies and procedures for administering AWG, and the process for conducting hearings. Some of the details that should be considered for inclusion in the plan are (1) whether the Agency will conduct AWG in-house, at a debt collection center, or both; (2) the types of debts, if any, that will be sent to the Financial Management Service (FMS) prior to becoming 180 days delinquent; and (3) whether hearings will be conducted by the Agency or contracted out.	During GAO's review, SBA submitted a written implementation plan for AWG; however, the plan was not comprehensive in that it did not discuss important elements of AWG, including the hearings process and the types of debt subject to AWG. In response to GAO's recommendation, SBA does not address revising its AWG implementation plan, but instead states that in connection with the publication of final regulations to implement AWG, SBA is preparing comprehensive procedures to guide its field offices in using this collection tool. SBA anticipates these procedures will be issued in September 2002, and will address the following: (1) the use of AWG in connection with all eligible obligors, e.g., regular business and disaster business loans to individual persons, disaster home loans and personal guarantees of business loans; (2) SBA's use of AWG both as part of its in-house collection procedures, as well as through FMS's cross-servicing; and (3) SBA will conduct AWG hearings in-house and does not intend to contract out this function.	

GAO-02-789			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
<i>GAO-02-789 Foreign Patent Challenges</i>	We recommend that the Administrator of the Small Business Administration, with assistance from the Director of the U.S. Patent and Trademark Office, collect and make available information about key aspects of foreign patent laws, requirements, procedures and costs that would be useful to small businesses that are considering whether to obtain foreign patent protection.	In progress.	

GAO-02-749			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
<i>GAO-02-749 Coordinated Approach Needed to Address the Government's Improper Payment Problems</i>	The head of each CFO Act agency should assign responsibility to a senior official, such as the COO or CFO, for establishing policies and procedures for assessing agency and program risks of improper payments, taking actions to reduce those payments and reporting the results of the actions to agency management for oversight and other actions as deemed appropriate.	In progress.	

GAO-01-192			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
<i>GAO-01-192 Action Needed to Strengthen Small Business Lending Company Oversight</i>	The Administrator, SBA, should ensure that SBA provides, through regulation, clear policies and procedures for taking supervisory actions. Specifically, if SBA determines that it does have the necessary statutory authority, the Administrator of SBA should develop and adopt SBLC regulations that would clearly define SBA authority to take supervisory actions and specify conditions under which supervisory actions would be taken. If SBA determines that it does not have necessary statutory authority, the Administrator of SBA should make a legislative proposal to ensure that the Agency has the supervisory authorities necessary to direct and enforce corrective action of conditions that may not merit a suspension or removal of lending status.	The Director of the Office of Lender Oversight was assigned the lead role in developing, through regulation, clear policies and procedures for taking supervisory actions involving the Small Business Lending Companies. SBA's Office of General Counsel has determined that SBA has statutory authority to implement GAO's recommendation. With the help of a consultant, SBA has drafted such policies and procedures, including the establishment of an enforcement board within SBA. SBA expects to publish a notice of proposed rulemaking in FY 2003.	

GAO-00-124			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
<i>Substantial Progress, Yet Key Risks and Challenges Remain</i>	1. The Administrator, SBA, should take a series of actions to ensure that SBA completes the steps mandated by the Act, as stated in GAO's February 29, 2000, testimony. Specifically, the Administrator should complete the analyses of benefits and costs of alternatives being considered for each business process identified through SBA's business reengineering effort, and complete an implementation plan for the new business processes.	In early 2002, SBA adopted a new, incremental approach to developing the Loan Monitoring System. As SBA moves forward with this new approach, the Agency will need to complete cost/benefit analyses and develop implementation plans. SBA plans to contract for management expertise to, among other activities, help the Agency address this recommendation. A contract was awarded in September 2002 to obtain project management services to ensure that all remaining regulated planning steps were identified, completed and/or incorporated into an overall project management plan.	This initial work was completed in the first quarter of FY 2003.

GAO-00-124			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
	<p>2. The Administrator, SBA, should take a series of actions to ensure that SBA completes the steps mandated by the Act, as stated in GAO's February 29, 2000, testimony. Specifically, the Administrator should perform benefit-cost analyses for systems alternatives to increase the probability that SBA will obtain a system that meets its needs at the lowest cost.</p>	<p>In FY 2000, SBA analyzed the benefits and costs of alternatives to demonstrate a positive return on investment for its Loan Monitoring System (LMS). In early 2002, SBA adopted a new, incremental approach to develop LMS. As SBA moves forward with this new approach, the Agency will need to reassess costs, benefits and risks. SBA plans to contract for management expertise to, among other activities, help the Agency address this recommendation. A contract was awarded in September 2002 to obtain project management services to ensure that all remaining regulated planning steps were identified, completed and/or incorporated into an overall project management plan.</p>	<p>Same as above</p>
	<p>3. The Administrator, SBA, should take a series of actions to ensure that SBA completes the steps mandated by the Act, as stated in GAO's February 29, 2000, testimony. Specifically, the Administrator should develop the information architecture's rules and standards for interoperability and maintainability of interrelated systems.</p>	<p>In FY 2000, SBA revised its information technology architecture to include guidance, policy and standards for the interoperability and maintainability of interrelated systems. It planned to add detailed requirements for interoperability and maintainability as it completed the Loan Monitoring System (LMS) design phase. In early 2002, SBA adopted a new, incremental approach to developing LMS. As SBA moves forward on its new approach, it will need to develop requirements for interoperability and maintainability. SBA plans to contract for management expertise to, among other activities, help the Agency address this recommendation. A contract was awarded in September 2002 to obtain project management scenarios to ensure that all remaining regulated planning steps were identified, completed and/or incorporated into an overall project management plan.</p>	<p>Same as above</p>

GAO-00-124			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
	<p>4. The Administrator, SBA, should take a series of actions to ensure that SBA completes the steps mandated by the Act, as stated in GAO's February 29, 2000, testimony. Specifically, the Administrator should identify high-level requirements for all internal reports and define detailed input and output data elements necessary for the timely generation of reports.</p>	<p>In FY 2000, SBA identified internal and external reporting requirements for its Loan Monitoring System (LMS). In 2002, SBA adopted a new, incremental approach to develop LMS. As the Agency moves forward with its new approach, it will need to reassess its data requirements document to determine whether it needs to be updated. SBA plans to contract for management expertise to, among other activities, help the Agency address this recommendation. A contract was awarded in September 2002 to obtain project management scenarios to ensure that all remaining regulated planning steps were identified, completed and/or incorporated into an overall project management plan.</p>	<p>Same as above</p>
	<p>5. The Administrator, SBA, should take a series of actions to ensure that SBA completes the steps mandated by the Act, as stated in GAO's February 29, 2000, testimony. Specifically, the Administrator should complete the definition of specific data quality standards, develop a schedule of planned actions to improve data quality in the current systems and implement data quality measures.</p>	<p>In FY 2000, SBA developed a data quality management plan and planned to incorporate specific data quality attributes into a Data Requirements document for its Loan Monitoring System (LMS). In early 2002, SBA adopted a new, incremental approach to develop LMS. As the Agency moves forward with its new approach, SBA will need to address data quality requirements. SBA plans to contract for management expertise to, among other activities, help the Agency address this recommendation.</p>	<p>Same as above</p>

GAO-00-124			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
	6. The Administrator, SBA, should take a series of actions to ensure that SBA completes the steps mandated by the Act, as stated in GAO's February 29, 2000, testimony. Specifically, the Administrator should define system capacity and performance requirements for the systems requirements documentation.	In FY 2000, SBA included high-level system capacity and performance requirements in its Loan Monitoring System (LMS) requirements. In early 2002, SBA adopted a new, incremental approach to develop LMS. As the Agency moves forward with its new approach, SBA will need to revise LMS system requirements, including requirements for capacity and system performance. SBA plans to contract for management expertise to, among other activities, help the Agency address this recommendation.	Same as above
	7. The Administrator, SBA, should take a series of actions to ensure that SBA completes the steps mandated by the Act, as stated in GAO's February 29, 2000, testimony. Specifically, the Administrator should develop an acquisition strategy that ensures that a sound justification exists for pursuing custom-developed functions.	In FY 2000, SBA developed an Acquisition Strategy for its Loan Monitoring System (LMS). However, in early 2002, SBA adopted a new, incremental approach to develop LMS. As SBA moves forward with its new approach, the Agency will need to update the LMS Acquisition Strategy to reflect the revised scope of the project and demonstrate that it is feasible. SBA plans to contract for management expertise to, among other activities, help the Agency address this recommendation. A contract was awarded in September 2002 to obtain project management scenarios to ensure that all remaining regulated planning steps were identified, completed and/or incorporated into an overall project management plan.	Same as above

GAO-00-124			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
	<p>8. The Administrator, SBA, should take a series of actions to ensure that SBA completes the steps mandated by the Act, as stated in GAO's February 29, 2000, testimony. Specifically, the Administrator should continue to refine the cost-to-completion estimate following the completion of the benefit-cost analysis of alternatives and selection of the best alternatives for implementation, and develop a lifecycle cost estimate for the system and its components.</p>	<p>In FY 2000, SBA produced an estimate of cost-to-completion for its Loan Monitoring System (LMS). However, in early 2002, SBA adopted a new, incremental approach to develop LMS. As the Agency moves forward with this new approach, SBA will need to revise its cost estimates. SBA plans to contract for management expertise to, among other activities, help the Agency address this recommendation. A contract was awarded in September 2002 to obtain project management scenarios to ensure that all remaining regulated planning steps were identified, completed and/or incorporated into an overall project management plan.</p>	<p>Same as above</p>
	<p>9. The Administrator, SBA, should ensure the implementation of key functions to effectively manage the development of the Loan Monitoring System. Specifically, to strengthen project management processes and controls, the Administrator should implement project tracking and oversight capabilities.</p>	<p>In early 2002, SBA adopted a new, incremental approach to developing its Loan Monitoring System. As SBA moves forward with this new approach, it will need to implement project tracking and oversight capabilities. SBA plans to contract for management expertise to, among other activities, help the Agency address this recommendation. A contract was awarded in September 2002 to obtain project management scenarios to ensure that all remaining regulated planning steps were identified, completed and/or incorporated into an overall project management plan.</p>	<p>Same as above</p>

GAO-00-124			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
	<p>10. The Administrator, SBA, should ensure the implementation of key functions to effectively manage the development of the Loan Monitoring System. Specifically, to strengthen project management processes and controls, the Administrator should finalize and implement configuration management processes.</p>	<p>SBA drafted a Loan Monitoring System (LMS) Configuration Management Plan and an LMS Configuration Management Handbook, which it provides to contractors as guidance in developing configuration management plans for contracted tasks. In early 2002, SBA adopted a new, incremental approach to develop LMS. As SBA moves forward on its new approach, the Agency will need to implement configuration management processes. SBA plans to contract for management expertise to, among other activities, help the Agency address this recommendation. A contract was awarded in September 2002 to obtain project management scenarios to ensure that all remaining regulated planning steps were identified, completed and/or incorporated into an overall project management plan.</p>	<p>Same as above</p>
	<p>11. The Administrator, SBA, should ensure the implementation of key functions to effectively manage the development of the Loan Monitoring System. Specifically, to strengthen project management processes and controls, the Administrator should acquire independent verification and validation for the Loan Monitoring System project.</p>	<p>In early 2002, SBA adopted a new, incremental approach to develop a Loan Monitoring System. As SBA moves forward with this new approach, it will need to acquire independent verification and validation services. SBA plans to contract for management expertise to, among other activities, help the Agency address this recommendation. A contract was awarded in September 2002 to obtain project management scenarios to ensure that all remaining regulated planning steps were identified, completed and/or incorporated into an overall project management plan.</p>	<p>Same as above</p>

GAO-00-124			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
	<p>12. The Administrator, SBA, should ensure the implementation of key functions to effectively manage the development of the Loan Monitoring System. Specifically, to strengthen project management processes and controls, the Administrator should establish an internal quality assurance function.</p>	<p>In 2001, SBA drafted a Loan Monitoring System (LMS) Quality Assurance Plan. In early 2002, SBA adopted a new, incremental approach to develop LMS. As SBA moves out with this new approach, the Agency will need to establish quality assurance processes. SBA plans to contract for management expertise to, among other activities, help the Agency address this recommendation. A contract was awarded in September 2002 to obtain project management scenarios to ensure that all remaining regulated planning steps were identified, completed and/or incorporated into an overall project management plan.</p>	<p>Same as above</p>
	<p>13. The Administrator, SBA, should ensure the implementation of key functions to effectively manage the development of the Loan Monitoring System. Specifically, to strengthen project management processes and controls, the Administrator should address the security challenge posed by Internet-based access to loan monitoring system functions and data, complete the security architecture and update the security operating procedure.</p>	<p>By 2001, SBA had revised its security architecture, updated its security operating procedure and produced a system security plan for the Loan Monitoring System (LMS). However, in early 2002, SBA adopted a new, incremental approach to develop LMS. As SBA moves forward with its new approach to developing LMS, the Agency will need to reassess security requirements. SBA plans to contract for management expertise to, among other activities, help the Agency address this recommendation. A contract was awarded in September 2002 to obtain project management scenarios to ensure that all remaining regulated planning steps were identified, completed and/or incorporated into an overall project management plan.</p>	<p>Same as above</p>

GAO-02-188			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
<p>GAO-02-188 SBA Needs to Evaluate Use of Software</p>	<p>The Administrator should direct the Chief Information Officer to take the actions necessary to bring the LMS project in compliance with the Small Business Reauthorization Act and with SBA's agreement with the House Committee on Small Business. Such actions should include an evaluation of prototype software and documentation in accordance with SBA's system development methodology and generally accepted system development practices. The evaluation should consider the extent to which the software satisfies requirements already identified for the electronic processing of loan guarantee applications; the potential impact of changes in requirements, as business processes and requirements of lender oversight and risk management are identified; and the costs and benefits of alternative courses of action: whether the software should be (1) separated from LMS and implemented, (2) separated from LMS and further modified to meet mission needs, or (3) held in suspense until all LMS requirements and plans have been completed.</p>	<p>SBA has completed evaluations of the two prototypes, and both evaluations recommended separating the prototypes from the LMS system and implementing them. However, SBA officials have not yet decided whether or not to accept and implement these recommendations. Thus, SBA is still not in compliance with the legislation that required certain planning steps prior to any systems development.</p> <p>The evaluation of the PIMS system was conducted by a joint OFA and OCIO evaluation team. The team prepared an evaluation report that recommends that the PIMS system be separated from the LMS project and implemented immediately. There is no FY 2002 cost associated with immediate implementation. The evaluation of the electronic loan application (e-Tran) prototype was conducted by Grant-Thornton, the LMS IV&V contractor. Grant-Thornton recommended that SBA separate the prototype from the LMS project, make some changes and then implement. The evaluation report also lists optional action items, including addressing OLO's concerns that the prototype does not have functionality to update loan application data after the loan is approved. The CIO forwarded the evaluation reports with a recommendation to the LMS steering committee. The Administrator has also identified an LMS management team to oversee the re-scoped LMS project.</p>	<p>Documentation sent to GAO on 8/22/02.</p>

GAO-00-170			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
<p><i>SBA Needs to Establish Policies and Procedures for Key IT Processes</i></p>	<p>1. In the investment management area, the Administrator, SBA, should direct the CIO to adopt policies and procedures and define processes for: (1) investment selection to ensure that IT projects result in mission-focused benefits and that risk-adjusted return on investment is maximized; (2) investment control to determine whether selected projects are being developed on time, within budget and according to requirements, and to take corrective actions as appropriate; and (3) investment evaluation by conducting post implementation reviews to determine whether completed projects are generating expected mission-focused benefits.</p>	<p>SBA has developed an IT investment management guide that includes procedures for selecting, controlling and evaluating investments. However, the guide does not include, nor has SBA established outside the guide, clear policies for managing IT investments. The Agency also has not yet implemented the procedures defined in the guide for the selection, control and evaluation of IT investments.</p> <p>Update: Investment selection and control procedures have been defined in the Agency's ITIM Guide, published in December 2000 and available on SBA's Intranet since March 2001.</p>	<p>Documentation sent to GAO on 8/22/02.</p>
	<p>2. In the IT architecture area, the Administrator, SBA, should direct the CIO to: (1) develop a systematic process for architecture development to ensure that the architecture will meet SBA's current and future information processing needs; (2) establish policies and procedures for architecture maintenance to ensure that new systems and software changes are compatible with other systems and SBA's planned operating environment; and (3) set a target date for implementation of the maintenance processes.</p>	<p>SBA has made some progress by drafting a charter for an architecture review board as well as some policies and procedures for maintenance. However, SBA needs to develop the architecture development process and link it to enterprise engineering, program management and capital planning and investment control processes in order for the enterprise architecture to be a useful tool. The Agency also needs to issue policies and implement procedures for maintenance and establish a management structure and control mechanism to continuously control and oversee the enterprise architecture development, implementation and maintenance.</p> <p>Update: 1. This item is not yet complete. 2. This item is not yet complete. 3. Target date for establishing policy is November 25, 2002, and for implementing procedures is February 1, 2003.</p>	<p>Documentation sent to GAO on 8/22/02.</p>

GAO-00-170			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
	<p>3. For software development and acquisition, the Administrator, SBA, should direct the CIO to: (1) complete the systems development methodology and develop a plan to institutionalize and enforce its use Agency wide; and (2) establish policies, procedures and processes for software development and software acquisition and develop a mechanism to enforce them. These policies, procedures and processes need to address areas such as requirements management, project planning, project tracking and oversight, software quality assurance, configuration management, acquisition planning, solicitation, contract tracking and oversight, product evaluation and transition to support.</p>	<p>The Agency is continuing to update its systems development methodology and has performed project tracking and oversight, acquisition planning, configuration management and quality assurance for its Loan Monitoring System. However, SBA needs to issue Agency-wide policies, establish procedures for contract tracking and oversight and establish processes Agency-wide for software development and acquisition activities. It also needs to establish an Agency-wide mechanism for enforcing adherence to software policies, procedures and processes.</p> <p>Update:</p> <p>1. The SBA's Systems Development Methodology was completed in Q4 2001. The SDM became policy with the issuance of Procedural Notice 9000 – 1309 on 10/26/01. The SBA's SDM establishes policies for systems development.</p> <p>2. This item not yet complete.</p>	<p>Documentation sent to GAO on 8/22/02.</p>

GAO-00-170			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
	<p>4. For information security, the Administrator, SBA, should direct the CIO to: (1) conduct periodic security risk assessments to identify and rank threats and vulnerabilities; (2) implement a complete, effective security awareness program; (3) periodically update policies and procedures on information security and implement security controls to address identified vulnerabilities; (4) complete the development and testing of its comprehensive disaster recovery and business continuity plan, which should then be updated and tested periodically; (5) conduct periodic security evaluations to determine whether policies, procedures and controls are effective against identified vulnerabilities and take remedial action as needed; and (6) develop and implement a centralized mechanism to monitor and enforce compliance on information security by employees, contractors and program offices.</p>	<p>SBA has made significant progress in this area by conducting certification and accreditation for many of its targeted systems, developing key components of a security awareness program and implementing security controls to reduce security risks. However, the Agency still needs to update its security risk assessment as it pertains to mission-critical systems. It has to complete the development of a centralized approach to overseeing and monitoring its security program. SBA also needs to complete the development and testing of a comprehensive disaster recovery and business continuity plan. To ensure that its security plan stays effective, the Agency needs to conduct periodic evaluations of policies, procedures and controls.</p> <p>Update: The OCIO has a Continuity of Operations Plan (COOP) that contains elements found in both the disaster recovery and business resumption plan. As part of the GISRA requirement, yearly self-assessments conducted using NIST SP 800-26 System Test & Evaluations (ST&Es) are conducted on all GSS' and MA's every 3 years or whenever a change is made that impacts security. Periodic vulnerability tests are conducted using automated tools that check for policy compliance and application of software patches. SBA upgraded to Windows 2000 Pro and Server. Security settings are enforced on PCs from the Active Directory server. Contractor facilities are visited at least every 3 years. A modified risk assessment methodology is used to ensure SBA data is protected at the contractor facility.</p>	<p>Documentation sent to GAO on 8/22/02.</p>

GAO-00-170			
Report Title	Recommendations	Status of Recommendation	Est. Date of Completion
	<p>5. In the human capital management area, the Administrator, SBA, should direct the CIO to: (1) identify SBA's IT knowledge and skills requirements; (2) perform periodic IT staff assessments to identify current levels of IT knowledge and skills; (3) develop workforce strategies and implement plans to acquire and maintain the necessary IT knowledge and skills to support the Agency mission; and (4) periodically evaluate progress in improving SBA's IT human capital capability and use the results to continuously improve human capital strategies.</p>	<p>SBA has awarded a contract to survey key executives and technical support staff to identify current levels of IT knowledge and skills. Once the Agency completes the identification of its IT knowledge and skill requirements and its current IT skill levels, SBA needs to develop workforce strategies and implement plans to acquire and maintain the necessary IT knowledge to support the Agency mission. The Agency will also need to periodically evaluate its progress in improving its IT human capital capability, and use the results to improve its human capital strategies.</p> <p>Update:</p> <ol style="list-style-type: none"> 1. SBA completed a technical skills assessment. 2. General criteria for skills have been developed. 3. The OCIO provides input and assistance into the Agency's overall workforce transformation effort. 4. This is an on-going assessment; it is associated with the OCIO's support of the Agency workforce transformation initiative. An annual internal review is conducted each May-June as part of yearly strategic planning and budget processes. 	<p>Documentation sent to GAO on 8/22/02.</p>

Appendix 4 – Most Serious Management Challenges

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

FY 2003

AGENCY MANAGEMENT CHALLENGES

Report Number: 3-04



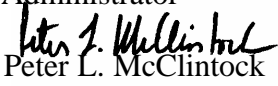
U.S. Small Business Administration
Washington, D.C. 20416

**OFFICE OF
INSPECTOR GENERAL**

January 17, 2003

MEMORANDUM

TO: Hector V. Barreto
Administrator

FROM: 
Peter L. McClintock
Acting Inspector General

SUBJECT: FY 2003 Update of the Most Serious Management Challenges

I am pleased to submit the Office of Inspector General's (OIG) report on the most serious management challenges facing the Small Business Administration (SBA) in FY 2003. In accordance with the Reports Consolidation Act of 2000, we are providing it to SBA for inclusion in the Agency's FY 2002 Performance and Accountability Report. As with previous Congressional requests for Agency challenges, we have given our current assessment of Agency programs or activities that pose significant risks, including those that are particularly vulnerable to fraud, waste, error, or mismanagement. Our report is based on specific OIG, General Accounting Office (GAO), or other official reports, which are referenced in the individual sections, and our general knowledge of SBA programs.

This year's challenges are, for the most part, an update of last year's identified challenges. We added one new challenge relating to financial management and reporting (Challenge 2), and consolidated two of last years challenges relating to Section 8(a) Business Development (BD) Program into one (Challenge 7). We dropped last year's challenge on systems development because one major system (JAAMs) has been implemented and SBA is back to the drawing board on the other (LMS). We categorized the nine challenges into four areas: Agency-wide Issues, Loan Programs, Section 8(a) Business Development, and Fraud Deterrence.

The scoring system is similar to last year's – a three-point system that we have also color-coded in line with the President's Management Agenda. It evaluated the status of SBA management actions as of the end of December 2002. The system is as follows:

Green or 1 – Action has been implemented

Yellow or 2 – Progress is being made

Red or 3 – The action has not been implemented/no substantial progress is being made

SBA made substantial progress on the two of the FY 2002 challenges. In the improving information systems security challenge, the Agency has taken significant steps to address the recommendations, and continued to proactively address new issues and requirements as they arise. SBA has also made impressive progress in the challenge to have better controls over the business loan purchase process. Of the 16 actions needed, OIG raised the score on six.

The Agency is making some progress on three other challenges. These include improving its managing for results, implementing human capital management strategies, improving lender oversight.

There has been no measurable progress in addressing the challenge on preventing loan agent and borrower fraud, or on the two Section 8(a) BD Program challenges – access to business development and contracts, and pass-through procurement activity. Except for some updating and clarification, the Section 8(a) BD challenges remain essentially the same as in previous years.

The newest challenge addresses the significant challenges SBA is facing in financial management and reporting; affecting its ability to provide reliable, timely and accurate financial information. OIG is working closely with the Office of the Chief Financial Officer (OCFO), GAO, and program managers to fully evaluate the problem, identify the various implications across Agency programs, and develop appropriate remedial actions and controls to prevent similar problems in the future.

As we move forward, OIG will issue new challenges as they arise, allowing the Agency to quickly identify the appropriate resources and attention needed to address the issue. We will continue to work with SBA program managers and the OCFO to focus attention on these critical issues.

If you have any questions, please do not hesitate to call me at 205-6586.

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

Summary - SBA needs to continue developing effective outcome measures and ensure that its performance data are accurate and reliable. The Agency has made progress in developing a mechanism to report on the status of measuring its performance through the implementation of an Intranet application, "SBA Execution Scorecard." While the application is not yet fully developed, it provides a performance scorecard for SBA offices and loan programs and has fields for tracking various initiatives introduced throughout the Agency.

Actions Needed	Progress
<i>Top management provides positive and supportive attitude toward performance based management focused on managing for results.</i>	
○ Top management provides leadership to coordinate the Agency's managing for results program and has designated sufficient resources to support the leadership effort.	2
○ Strategic plan is ratified and reflects top management's vision and direction.	3
-- Appropriate Agency program goals and objectives are established.	3
-- Appropriate performance measures and indicators are established.	2
-- Program managers support SBA's strategic plan, performance goals, and objectives.	3
-- Training programs are provided to managers and others responsible for implementing the performance results requirement.	3
○ Management provides adequate resources to support processes necessary to have an effective performance-based and results-driven operation.	2
<i>SBA analyzes risks associated with achieving objectives.</i>	
○ SBA periodically assesses the risk that it may not achieve its goals, and results are used to redirect performance to enhance the successful attainment of goals.	2
○ Performance outcomes are regularly measured and reflect results attributable to Agency programs and services delivered.	2(3)
<i>Policy and procedures provide guidance to ensure consistency among organizational components.</i>	
○ Policies and guidelines for developing performance goals, objectives, and measures, and for verifying and validating data are published.	1
<i>Information is recorded and communicated to management and others who need it to fulfill their oversight and stewardship responsibilities.</i>	
○ Managers have and use operational and financial data to assess their progress in meeting Agency goals, and ensure accountability for effective and efficient use of resources.	2

○ Performance data are verified and validated.	3
<i>Monitoring of performance occurs and findings of relevant audits and other reviews are promptly resolved.</i>	
○ Top level review and tracking of major Agency achievements occurs, and comparisons are made to plans, goals, and objectives.	2
○ Feedback process is used to improve performance goals, measures, and accuracy of data.	2

Legend:

1–Green–Implemented

2–Yellow–Progress being made

3–Red–Not implemented/no substantial progress

Scores in parentheses indicate the January 2002 score in those cases where the score has been changed.

Background

SBA has three major goals: (1) Champion small business interests, (2) empower entrepreneurs, and (3) help businesses and families recover from disasters. To comply more fully with the Government Performance and Results Act (GPRA), SBA needs to develop appropriate outcome measures, improve the accuracy and completeness of its data, and institute managing for results processes throughout the organization. SBA reports that it is moving away from output measures, has identified outcome goals and targets of performance, and improved its reporting of results.

The Senate Governmental Affairs Committee identified three “key outcomes” in SBA's FY 2000 Performance Report and asked GAO to evaluate how well SBA performed during FY 2000. GAO found that in SBA's FY 2000 Performance Report its reported progress in achieving its outcomes is mixed. GAO had difficulty assessing SBA's progress due to weaknesses in its performance measures and data. GAO was unable to assess SBA's strategies for achieving its outcomes because SBA's plan and report lack either an explanation of how the strategies relate to the outcomes or a discussion regarding strategies for the outcome. Specifically, GAO determined the following:

- Planned outcome - Assist small businesses to become self-reliant and successful in the competitive marketplace. SBA's success in achieving this outcome is mixed. SBA's performance indicators provide little performance information on the self-reliance and success of small businesses or on SBA's contributions to this outcome. Because of the lack of explanation in the plan and report regarding how SBA's strategies for this outcome relate to helping small businesses succeed, GAO was unable to assess whether the strategies are clear and reasonable.
- Planned outcome - Ensure that more eligible small businesses participate in SBA programs and become more successful. SBA's reported success varied in achieving the portion of this outcome regarding having more eligible small disadvantaged businesses participate in its programs.

It was not possible for GAO to determine SBA's progress in helping more eligible small disadvantaged businesses become more successful because SBA has not developed performance measures that assess the success of its key programs in this area. GAO indicated that SBA has discussed its strategies for this outcome as a part of its outcome of helping businesses succeed.

A team of analysts from the Mercatus Center at George Mason University also ranked the FY 2001 Performance Reports of the 24 Chief Financial Officers Act agencies. Rankings were based on whether (1) Agency accomplishments were reported in a transparent fashion, (2) the report focused on documenting the Agency's tangible public benefits, and (3) there was evidence of forward-looking leadership that uses performance information to devise strategies for improvement. SBA received 26 out of a possible 60 points, ranking it 16th of the 24 Agencies.

OIG audits and inspections have focused on SBA's implementation of performance measurement requirements and the reliability of the performance data for major Agency programs. Five audits have found that SBA's performance measures and data accuracy could be improved. For example, the Surety Bond Guaranty (SBG) audit found that the program's performance data were reliable but recommended improvements in data collection and presentation. A Section 7(a) GPRA audit, however, found that some of the program's performance data are not reliable, due primarily to an absence of effective validation and verification strategies and methods. Moreover, loan quantity indicators used are not a valid measure of output because they measure loans approved rather than actual loans made or disbursed.

The Section 8(a) GPRA audit found that data concerning the fiscal year the program participant left the program were accurate; however, some performance data were unreliable or incorrectly described.

An FY 2000 OIG inspection of SBA loan processing centers found some uncertainty in the Office of Financial Assistance concerning what constitutes adequate data verification. An inspection of SBA's Office of Entrepreneurial Development (OED) found inconsistencies in counting clients in its small business counseling and technical assistance programs that appeared to overstate the efforts of some service providers. A common unit of measurement was needed. In addition, although it is difficult to attribute outcome measures such as a small business' increased sales or hiring to OED efforts, SBA needed to develop outcome measures to determine the intermediate or long term results of OED services.

Significant Open Recommendations

Management has agreed with OIG audit recommendations and issued guidance, but the guidance needs to be fully implemented.

Current Agency Status

A retreat for SBA senior management was held in September 2002 to address issues related to performance measurement and managing for results. The Deputy Administrator and Chief Operating Officer have together set the tone for providing a positive and supportive attitude toward performance-based management.

Instead of the execution plan mentioned in last year's management challenge assessment, an Intranet application, "SBA Execution Scorecard," was designed and is now up and running. The application, which is password-protected, provides a performance scorecard for each SBA district office, headquarters program office, and loan program. The application also has fields for tracking various initiatives introduced throughout the Agency.

The initial submission of "SBA Budget Request and Performance Plan for FY 2004" was sent to the Office of Management and Budget (OMB) on November 25, 2002. Training programs for managers and others responsible for implementing the performance results requirements have not been provided because there is no money available in SBA's budget for such training programs.

Analysis of risks associated with achieving objectives is now being done through the Intranet application, "SBA Execution Scorecard," rather than the execution plan mentioned in last year's management challenge assessment.

SBA's Chief Operating Officer (COO) completed FY 2002 performance reviews with all program offices, the results of which were used in budget deliberations. The COO is continuing a review of performance data. Progress is being made, but the data still needs to be validated.

OIG Assessment of Status

Management has demonstrated that it is committed to managing for results and has provided the resources to develop the Intranet application, "SBA Execution Scorecard," which will be the primary mechanism through which management measures performance outputs and assesses risks, among other functions. While SBA has made progress in addressing this challenge by developing the Intranet application, the Scorecard focuses on measuring performance outputs rather than outcomes. More action is needed to verify and validate data, and provide resources for training programs for managers and others responsible for implementing the performance results requirement.

Reports

George Mason University, Mercatus Center, *3rd Annual Performance Report Scorecard: Which Federal Agencies Inform the Public*, May 16, 2002.

GAO, *Status of Achieving Key Outcomes and Addressing Major Management Challenges*, Report # GAO-01-792, June 2001.

SBA OIG, *Results Act Performance Measurement for the Section 8 (a) Minority Small Business and Capital Ownership Development Program*, Audit Report # 1-11, March 27, 2001.

SBA OIG, *Results Act Performance Measurement for the Disaster Assistance Program*, Audit Report # 1-06, February 15, 2001.

SBA OIG, *Results Act Performance Measurement for the Section 7(a) Business Loan Program*, Audit Report # 1-01, December 4, 2000.

SBA OIG, *Advisory Memorandum: Data Issues Regarding the Processing Centers*, Inspection Report #00-09-01, September 28, 2000.

SBA OIG, *Coordination and Performance Measurement in SBA's Entrepreneurial Development Programs*, Inspection Report #00-09-02, September 28, 2000.

SBA OIG, *Results Act Performance Measurement for the Surety Bond Guarantee Program*, Audit Report #0-26, September 25, 2000.

SBA OIG, *Results Act Performance Measurement for the Small Business Investment Company*, Audit Report #0-25, September 6, 2000.

U.S. Senate, Governmental Affairs Committee, *Summary of FY 1999 Performance Report Information: Small Business Administration*, June 2000.

Challenge 2. SBA faces significant challenges in financial management and reporting which affects its ability to provide reliable, timely and accurate financial information.

Summary – SBA needs to make significant improvements in financial management and reporting to ensure that the Agency produces reliable, timely and accurate financial information including its annual financial statements and the results of loan asset sales. The Agency has taken steps to improve its financial management; however, these efforts have been primarily focused on improving controls over financial statement preparation. The Agency still needs to develop and implement improvements to other aspects of its financial management, including accounting and budgeting for loan asset sales, the disaster subsidy estimate process and accounting for the Master Reserve Fund (MRF).

Actions Needed	Progress
<i>SBA financial reporting process provides complete, accurate, timely financial management information</i>	
○ OCFO produces complete, reliable, and timely financial statements prepared in accordance with OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements	3
○ SBA's core financial system is able to provide complete, reliable, timely and consistent financial management information.	3
○ SBA meets all deadlines for financial reporting	2
○ SBA's documents all aspects of its financial reporting process	2
○ SBA's maintains strong internal control over the financial reporting process	2
○ SBA maintains a compilation manual detailing the source of all financial statement line items.	2
<i>SBA maintains proper accounting for and accountability of the MRF</i>	
○ SBA fully accounts for the MRF in accordance with all Federal accounting regulations	3
○ SBA ensures the fiscal transfer agent meets all its obligations related to the MRF	2
○ SBA utilizes statistically valid tools to measure the financial position of the MRF	3
○ SBA timely reports the financial position of the MRF to Agency decision makers and Congress	3
<i>SBA maintains control over all aspects the loan accounting and budgeting processes</i>	
○ SBA properly accounts for loan asset sales in accordance with all Federal accounting and budget regulations	3
○ SBA investigates and corrects all known errors made in the accounting and budget records from previous loan sales	3
○ SBA performs the necessary analysis to assess the	3

effects of loan sales on the subsidy re-estimates to determine whether cash flow assumptions in SBA's subsidy rate model predict future loan performance	
○ SBA's performs the necessary analysis to determine and correct any unexplained decline in the subsidy allowance account.	3
○ SBA considers loan asset sales in its cash flow models at the outset of each cohort	3
○ SBA utilizes a well-documented and tested automated methodology for accumulating cash flows necessary for subsidy calculations	2
○ SBA fully implements quality assurance procedures over the subsidy re-estimation process	3

Legend:

1- Green-Implemented

2- Yellow-Progress being made

3- Red-Not implemented/no substantial progress

Background

Various laws and regulations have been enacted to improve Federal agencies' accountability to the President, Congress and taxpayers, including the Government Management and Reform Act of 1994 (GMRA), the Chief Financial Officers Act of 1990 (CFO Act), OMB Bulletin 97-01, *Form and Content of Agency Financial Statements*, as amended, Federal Accounting Standards Advisory Board (FASAB) Statements on Federal Financial Accounting Standards, the Federal Managers' Financial Integrity Act of 1982 (FMFIA), and the Federal Financial Management Improvement Act of 1996 (FFMIA). These requirements place significant responsibilities upon Federal financial managers to assess whether they are effectively and efficiently managing public resources. During FY 2002, OIG, GAO and SBA's external auditor all noted an increased number of significant issues in the area of financial management and reporting.

Weaknesses in the financial reporting process

The OIG hired an independent external auditor to perform annual audits of SBA's financial statements as required by the CFO Act. In FY 2000, SBA's financial reporting process was deemed to be a reportable condition with respect to the audit of SBA's financial statements. More specifically, the external auditor found that SBA's financial reporting processes and procedures were not adequately documented and a fully effective quality assurance process was not in place. As a result, errors occurred in SBA's financial statements. For FY 2001 SBA's auditor noted a *material* weakness over SBA's financial reporting process in its report on internal control. The report noted that although SBA made certain improvements since FY 2000, the overall financial reporting process worsened in FY 2001. Specifically, the external auditor noted that SBA did not deliver its financial statements timely and the statements contained numerous errors and misclassifications. Some examples of the errors and adjustments identified were 1) nearly \$350 million in gross costs were reported in the wrong line item on the Statement of Net Cost and 2) \$1.1 billion of Offsetting Receipts were excluded from the Statement of

Financing. Further, the auditor noted that SBA's automated financial reporting tool utilized a mapping process that did not have a clear and precise audit trail to support the process' results.

The external auditor also noted in its report on compliance with laws and regulations two instances in FY 2001 in which SBA did not substantially comply with Federal financial management system requirements and Federal accounting standards as required under FFMIA. SBA's core financial system was not able to provide complete, reliable, timely and consistent financial management information on operations and the significant errors and misstatements in its initial financial statements indicated that SBA was not in substantial compliance with Federal accounting standards.

Reporting of the Master Reserve Fund

The Master Reserve Fund (MRF) was created to facilitate operation of SBA's Section 7(a) secondary market program where SBA lenders can sell the SBA guaranteed portion of loans to investors. The MRF is maintained by SBA's fiscal transfer agent (FTA). The MRF includes both the principal paid from borrowers and due to investors, as well as accumulated interest earnings. The accumulated earnings are intended to ensure timely payments to investors if there is shortfall in monthly loan collections of borrower payments. As of September 30, 2002, the MRF totaled approximately \$1.2 billion which included the initial principal payments to secondary market investors of approximately \$665 million and \$535 million in accumulated interest earnings. The accumulated interest earnings have been determined to be Federal funds and these earnings are designated to cover obligations of the MRF.

OIG and SBA's external auditors have noted significant weaknesses related to SBA's financial reporting and management of the MRF. In FY 2001, SBA estimated the accumulated excess of earnings in the MRF available to meet timely payments to investors to be \$68 million. Although the external auditors noted they did not believe that this amount was materially misstated, they noted in the FY 2001 report on internal control that they believed the estimation process required improvement to ensure accurate, complete, and timely data for financial statements. In addition, the auditors noted in their FY 2001 Management Letter that additional improvements should be made to how the MRF is reported in SBA's financial statements, specifically, that SBA should determine whether the MRF should be accounted for in a manner similar to a trust fund under Statement of Federal Financial Accounting Standards (SFFAS) No. 7.

OIG issued a draft report on November 19, 2002, regarding SBA's oversight of the MRF and communicated several findings related to SBA's financial management of the MRF. The audit determined:

- The MRF was not properly accounted for in accordance with Federal accounting regulations.
- SBA neither knew the fiscal health of the MRF nor timely reported this information to Congress and Agency decision-makers.
- SBA neither had financial reporting procedures which would identify the results of loan pooling operations (surpluses and shortfalls) within the MRF, nor analyzed the MRF for future potential revenues and projected shortfalls from loan pooling operations.

- The MRF was not registered with symbols and titles by the Department of Treasury (Treasury) in consultation with the OMB.

Accounting and Budgeting for Loan Asset Sales

In FY 1999, SBA began selling portions of its loan portfolio at the direction of OMB. SBA's loan sale program is part of a Government-wide effort to consider loan asset sales as a tool for improving the management of Federal loan programs. GAO performed a review of the loan asset sale program at SBA. GAO found that SBA's accounting for loan sales and the remaining portfolio was flawed and could significantly affect previously reported and future results in the budget and financial statements. Specifically, GAO noted that SBA:

- Incorrectly calculated loan sale losses reported in the footnotes to its financial statements,
- Did not appropriately consider the effect of loan sales on its estimates of the cost of the remaining portfolio (subsidy estimates), which could significantly impact its budget and financial statement reporting, and
- Had significant unexplained declines in its subsidy allowance for the disaster loan program.

GAO was unable to determine the effect of the errors identified through information requested from SBA and the financial statement auditors. As a result, GAO expressed concern that the problems they noted related to accounting and budgeting for loan sales may have materially misstated SBA's financial statements for FY 2000 and 2001 and that the result of these issues might be the underestimation of the cost of SBA's credit programs.

In addition to subsidy estimate error related to loan asset sales noted by GAO, SBA's external auditor noted weaknesses related to SBA's subsidy re-estimate process in both FY 2000 and FY 2001. In FY 2000, the external auditor reported that SBA's quality control process over cash flow models used for budget estimates and financial statement re-estimates was not completely effective. In FY 2001, auditors found similar errors, including data input and cell reference mistakes which resulted in significant inaccuracies in the cash flow estimates and necessitated corrections to the Disaster, Section 7(a), and Small Business Investment Companies subsidy re-estimates.

As a result of these findings, the Chief Financial Officer (CFO) notified users to no longer rely on the Financial Statements nor the external auditor's reports for FY 2000 and 2001.

Significant Open Recommendations

Management has agreed with their external auditor's recommendations and made some progress in their implementation, however there has not yet been additional assessments of their effectiveness. Management has taken OIG and GAO recommendations under advisement and is in the process of determining what actions are necessary.

Reports

GAO, Accounting Anomalies and Limited Operational Data Make Results of Loan Sales Uncertain, GAO-03-87, January 2003

SBA OIG, Audit of SBA's Oversight of the Fiscal Transfer Agent for the Section 7(a) Loan Program, (Issued in Draft – October 2002)

SBA OIG, Audit of SBA's FY 2001 Financial Statements Management Letter, Audit Report #2-17, April 12, 2002

SBA OIG, Audit of SBA's FY 2001 Financial Statements, Audit Report #2-04, February 27, 2002.

SBA OIG, Audit of SBA's FY 2000 Financial Statements, Audit Report #1-08, February 28, 2001

SBA OIG, Audit of SBA's FY 2000 Financial Statements Management Letter, Audit Report #1-15, August 15, 2001

Challenge 3. Information systems security needs improvement.

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

Actions Needed	Progress
<i>SBA needs to fully implement and maintain an ongoing information security program aimed at understanding and reducing its information security risks. This program should include assessing risks, implementing appropriate policies and controls, promoting awareness, standardizing security procedures, and monitoring and evaluating policy and control effectiveness.</i>	
○ The Chief Information Officer (CIO), in conjunction with appropriate program offices, develops and implements procedures for monitoring, assessing, and measuring security program effectiveness.	1(2)
○ The CIO develops procedures to require review and approval of all proposed changes to server configurations.	2
○ The CIO, in conjunction with appropriate program offices, identifies and eliminates incompatible duties, responsibilities, and functions.	2
○ The CIO, in conjunction with appropriate program offices, develops a viable and complete disaster recovery and contingency test plan for all computing platforms. Additionally, establish a temporary dedicated line to the "hot-site" from the mainframe provider and test the disaster recovery plan on an annual basis.	2
○ The CIO develops an agency-wide information security plan which incorporates full integration of the security approach, coordination among program offices and methods to monitor the effectiveness of the IT security assigned to each part of the program office.	2
○ The CIO and Assistant Administrator for Human Resources: (1) develop personnel policies and procedures in support of defined "rules of behavior" for general support systems and major applications, and (2) develop both a non-disclosure statement and security awareness agreement that all employees and contractors will be required to sign.	2
○ The Chief Operating Officer provides adequate funding and resources to develop and implement technical training for security staff and network and application security administrators.	2

○ The CIO develops and implements standard operating procedures for network system administrators and security administrators for maintaining the computerized network.	2
○ The Assistant Administrator for Human Resources and the Assistant Administrator for Administration provide timely separation reports to OCIO to ensure the removal of computer access accounts for former employees and contractors.	2
○ The CIO modifies the Loan Accounting System (LAS) to prevent security administrators from viewing user passwords in plain text. Additionally, the CIO, creates LAS security administrator and user training courses.	2
○ The CIO enhances system development procedures to ensure that security personnel actively participate in all phases of development projects for new and existing systems. Participation by security personnel should be documented at the end of each phase of development.	3
○ The CIO institutes policies and procedures to ensure that network personnel apply system patches in a timely manner.	2
○ The CIO enhances procedures for monitoring the network and internet traffic for suspicious activity.	2
○ The CIO continues to pursue a requirement with GSA for the mainframe to be audited on an annual basis and make the results available to SBA.	3
<i>SBA needs to complete planning and assessment activities to protect its critical infrastructure as required by Presidential Decision Directive (PDD) 63.</i>	
○ The Deputy Chief Information Assurance Officer coordinates physical infrastructure protection efforts with the General Services Administration.	3(2)*
<i>SBA needs to comply with the Government Information Security Reform Act (GISRA).</i>	
○ The CIO completes risk assessments and security plans for SBA's high-priority and cyber-based systems. Once the vulnerabilities are identified in the risk assessments, the system owner should accept, correct, or mitigate the risk to SBA systems.	2
○ The CIO completes a formalized management control process to formally act on risks identified from risk assessments. The management control process includes a schedule to correct identified deficiencies, dates for completion, and funding requirements.	2(3)
○ The CIO develops a program to perform Security Test & Evaluation (ST&E) reviews on all of SBA's high-priority computer systems.	3
○ The CIO identifies Agency personnel who should be required to undertake security training as end-users, Designated Security Officers (DSO), Information Resource Managers (IRM), and back-up personnel; and requires those individuals to take the course on DSO/IRM security training.	2

<ul style="list-style-type: none"> ○ The CIO reports system security incidents to FedCIRC and other law enforcement entities in a timely manner. 	2
<p><i>SBA's UNIX computer servers need to be more secure and meet Federal and Agency security standards.</i></p>	
<ul style="list-style-type: none"> ○ SBA remedies a number of security vulnerabilities identified in the audit of SBA's UNIX servers. These include password vulnerabilities, non-review of system audit logs and configuration files, and a lack of adequate system patching. 	1(2)

Legend:

1-Green-Implemented

2-Yellow-Progress being made

3-Red-Not implemented/no substantial progress

Scores in parentheses indicate the January 2002 score in those cases where the score has been changed.

An asterisk indicates that the score was lowered.

Background

SBA's programs and activities depend heavily on computerized systems. The Agency is engaged in several initiatives, such as paperless loan applications, use of digital signatures, expanded internet access, and electronic data interchange, that will increase its reliance on such systems. While information technology can result in a number of benefits, such as information being processed quickly and communicated almost instantaneously, it also increases the risk of fraud, inappropriate disclosure of sensitive data, and disruption of critical operations and services.

In 1997, the General Accounting Office (GAO) designated information security as a Government-wide high risk area because of growing evidence indicating that controls over computerized operations were not effective and risks were increasing. The FY 2000 and FY 2001 audits of SBA's financial statements and the FY 2001 audit of SBA's implementation of PDD 63 disclosed that significant progress had been made in SBA's computer security program. Additionally, the FY 2001 audit of SBA's Computer Security Program for GISRA found that SBA generally maintained an adequate information security program for its high priority financial management and general support systems. However, improvements are still needed in many areas of entity-wide security program planning, segregation of duties, computer security testing, computer access controls, and disaster recovery and contingency planning. Also, improvements in physical security (such as better coordination with the General Services Administration) are needed to ensure the protection of SBA's physical infrastructure.

Significant Open Recommendations

The audit reports listed above include a number of specific recommendations aimed at implementing an agency-wide information systems security program. The Agency has taken a number of steps to improve its information systems security program. Because of the long-term nature of implementing a security program, completion of final action on some of the recommendations is not scheduled until the FY 2002 to FY 2004 time frame or beyond. The

OIG will be performing further audit work to evaluate the Agency's ongoing efforts at establishing an information security program.

Current Agency Status:

Action: *SBA needs to fully implement and maintain an ongoing information security program aimed at understanding and reducing its information security risks. This program should include assessing risks, implementing appropriate policies and controls, promoting awareness, and monitoring and evaluating policy and control effectiveness.*

OCIO continues to improve the security program. OCIO is developing an enhanced intrusion detection system for the Agency which will give us the ability to monitor and control access to Agency resources in real time. OCIO is moving the Agency's INTERNET service to a managed communications facility to provide additional security and redundancy. OCIO continues to perform system certification and accreditation reviews and are completing plans for disaster recovery testing. The Agency PC operating system upgrade is proceeding according to plan. The users are already realizing the benefits of the new system. The real-time data backup system is online and functioning.

Action: *SBA needs to complete planning and assessment activities to protect its critical infrastructure as required by Presidential Decision Directive (PDD) 63.*

OCIO is continuing to complete the Agency infrastructure protection plan in accordance with the project plan/timeline.

Action: *SBA needs to comply with the Government Information Security Reform Act (GISRA).*

SBA is complying with GISRA. OCIO delivered the quarterly Plan of Actions and Milestones (POA&M) in July 2002. OCIO successfully submitted its FY 2002 Executive Summary to OMB in September 2002.

OIG Assessment

SBA has made significant progress in improving the security of its information management systems. Further improvements are planned to be completed in FY 2003.

SBA has improved its Intrusion Detection System from the internet. SBA has continued to improve its certification and accreditation program by performing more risk assessments and security testing of systems. However, SBA has not developed a strategic security plan covering all SBA systems.

While SBA continued efforts on its critical infrastructure protection plan by naming a Deputy Chief Information Assurance Officer (CIAO) for physical security in the Office of Administration, the revised Critical Infrastructure Protection Plan lacks milestones and responsibilities for identification of physical mission essential infrastructure. It does not provide for: (i) Performance of vulnerability assessments, (ii) development of remedial plans,

(iii) determination of resource requirements, and (iv) updating of policies and procedures as necessary to protect SBA's physical plant, equipment and personnel. Because no actions were undertaken this year to correct this deficiency, the score for this area has regressed.

Reports

SBA OIG, *SBA's Information Security Program*, Memorandum Report #2-28, September 12, 2002.

SBA OIG, *Audit of SBA's Information System Controls*, Audit Report #2-18, May 6, 2002.

SBA OIG, *Audit of SBA's UNIX Operating Systems*, Audit Report #1-21, September 28, 2001.

SBA OIG, *Audit of SBA's Computer Security Program*, Advisory Memorandum Report #A1-06, September 28, 2001.

SBA OIG, *Audit of SBA's FY 2000 Information Systems Controls*, Audit Report #1-12, March 27, 2001.

SBA OIG, *Audit of SBA's Planning and Assessment for Implementing Presidential Decision Directive 63, Phase III*, Audit Report #1-09, March 26, 2001.

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

Summary - The nature and scope of SBA's work has changed significantly, requiring a different set of skills in the Agency's workforce. SBA has begun to take the steps necessary to better manage its human capital activities, but needs to do more. The Agency has drafted a Workforce Restructuring Plan to guide organizational changes. The Office of Human Resources, in partnership with the program and district offices, is developing and must implement a comprehensive human capital strategy that will identify SBA's current and future human capital needs, including the size of the workforce and skill gaps; its deployment across the organization; the knowledge, skills, and abilities needed for the Agency to pursue its missions; and an effective succession planning process.

Actions Needed	Progress				
	CA	ED	GC	MA	DA
<i>Develop and implement a comprehensive human capital strategy that encompasses human capital policies, programs, and practices to guide the Agency and that:</i>	3				
<i>is linked to SBA's strategic goals,</i>	3				
<i>includes major human capital objectives,</i>	3				
<i>identifies the milestones and resources needed to implement the strategy, and</i>	3	3	3	3	3
<i>establishes results-oriented performance measures for human capital objectives.</i>	3				
The human capital strategy should include the following:					
○ Identification of the knowledge, skills, abilities, and other characteristics SBA employees will need to perform successfully in the new business environment.	3				
-- Management has analyzed the tasks that need to be performed by SBA today.	2	2	2	2	2
-- Management has analyzed the tasks that need to be performed for SBA's core competencies in the new business environment, completed a gap analysis, and linked the needed tasks to SBA's strategic plan.	3	3	3	3	3
-- Competency models or other means of identifying and defining specific tasks required for job positions have been established and implemented.	2	2	2	3	2
-- An evaluation process for regular assessments of Agency skills has been developed and implemented.	3				
○ An estimate of the number of employees with the identified skills who will be needed in the new business environment.	3	3	3	3	^
○ Adequate training for all employees to perform their jobs well	2				

-- There are appropriate orientation and training programs to meet the needs, and minimize skills gaps/imbbalances, of all employees--especially those in the core competencies.	2	2	3	3	2
-- An evaluation/control mechanism is established and implemented to ensure that all employees have received appropriate training and have the necessary skills.	3				
o A comprehensive succession planning process for the Agency, including forecasting SBA's future executive resource needs at both headquarters and in the field.	2				
-- The human capital plan includes an analysis of attrition rates, retirement eligibility, and retirement rates for senior managers.	2				
-- The Agency has defined the types of leaders it wants through written descriptions of roles, responsibilities, attributes, and leadership competencies, has established broad performance expectations for them, and has implemented them.	2				
-- The District Director development program is reestablished and continued with periodic evaluations of its impact and effectiveness.	2				
-- The Senior Executive Service Candidate Development Program is reinstated and periodic evaluations of its impact and effectiveness conducted.	2(3)				
-- A recruitment, retention, and development plan for lower and middle levels which has explicit links to skill needs the Agency has identified is developed and implemented.	3				

Legend:

(An arrow is used to indicate SBA wide responsibility)

1-Green-Implemented

2-Yellow-Progress being made

3-Red-Not implemented/no substantial progress

CA-Capital Access

ED-Entrepreneurial Development

GC-Government Contracting/8(a) Business Development

MA-Management & Administration

DA-Disaster Assistance

^ Because each disaster is unique, it is not possible to estimate the number of employees needed until the disaster occurs.

Scores in parentheses indicate the January 2002 score in those cases where the score has been changed.

Background

Managing and investing in human capital has emerged as a critical issue throughout the Federal Government. Human capital management is especially important for SBA. Over the last

decade, small business practices, products, and needs have been transformed and SBA has made major changes in its delivery of goods and services. SBA has moved from a "direct sales" model to a partnership business model. The Agency now uses public-private partnerships to perform the loan origination, servicing, and liquidation functions that SBA personnel formerly handled. At the same time, SBA has decreased its workforce by more than 20 percent and increased the number of Section 7(a) and Section 504 loan approvals from 20,609 in FY 1991 to 57,146 in FY 2002. Organizational changes are needed to adjust to these new circumstances.

SBA's human capital strategy should be closely linked to the goals and objectives of the Agency's new Strategic Plan which is currently in draft. Under SBA's former FY 2001-2006 Strategic Plan goal of "Modernizing the SBA," a series of strategies supported the key objective of "investing in our personnel to create a motivated, creative, competent and productive workforce."

In FY 2002, OIG issued an Inspection report on modernizing human capital management. It supported the need for SBA to modernize SBA's Office of Human Resources (OHR) in order to manage human capital effectively and efficiently in the changing environment and take a leading role in workforce restructuring.

Significant Open Recommendations

No OIG formal audit or inspection recommendations have been made on the specific elements of this challenge. However, made recommendations on modernizing human capital management that are critical to the overall success of SBA's human capital strategy. The four recommendations focus on Government-wide initiatives, cross-agency servicing alternatives, and integrating human resource elements into agency budget and performance management.

Current Agency Status

SBA reports that its Transformation and Human Capital Plans address all six Standards for Success in the Human Capital Framework jointly published by GAO, OMB and OPM. The Agency's human capital strategy is aligned with its mission and is integrated into strategic plans, performances plans, and budgets. SBA's workforce planning strategy is to finish identifying future human capital needs, including the size, deployment and competencies needed to serve our citizen customers and ensure mission accomplishment. To prepare SBA for filling mission-critical skills, SBA will implement a knowledge management and continuous learning system. SBA implemented a new performance management system for managers that will hold them accountable for implementing the President's Agenda Management in their areas of responsibility, and is negotiating similar changes for bargaining unit employees.

The Office of Human Resources (OHR) has contracted with the OPM's San Francisco Service Center to conduct an agency-wide workforce/gap analysis. Many of the specific actions needed to develop and/or implement the necessary elements of a comprehensive human capital strategy are dependent on the completion of this workforce/gap analysis that was fully funded in FY 2002. The analysis will assist the Agency in (1) identifying the knowledge, skills, abilities, and other characteristics SBA employees will need to perform successfully in the new business

environment; (2) estimating the number of employees with the identified skills who will be needed in the new business environment; and (3) providing adequate training for all employees to perform their jobs well. The estimated date for the completion of Phase 1 of the workforce/gap analysis is January 2003 and for Phase 2, September 2003.

With regard to one of the key actions in the fourth human capital challenge area of developing and implementing a comprehensive succession planning process for the Agency, the Senior Executive Service Candidate Development Program was reinstated in FY 2002. Estimated completion dates for all of the various actions SBA intends to take to fully develop and implement its human capital management strategies range from January 2003 through September 2003.

OIG Assessment of Status

SBA has drafted a five-year workforce transformation/restructuring plan and a human capital plan. These have identified steps to better manage human capital activities and foster a performance culture. With these "works in progress," the Agency has made considerable progress in establishing the process and milestones needed to fully develop and implement its human capital strategy. Actual implementation of the process is only just beginning, however. Key to the successful completion of the process will be (1) ensuring that the human capital strategy is coordinated with, and specifically linked to, clearly defined and final strategic and workforce restructuring plans; and (2) finishing a high quality workforce/gap analysis; (3) maintaining the implementation schedule set; (3) regularly evaluating progress and results; and (4) making the necessary changes or adjustments at appropriate intervals.

Reports/Testimony

GAO, *Small Business Administration: Workforce Transformation Plan is Evolving*, GAO-02-931T, July 16, 2002.

SBA OIG, *Modernizing Human Capital Management*, Inspection Report #2-20, May 31, 2002.
GAO, *Small Business Administration: Current Structure Presents Challenges for Service Delivery*, GAO-02-17, October 2001.

U.S. Senate, Committee on Governmental Affairs, *Government at the Brink*, Volumes I and II, June 2001.

GAO, *Small Business Administration: Status of Achieving Key Outcomes and Addressing Major Management Challenges*, GAO-01-792, June 2001.

GAO, *Major Management Challenges and Program Risks: Small Business Administration*, GAO-01-260, January 2001.

GAO, *Small Business Administration: Steps Taken to Better Manage its Human Capital, but More Needs to be Done*, GAO/T-GGD/AIMD-00-256, July 20, 2000.

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

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

Actions Needed	Progress
<i>Top management provides a positive and supportive attitude toward the guarantee purchase process.</i>	
○ Management establishes an organizational culture where deny and repair actions are used when appropriate.	2
○ Adequate training is provided.	2(3)
<i>SBA analyzes risks associated with loan guarantee purchases.</i>	
○ SBA periodically determines actual or potential risks of erroneous payments.	2
○ SBA determines level of erroneous payments for the entire loan portfolio.	2(3)
<i>Policies and procedures provide guidance to ensure consistency and accuracy in the purchase process.</i>	
○ SBA has clear guaranty purchase procedures, which provide for consistent interpretation.	2
○ Current guidance describes adequate documentation needed to make purchase decisions.	2(3)
○ Lenders are informed of required documentation to submit with the guaranty purchase request.	2
○ Goals are established for reducing erroneous payments.	2(3)
<i>Information is recorded and communicated to those who need it to ensure proper guarantee purchase decisions.</i>	
○ SBA has a system for sharing information among field offices regarding the basis and justification for repairs, denials, and withdrawals of loan guarantees.	1(3)
○ Field offices track the number of guaranty repairs/denials/withdrawals and the information is readily available centrally.	1
○ Information is captured on erroneous payments and is accurate.	2

<i>The guaranty purchase process is properly monitored.</i>	
○ A quality assurance system provides appropriate feedback to improve the purchase process.	2
○ Progress in achieving established goals for reducing erroneous payments is monitored.	2(3)
○ Results of the GPRs, audits, and other reviews are provided to field offices timely and accurately.	1(2)
○ Problems identified by the audits and reviews are resolved timely.	2
○ Information on all loans with identified guaranty purchase issues are flagged in the Delinquent Loan Collection System (DLCS).	2

Legend:

1-Green-Implemented

2-Yellow-Progress being made

3-Red-Not implemented/no substantial progress

Scores in parentheses indicate the January 2002 score in those cases where the score has been changed.

Background

A 1997 audit and a current audit of business loan guaranty purchases found that SBA did not consistently apply its procedures when purchasing guarantees. Inappropriate purchase activities may result from unclear guidelines or inconsistent application of these guidelines. In addition, OIG believes that inappropriate purchases may occur because of a possible conflict between the competing goals of maintaining good relationships with lenders to increase loan volume, and fully or partially denying a guaranty when the lender has not complied with SBA requirements. The 1997 audit found 17 of 58 (29 percent) of the decisions either were not supported by sufficient documentation to make an informed decision or resulted in paid guaranties when information in the file suggested that the guaranty should have been partially or fully denied. A statistical projection of the audit results indicated that an estimated \$102.9 million in purchases were not supported by sufficient documentation at the time the decision was made, and guaranties totaling up to \$16.2 million should not have been honored. The current guaranty purchase audit showed that of 153 loan guaranties purchased, 30 loans with a purchase amount of \$26.6 million should have been denied in full or part by SBA.

Several audits of early defaulted loans have also shown that the lenders did not originate loans in accordance with material SBA requirements or prudent lending practices. The most prevalent lender errors involved repayment ability, equity injection, use of proceeds, and collateral (insufficient or missing).

The GPR was instituted in FY 2000 as a means to improve the guaranty purchase process. In FYs 2000, 2001, and 2002, GPR teams reviewed 603 guaranty loan purchase decisions. Of the 603 loans reviewed, 102 purchase decisions were questioned and forwarded to OFA for final determination on whether the purchase decisions were correct. As of December 2002, OFA had concurred with the GPR teams questioning of the purchase decision for 25 loans and had recovered \$291,527. OFA's review of some of the FY 2002 loans is still in progress. While the

GPR efforts should help improve the guaranty purchase process, the recently completed OIG review of the guaranty purchase process has identified several potential weaknesses.

- *Training for Individuals Reviewing Guaranty Purchases.* Training for individuals reviewing guaranty purchase requests consists of personal experience and on-the-job training by individuals already reviewing purchase requests. The Agency had not developed a training course for individuals responsible for reviewing and recommending actions on guarantee purchase requests. According to the results of a survey conducted during the Guaranteed Purchase audit, 81 percent of the individuals that review purchase requests or are responsible for approving purchase recommendations did not have any formal training. Many respondents indicated that formal training would assist in the purchase review process. A training module is under development and scheduled for completion until March 31, 2003.
- *Sample Selection.* The GPR program was designed to review a random sample of 10 percent of all guaranty loan purchases (up to 300 per year) processed by field offices, including potentially problematic loans identified by OIG. The selection method used for each GPR is to select one loan from each field office. This method is not statistically valid because the samples do not comprise a valid representation of the population of purchased loans. The loan selection method also excludes certain types of purchased loans. Originally, the sample selections were restricted to loans purchased and charged off within the same 6-month period. In FY 2002, the criterion was changed to loans purchased and charged off within the same 12-month period. Past audits have shown that loans are often charged off well beyond the 12-month period and may take several years before charge off occurs, due to such factors as the amount of collateral attached to the loan and the time it takes to liquidate the collateral. Using the 12-month criterion, a total of 3,899 loans with a purchase amount of \$674 million would be excluded from potential selection for review by a GPR team as of September 2002. Finally, because the GPR loan selection method is not statistically sound, the results can not be used to accurately monitor and report on progress in reducing the level of erroneous payments within the Section 7(a) loan program as required by OMB.
- *Loans Identified with Potential Purchase Problems.* Loans identified with a guaranty purchase issue are required to be flagged in the Guaranty Repair Tracking System (GRTS). While not all potentially problematic loans have been entered into the system, SBA has taken action to ensure all loans are entered into the GRTS.
- *Review Limitations.* The GPR team limits its review to the loan files assembled during the purchase review performed by the field offices and uses the existing purchase procedures to conduct its reviews. The Policy Notice (5000-831) issued in October 2002 requires field offices to obtain a copy of the credit memorandum with all supporting documentation, and a complete copy of the borrower's application for the loan, along with SBA Form 912 (Statement of Personal History) for each principal for all Preferred Lender Program (PLP) loans that defaulted early or experienced early loan problems. The policy notice does not require field offices to request the lender's loan file. Past audits have found information in lender files, such as internal correspondence, that indicated lenders did not comply with origination, servicing, and/or liquidation policies and procedures.

- *Delinquent Loan Collection System (DLCS)*. This system was modified to flag problem loans identified by OIG audits and other oversight reviews such as the PLP and Small Business Lending Companies (SBLC) safety and soundness examinations. All loans identified with potential purchase issues either have been flagged or are in the process of being flagged.
- *Guaranty Repair Tracking System*. This automated system was implemented in December 2000 with coding enhancements implemented in August 2001. The GRTS was developed to permit Agency wide tracking of lender performance relating to guaranty purchases. Electronic reports are available to field offices to assist them in making guaranty purchase decisions.
- *Standard Operating Procedures*. SBA has issued several notices on the GPR and the guaranty repair tracking system. The notices were provided to advise SBA personnel of the GPR and provide instructions on the use of GRTS. The guaranty purchases procedures in Standard Operating Procedure (SOP) 50 50, "Loan Servicing." In October 2002, SBA issued a Policy Notice on guaranty purchases which strengthened many of the areas in the purchase process that allowed material lender errors to go undetected. One of the improvements is requiring lenders to provide the credit memorandum with all supporting documentation, and a complete copy of the borrower's loan application for purchase requests on early defaulted PLP loans. Additional controls are needed, however, to ensure that all material lender errors are identified during the purchase review. For example, the new policy for verifying cash equity injection, the lender is required to obtain copies of the check and the borrower's bank statement to evidence the source and destination of the funds. These documents alone are not sufficient to determine if the cash came from borrower equity or a loan, which would require a stand-by agreement to qualify as equity. Lender files should be obtained to determine if it contains any information indicating that the lender did not comply with SBA policies.
- *Tracking GPR Results*. OFO established a tracking system to follow up on purchases when the review teams disagreed with the actions of the field offices. The system was developed to enable the Agency to track the actions and provide trend data for policy changes and staff training. The tracking system was used in revision of the guaranty purchase policy published in Policy Notice 5000-831.

Significant Open Recommendations

Management has agreed to take action on all but one OIG audit recommendations.

Current Agency Status and OIG Assessment

Action: *Top management provides a positive and supportive attitude toward the guaranty purchase process.*

Status: The OFO strategic plan for field office performance in FY 2002 emphasizes prompt and accurate guaranty purchase completions. SBA issued Policy Notice 5000-831, "Section 7(a) Loan Guaranty Purchase Policy" on October 2, 2002, that established an organizational

culture ensuring denial and repair action are used, when appropriate. Currently OFO staff is assisting field offices with purchase backlogs. SBA is also conducting a pilot to evaluate centralizing the loan purchase process that is scheduled for completion in September 2003. Finally, a training module on guaranty purchase processing is being developed with completion expected by March 2003. All field counsel received training on the new purchase policy notice in the first quarter of FY 2003.

Assessment: The agency's response shows that top management has taken actions to improve the guarantee purchase process. The issuance of Policy Notice 5000-831 strengthens many of the areas in the purchase process that allowed material lender errors to go unchecked in the past. The establishment of a pilot project to determine the appropriateness of centralizing the purchase process should further improve the process. However, additional time is needed to determine if the revised policy impacts the culture and results in fewer purchases of guaranties where lenders did not comply with SBA policy and requirements.

Training for individuals reviewing guaranty purchase requests consists of personal experience and on-the-job training by individuals already reviewing purchase requests. The Agency is in the process of developing a training module for all field personnel conducting purchase reviews, which is scheduled for completion in March 2003.

Action: *SBA analyzes risks associated with loan guaranty purchases.*

Status: The ongoing GPR periodically examines field office purchase decisions. The level of erroneous payments will be determined based on the sample of purchased loans reviewed by the GPR teams.

Assessment: The agency has made improvements in identifying risks associated with erroneous guaranty purchase payments. A recently completed OIG audit of the guaranty purchase process, however, showed that the GPR teams do not use valid statistical techniques to select loans for review. Before each GPR, a purchase loan is selected from each field office and reviewed. Consequently, because this method does not result a statistical representation of the purchased loan population, the results of the GPR are invalid for extrapolating the level of erroneous payments.

The selection methodology also restricts certain loans from review. The selection criteria included loans that were (i) purchased in the prior calendar, (ii) charged-off in the prior calendar year, and (iii) the time from purchase to charge-off was 12 months or less. As a result, loans that are charged off more than 12 months after the purchase date are excluded from the GPR process. As of September 30, 2002, there were 3,899 loans with a total purchase amount of \$674 million that were not purchased and charged off within 12 months.

Action: *Policies and procedures provide guidance to ensure consistency and accuracy in the purchase process.*

Status: Policy Notice 5000-831, issued on October 2, 2002, provides extensive guidance on purchase policy and procedures. The Notice provides guidance on documentation needed to

make accurate purchase decisions. A new guaranty purchase document checklist accompanies the Notice setting forth required documentation. Goals for reducing improper guaranty purchases have been developed and included in the OMB erroneous payment submission.

Assessment: Policy Notice 5000-831 is a significant improvement over prior procedures. The Policy Notice has incorporated the issues identified during the GPR as well as issues identified by the OIG. The procedures in the Policy Notice should help ensure consistency and accuracy of the purchase process; however, training of purchase reviewers is a critical component to ensuring consistency and accuracy of purchase decisions.

While the new Policy Notice provides guidance on documentation needed to make purchase decisions, the OIG audit showed that the purchase process could be strengthened by requiring lenders to submit all documentation associated with the loan to verify total compliance with SBA loan guidance. This could be accomplished by establishing risk based criteria for obtaining the entire lender loan file, e.g., for all early default loans.

Action: *Information is recorded and communicated to those who need it to ensure proper purchase decisions.*

Status: The GRTS is now in place with reports available online to field offices showing repairs, denials, and lender withdrawals of guarantees.

Information on erroneous payments will be determined by September 2003 using the results of the GPR process.

Assessment: SBA has made improvements in recording and communicating information regarding purchase decisions to individuals who need to know. The GRTS permits Agency-wide tracking of lender performance relating to guaranty purchases. The system provides information on loans identified with guaranty issues, and information on repairs, denials, and withdrawals. This has resulted in better sharing of information; therefore, the score for this element has been increased from "2" to "1".

SBA's plan to extrapolate the GPR examined purchase decisions to determine erroneous payments would be appropriate only if statistically valid sampling techniques were used.

Action: *The guaranty purchase process is properly monitored.*

Status: By September 30, 2003, the OFA and OFO will complete their ongoing monitoring assessment of erroneous payments through the guaranty purchase review project. Feedback will then be provided to field offices on their purchase decisions.

Policy Notice 5000-831 advises field offices on new policy and procedures developed as a result of the GPR process.

By September 2003, the OFA and OFO will contact field offices on individual purchase decisions examined in guaranty purchase reviews.

The guaranty repair tracking system is in place and indicates problem loans and the nature of the problems.

Assessment: SBA improved guaranteed purchase monitoring by implementing the GPR process and developing reports to track purchase information. The results of the GPR process are provided to the field offices and used to determine the amount of erroneous payments. Also, the filed offices strategic plans are monitored by OFO to determine if they meet their goal to reduce erroneous payments

A recent OIG audit found that while SBA made some improvements to the guaranty purchase process, the GPR process does not identify all inappropriate purchase decisions. This is because the GPR process is limited to assessing compliance with the existing purchase procedures and documentation assembled during the initial purchase review process. The audit showed that certain lender errors could not be found without reviewing the lenders' loan files, which is not required under the new purchase policy and procedures established in Policy Notice 500-831.

The audit also found that the GPR results were not reliable for projecting to the population of purchased loans or estimating the amount of erroneous payments because the loans reviewed were not chosen in a valid statistical basis. Consequently, the results of the GPR reviews apply only to the loans reviewed. The samples selected for review were also restricted. The selection criteria included loans that were (i) purchased in the prior calendar, (ii) charged-off in the prior calendar year, and (iii) the time from purchase to charge-off was 12 months or less. As of September 30, 2002, there were 3,899 loans with a total purchase amount of \$675 million that were not purchased and charged off within 12 months. These loans, therefore, would be excluded from selection for review by GPR teams because charge off is more than the 12 months from date of purchase.

The DLCS was modified to flag problem loans identified by OIG audits and other oversight reviews such as the PLP and SBLC safety and soundness examinations. SBA has taken steps to ensure all loans identified as having potential purchase issues are flagged in the DCLS. Until all loans have been flagged, loans may be inappropriately excluded from a GPR.

Reports

SBA OIG, *Audit of the Guaranty Purchase Process, (Issued in Draft – January, 2003)*

SBA OIG, *R.L.B. Vending, Inc., Audit Report #2-32, September 30, 2002*

SBA OIG, *Earth Treasures, Inc., Audit Report #2-30, September 24, 2002*

SBA OIG, *RSC Enterprises, Inc., Audit Report #2-23, August 7, 2002*

SBA OIG, *Colorado Taco Corporation, Audit Report #2-15, March 29, 2002*

SBA OIG, *CFM Bracket Company, Inc., Audit Report #2-12, March 21, 2002*

SBA OIG, *Darshan's Paradise Inn*, Audit Report #2-03, February 27, 2002

SBA OIG, *Danbart Corp.*, Audit Report #2-05, February 27, 2002

SBA OIG, *MVP Sports Cafe*, Audit Report #1-10, March 9, 2001.

GAO, *Major Management Challenges and Program Risks*, GAO-01-260, January 2001.

SBA OIG, *Roshni Foods*, Audit Report #0-10, April 23, 2000.

SBA OIG, *Vincent R. Forshan Medical Corporation*, Audit Report #0-12, March 28, 2000.

SBA OIG, *Dixieland Events/TA Mingo Farms*, Audit Report #0-05, February 14, 2000.

SBA OIG, *Business Loan Guarantee Purchases*, Audit Report #7-5-H-011-026, September 30, 1997.

Challenge 6. SBA needs to continue improving lender oversight.

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

Actions Needed	Progress		
	7(a)	SBIC	504
<i>Top management provides a positive and supportive attitude toward lender oversight.</i>			
○ The Agency establishes OLO to implement and manage the oversight of lending partners.	1	1	1
○ SBA has a plan for Lender Oversight.	1	2	2(3)
○ Training programs exist for implementing the participant oversight process.	2	3	2(3)
○ Senior management provides adequate resources for the lender oversight program.	2	2	3
<i>SBA analyzes risks associated with achieving objectives.</i>			
○ A systematic process exists to estimate the level of financial risk on a per loan/investment and participant basis.	2	2(1)*	2
○ A systematic process exists to estimate the level of compliance risk on a per loan/investment and participant basis.	1	2	2
○ Overall program risk is independently reassessed on a recurring basis.	3	3	3
<i>Policies and procedures provide guidance to ensure consistency among organizational components.</i>			
○ Policy and program guidance for lender reviews exists.	1	2	2
○ SBA provides guidance and training for new participants and those who demonstrate an unacceptable level of compliance.	2	2	2(3)
○ Uniform policies and procedures have been established for periodic evaluations of participant performance and retention.	2	2	2
<i>Information is recorded and communicated to management and others who need it to fulfill their oversight and stewardship.</i>			
○ SBA has an automated loan monitoring system to capture useful information and effectively monitor risk.	2	2	2
○ There is effective communication among SBA's internal units.	3	2(1)*	3

<i>Monitoring of performance occurs and findings of audits and other reviews are promptly resolved.</i>			
○ Standardized and periodic reviews of lending activities that address risk are performed.	1	1	2
○ Systems tracking review results and recommendations are implemented.	2	1	2(3)
○ The status of each lending partner is periodically reevaluated based on the results of the estimates of financial and compliance risk.	2	2	2

Legend:

1–Green–Implemented

2–Yellow–Progress being made

3–Red–Not implemented/no progress being made

Scores in parentheses indicate the January 2002 score which has been changed. An asterisk indicates that the score was lowered.

Background

SBA is the preeminent gap lender for entrepreneurs in the United States. As a gap lender, SBA necessarily takes more risk than the conventional lender. Since its inception in 1953, SBA has loaned or guaranteed billions of dollars in loans and investments to small business concerns. To control risk, SBA established a lender oversight function that encourages greater discipline in loan underwriting and servicing. OLO will, where a need is indicated, assist lenders in improving the discipline associated with lending to higher risk small business and optimize the relationship between taxpayer cost and mission-based risk through the use of portfolio management mechanisms. Also, OLO is responsible for coordinating all headquarters and field office lender reviews and non-depository lenders' and SBLCs' safety and soundness examinations; evaluating new programs and changes to existing programs to assess potential risk to SBA; and working with other financial regulatory bodies to leverage SBA resources. The Associate Administrator for Lender Oversight is a member of the Agency's Risk Management Committee, which is supposed to meet on a regular basis, and a key member of the working group responsible for the design and implementation of a loan monitoring system.

Current Agency Status and Agency Assessment

The following status report reflects on the CFO status report, additional information from Section 7(a) program officials, and recent audit work on the SBIC and Section 504 programs.

Actions: *Control Environment*

Status: The Agency established OLO and developed a strategic plan to address oversight of lending for each credit program. OLO implemented all elements of its strategic plan for the Section 7(a) program and continues its progress toward fully implementing all elements of the plan for the Small Business Investment Companies (SBIC) and Section 504 programs. OLO will coordinate with the Investment Division to set up policies and training for participants. Both the

implementation of the plan and the training are scheduled to be achieved by March 2003. The Agency has increased staffing for both the OLO and the Investment Division.

Assessment: The OLO appears to be fully addressing the elements of its strategic plan for the Section 7(a) program and has started to address elements of the plan for the SBIC and Section 504 programs. All aspects of this element are expected to be completed by March 2003.

Actions : *Risk Identification*

Status: Systematic processes exist for estimating financial risk by loan or investment and participant, and some improvements have been made since our last review. The Investment Division developed and implemented an SBIC Risk Assessment Profile (RAP) system to measure five categories of financial risk for each SBIC. Improvements in this area are expected to be completed by June 2003.

Systematic processes also exist for measuring the level of compliance risk. The OLO engaged a contractor to analyze the feasibility of redesigning the lender oversight process to ensure that all elements of the strategic plan are implemented and has received the lender's report. Improvements in this area are expected to be completed by September 2004.

Assessment: An ongoing audit of SBIC Oversight indicates that policies and procedures in the Investment Division do not limit financial risk. OIG has tentatively concluded that existing guidance was not adequate because it was outdated, did not require a potential for recovery analysis, did not address restrictive operations, did not require consistent use of forbearance, and did not provide a systematic approach for transferring capitally impaired SBICs with participating securities to liquidation status. The auditors found that the Division's ability to limit risk was restricted by the forbearance regulations.

The proposed plans for measuring financial and compliance risk for the Section 7(a) and s programs appear acceptable. However, no specific actions were stated by management for addressing the measurement of compliance risk for the SBIC program.

The estimated completion date of September 2004 for developing a system to measure overall program risk is almost 2 years away. An interim process needs to be developed until the desired system is finalized

Action: *Policies and Procedures*

Status: Standard Operating Procedures (SOP) for the redesigned oversight process for Section 7(a) loans were completed. Policies for the Section 504 program and the SBIC program are estimated to be in place by June 2003.

Assessment: The scheduled completion dates appear reasonable.

Actions : *Communications*

Status: Development of the Loan Monitoring System is in process and, as previously stated, should be completed by September 2004. The OLO has taken steps to improve the communication between the Office of Financial Assistance (OFA) and itself and will take steps to have better communication with the Investment Division. The expected date of completion for these actions is December 2002.

Assessment: A recent GAO report stated that "SBA's current structure does not adequately support lender oversight." In the report, GAO expressed concerns about the fact that the OLO shares oversight responsibility with the OFA and stated that the current organizational structure created a potential conflict of interest or the appearance of a conflict. The reports states that SBA is considering having the OLO report directly to SBA's chief operating officer. We agree with the GAO analysis and agree that the contemplated relocation of the OLO would better serve the lender oversight mission and remove the appearance of a conflict of interest.

Actions: *Monitoring*

Status: Action has been implemented for the Section 7(a) and SBIC programs, and is in progress for the Section 504 Program. The actions should be completed by June 2003.

Assessment: Our audit of SBIC Oversight showed that, while there is a periodic review of each lender that attempts to assess financial and compliance risk, the elements of the review are not sufficient to ascertain properly SBA's level of risk. The review does not specifically evaluate SBA's ability to recover outstanding leverage, nor have compliance standards been set to measure how much and SBIC is in or out of compliance.

Reports

GAO, *Continued Improvements Needed in Lender Oversight*, Report 03-90, December 2002

SBA OIG, *Impact of Loan Splitting on Borrowers and SBA*, Advisory Memorandum Report #2-31, September 30, 2002.

SBA OIG, *Improvements needed in SBLC Oversight*, Advisory Memorandum Report, #2-12, March 20, 2002

SBA OIG, *Preferred Lender Oversight Program*, Audit Report # 1-19, September 27, 2001.

SBA OIG, *SBA Follow-up on SBLC Examinations*, Audit Report # 1-16, August 17, 2001.

Challenge 7. The Section 8(a) Business Development program needs to be modified so that: (i) more participating companies receive access to business development, and (ii) standards for determining economic disadvantage are clear and objective, so that more eligible companies receive 8(a) contracts.

Summary - The Agency needs to give greater emphasis to business development assistance, develop new standards for determining economic disadvantage to effectively measure diminished capital and credit opportunities—the definition of success included in the law, and ensure a more equitable distribution of contracting opportunities to program participants. [The bulk of the dollar value of Section 8(a) Business Development (BD) contracts goes to a relatively small number of companies in the program. The Agency should (1) redefine "economic disadvantage" using objective, quantitative, qualitative, and other criteria that effectively measure capital and credit opportunities; and (2) provide sufficient training to SBA staff responsible for evaluating companies.

Actions Needed	Progress
<i>Refocus the Section 8(a) BD program to emphasize business development.</i>	3
<i>Develop criteria defining "business success."</i>	3
<i>Graduate participants once they reach those levels defined as "business success."</i>	3
<i>Develop a mechanism that ensures contracting opportunities are more equitably distributed to Section 8(a) BD program participants.</i>	3
<i>Redefine "economic disadvantage" using objective, quantitative, qualitative, and other criteria that effectively measure capital and credit opportunities.</i>	3
<i>Provide sufficient financial and analytical training to business opportunity specialists to enable them to evaluate a company's business profile and competitive potential.</i>	3

Legend:

1—Green—Implemented

2—Yellow—Progress being made

3—Red—Not implemented/no substantial progress

Background

The purpose of the Section 8(a) BD program is to assist eligible small disadvantaged business concerns to compete in the American economy through business development. A small number of Section 8(a) BD program participants obtain significant contract awards, while others receive little or no contract benefit. We believe that this occurs, in part, because SBA has not placed sufficient emphasis on business development activities to enhance the ability of Section 8(a) BD participants to compete for contracts and does not adequately ensure that only companies owned by economically disadvantaged owners remain in the 8(a) BD program. In addition, an ever-

changing Federal contracting arena, coupled with other socio-economic factors, has created an environment where reengineering of the Section 8(a) BD program is needed.

The Federal Acquisition Streamlining Act of 1994 streamlined the Federal Government's \$200 billion a year acquisition system and dramatically changed the way the Government buys its goods and services. The Federal Government is seeing an increase in larger contracts that often are not suitable for small businesses to perform as prime contractors. Agencies are also using streamlined procurement practices such as multiple award contracts, Government-wide acquisition contracts, Federal supply schedules, and credit card purchases. At the same time, the Section 8(a) BD program contract mechanisms have not been modernized to work with the new acquisition methods authorized by procurement reform.

The Small Business Act requires that participants be socially and economically disadvantaged, and defines "economic disadvantage" as "diminished capital and credit opportunities compared to owners of similar businesses that are not disadvantaged." SBA, however, has not adequately determined what constitutes diminished capital and credit opportunities. Section 8(a)(6)(A) of the Small Business Act states that "[i]n determining the degree of diminished credit and capital opportunities, the Administration shall consider, but not be limited to, the assets and net worth of such socially disadvantaged individual[s]." According to SBA regulations, when considering diminished capital and credit opportunities, SBA is to review such factors as personal income, personal net worth, and the fair market value of all assets. SBA is also to compare the financial condition of the company with other small businesses in the same primary industry classification. While SBA obtains information on a number of factors when determining economic disadvantage, such as comparisons with Robert Morris Associates figures for businesses, it relies primarily on the net worth of the individual. Net worth by itself, however, does not show whether an individual has diminished capital and credit opportunities.

SBA regulations allow individuals with a net worth of up to \$750,000 (after excluding the equity in their home and Section 8(a) Business Development (BD) business) to remain in the program and be classified as economically disadvantaged. The \$750,000 limit appears to have been set without the use of empirical data. Further, an SBA review found that many Agency employees did not possess the range of skills required to conduct financial analyses. Participants may therefore receive benefits for which they do not qualify.

According to SBA officials, defining and implementing standards for determining economic disadvantage of the individual has been time consuming and ineffective in accomplishing its intended goal of ensuring that adequate Government resources were afforded to developing firms. SBA officials believe that in the post-Federal Acquisition Streamlining Act/Federal Acquisition Reform Act era, economic disadvantage is dated, ineffective, and largely inapplicable to the essential goal of the Section 8(a) BD program, which is the development of firms.

During FY 2001, almost 7,000 companies participated in the Section 8(a) BD program. However, 50 percent (\$3 billion) of the dollar value of the contracts and modifications went to just 189 companies. Each of the top 10 companies (in terms of dollar value of Section 8(a) BD contracts and modifications) received an average of almost \$63 million in Section 8(a) BD

contracts and modifications in FY 2001, with one company receiving almost \$131 million (2.2 percent of the total). At least 4,000 Section 8(a) BD companies were not awarded any contracts or modifications during the same period. Program officials note, however, that the Section 8(a) BD Program does not guarantee every participating firm will receive a contract during each year of its participation. These officials reported that approximately 70 percent of Section 8(a) firms have received at least one contract during their tenure in the program, which can extend up to 9 years.

Significant Open Recommendations

A recommendation from the September 1994 audit report to modify the criteria used for determining one aspect of economic disadvantage has still not been implemented. While various recommendations have been made and implemented which address segments of economic disadvantage, SBA has not clarified the definition of economic disadvantage using objective, quantitative, qualitative, and other criteria that effectively measure capital and credit opportunities.

Current Agency Status

In January 2002, the Working Group of a task force began work to restructure the 8(a) Business Development program, enhance delivery of business development assistance, make the contracting assistance more comparable with today's Federal procurement environment, and ensure a more equitable distribution of program business. A key component of the proposed restructured program is the development of a two-stage approach to business development and training of 8(a) program participants with a focus on business development in stage 1 and contracting assistance with continued business development in stage 2. The primary objective of the program is to develop 8(a) firms so that they can be competitive in the Federal marketplace. A report on the major recommendations to restructure the program should be completed by the end of December 2002. This report is being reviewed by senior management.

A second task force was assembled concerning the issue of economic disadvantage. This task force met on several occasions. Final guidance is being drafted in the form of a procedural notice, which should be completed by December 31, 2002.

OIG Assessment of Status

At this time, no product from either task force has been approved. If we agree with the task forces' recommendations, these recommendations are accepted and implementation begins, our assessment of progress on all but the last action needed for this challenge will change to "progress being made."

Reports

SBA OIG, *Section 8(a) Program Continuing Eligibility Reviews*, Audit Report #4-3-H-006-021, September 30, 1994.

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

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

Action Needed	Progress
<i>Tighten the definition of "manufacturing" to preclude the practice of making only minor modifications to the products of large and other manufacturers.</i>	2

Legend:

1-Green-Implemented

2-Yellow-Progress being made

3-Red-Not implemented/no substantial progress

Background

The Section 8(a) BD program is intended to be used exclusively for business development purposes to help small businesses owned by "socially" and "economically" disadvantaged persons compete on an equal basis in the mainstream of the American economy. To ensure that the business development aspects of the program accrue to its intended participants, SBA has rules to restrict the amount of a Federal contract that may be performed by a non-participant. Nevertheless, OIG audits have found that many non-Section 8(a) BD companies benefit from the program.

An SBA rule requires that supply contracts be filled either by the manufacturer of the end product or by a company that meets SBA's criteria for a "non-manufacturer." SBA's definition of a manufacturer, however, has been interpreted to allow a small business to make only a minor modification to a finished product manufactured by another company. The product that is manufactured by the non-Section 8(a) BD company is considered to be a "basic material" for the new product. Therefore, the Section 8(a) BD company is credited with creating a new product. This occurs frequently with computer equipment, and OIG audits have found instances where 80 percent or more of the contract costs are realized by large computer manufacturers. Agency officials stated that a company providing such work should be classified as a "Value Added Reseller" instead of a "Manufacturer." Typically, according to these officials, these procurements require the contractor to "modify" or "add value" to a finished product by enhancing its functionality and features.

A June 1998 OIG audit report recommended that SBA "provide definitive guidance and definitions to evaluate the manufacturing criteria at 13 CFR 121.406." The Agency agreed with

the recommendation and stated that it planned to solicit comments from the business community and have specific discussions with businesses in computer-related industries. As of January 2003, SBA still had not clarified the manufacturing criteria.

Significant Open Recommendations

The recommendation from the June 1998 audit report to provide definitive guidance and definitions to evaluate the manufacturing criteria at 13 CFR 121.206 has not been implemented.

Current Agency Status

The Office of Government Contracting and Business Development (GCBD) developed a proposed regulation that includes a new size standard for value added resellers. On July 24, 2002, the proposed rule was published for public comment and over 300 comments were received. The Office of Size Standards analysts are reviewing the comments. A final regulation should be promulgated by February 2003.

OIG Assessment of Status

In addition to the above proposed regulations, GCBD developed proposed changes to 13 CFR to tighten the definition of "manufacturing" to preclude the pass-through practice of making only minor modifications to the products of manufacturers. These changes will be included in the Size Regulation that is in SBA clearance. These proposed changes, if properly administered, could resolve this management challenge. After the proposed changes are implemented, we will determine whether this issue has been resolved.

Reports

SBA OIG, *NOAA Computer Workstation Contracts*, Audit Report #87H002017, June 18, 1998.

Challenge 9. Preventing loan fraud requires additional measures, including new regulations and funding.

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

Actions Needed	Progress
<i>Within Privacy Act constraints, SBA requires all loan agents to provide the Agency with the information and releases necessary to conduct criminal background checks.</i>	3
<i>SBA informs loan agents that SBA may conduct criminal background checks on them and that they are subject to future OIG reviews.</i>	3
<i>SBA systematically identifies all loan agents and tracks their association with individual loans. This process would include maintaining identifying data and background information on loan agents.</i>	3
<i>SBA obtains sufficient funding to identify and track loan agents systematically.</i>	3
<i>SBA changes its policy to advise all prospective borrowers that they may be subject to criminal background checks.</i>	3
<i>SBA obtains sufficient funding to enable the Agency and OIG to perform criminal background checks on prospective borrowers and loan agents in a timely manner.</i>	3

Legend:

1–Green–Implemented

2–Yellow–Progress being made

3–Red–Not implemented/no substantial progress

Background

OIG studies have demonstrated that obtaining additional background information from loan agents and prospective loan borrowers could reduce the incidence of fraudulent loans. While the fraud identified thus far is a small percentage of SBA's total portfolio, the dollar amounts are significant.

A. Loan Agents - Loan agents provide referral and loan application services to prospective borrowers or lenders for a fee. Some agents, particularly loan packagers, have been involved in a variety of fraudulent schemes, such as submitting false tax returns or other financial data, charging the borrower excessive fees, using fictitious names on SBA forms, exaggerating their

ability to obtain loan approval, acting in illegal collusion with officials of lending institutions, conspiring with borrowers to submit false loan packages, and performing other illegal acts. These schemes, which have been used by various agents, have resulted in borrower defaults causing loan purchases by SBA and, ultimately, losses to the taxpayers.

B. Borrowers in Business Loan Programs: OIG work has shown that borrowers who do not disclose their criminal histories have higher rates of default on SBA loans than those who either disclose their records or have no criminal histories. SBA currently performs criminal history checks, but only if prospective borrowers voluntarily disclose past criminal violations. As a result, the Agency does not always identify individuals with criminal histories and this results in higher losses to SBA.

Current Agency Status

The agency has responded that the Office of Financial Assistance will work with the Office of General Counsel to determine the agency's legal authority to collect the information requested by the OIG.

OIG Assessment of Status

To implement the action to inform loan agents that SBA will conduct criminal background checks on them and that they are subject to future reviews, it is necessary to change existing forms and to clarify through formal legal opinions the agency's authorities. In addition, SBA needs to identify the extent of loan agent involvement in its programs by maintaining a database of agents and the loans with which the agents are associated. Further, SBA needs to change its policy on possible criminal background checks on borrowers. The agency must identify actions necessary to resolve current vulnerabilities to fraud in the loan programs.

Reports

SBA OIG, *Applicant Character Verification in SBA's Business Loan Program*, April 5, 2001.

SBA OIG, *Summary Audit of Section 7(a) Loan Processing*, Audit Report #0-03, January 11, 2000.

SBA OIG, *Loan Agents and the Section 7(a) Program*, Inspection Report #98-03-01, March 31, 1998.

SBA OIG, *Fraud Detection in SBA Programs*, Inspection Report #97-11-01, November 24, 1997.

SBA OIG, *Operation Cleansweep Memorandum*, August 21, 1996.

Appendix 5 -- U.S. Small Business Administration Internet Links

SBA SITES YOU CAN USE

The SBA home page is www.sba.gov. All of the program agencies may be accessed from this site; however, several of the more frequently visited sites are listed below:

SBA INFORMATION

Who We Are and What We Do: <http://www.sba.gov/aboutsba/indexprofile.html>

Ask SBA!: <http://www.sba.gov/asksba/>

Find Your Local Office: <http://www.sba.gov/regions/states.html>

What's New?: <http://www.sba.gov/news/indexwhatsnew.html>

SBA En Espanol: <http://www.sba.gov/espanol/>

Ombudsman: <http://www.sba.gov/ombudsman/>

Online Library: <http://www.sba.gov/library/>

Small Business Classroom: <http://www.sba.gov/classroom/>

FOR START-UP BUSINESSES

What is a Small Business?: <http://www.sba.gov/starting/indexwhatis.html>

Starting Your Business: <http://www.sba.gov/starting/>

Frequently Asked Questions: <http://www.sba.gov/starting/indexfaqs.html>

Your First Steps: <http://www.sba.gov/starting/indexsteps.html>

Start-up Kit: <http://www.sba.gov/starting/indexstartup.html>

Training: <http://www.sba.gov/starting/indextraining.html>

Business Plans: <http://www.sba.gov/starting/indexbusplans.html>

Counseling Help: <http://www.sba.gov/starting/indexcounseling.html>

Outside Resources and Business Hotlinks: <http://www.sba.gov/hotlist/>

FOR ESTABLISHED BUSINESSES

Financing Your Business: <http://www.sba.gov/financing/>

Loan Programs: <http://www.sba.gov/financing/indexloans.html>

Loan Forms: <http://www.sba.gov/library/forms.html>

PRIME: <http://www.sba.gov/financing/frprime.html>

Surety Bond: <http://www.sba.gov/financing/surety.html>

Business Opportunities: <http://www.sba.gov/expanding/>

CONTRACTING WITH THE GOVERNMENT

Government Contracting: <http://www.sba.gov/GC/>

PRO-Net: <http://pro-net.sba.gov/>

DISASTER ASSISTANCE

Disaster Assistance Information: <http://www.sba.gov/disaster/general.html>

Disaster Area Office Locations: <http://www.sba.gov/disaster/dao.html>

Loan Information: <http://www.sba.gov/disaster/loans.html>

FEMA Information: <http://www.sba.gov/disaster/fema.html>

SBA OFFICES

Chief Financial Officer: <http://www.sba.gov/cfo>
Export Assistance: <http://www.sba.gov/expanding/export.html>
Freedom of Information Act: <http://www.sba.gov/foia/>
Internal Control: <http://yes.sba.gov/coso/>
International Trade: <http://www.sba.gov/oit/>
Law and Regulations: <http://www.sba.gov/lawsandregs/>
Programs and Field Offices: <http://yes.sba.gov/offices/>
Research Statistics: <http://www.sba.gov/library/reportsroom.html>
SCORE (Advice and Counseling): <http://www.score.org>
Technology Resources: <http://tech-net.sba.gov/>
Veterans Business Development: <http://www.sba.gov/vets/hotlist/>
Women's Business Center: <http://www.onlinewbc.gov/>

PUBLICATIONS

SBA FREE Newsletter & Publication Subscription Center: <http://web.sba.gov/list/>
SBA Exchange: <http://www.sba.gov/sbaexchange/>

OTHER RELATED LINKS

Business Advisor: <http://www.business.gov>
BusinessLaw.gov: <http://www.businesslaw.gov/>
FirstGov.gov: <http://www.firstgov.gov/>
WhiteHouse.gov: <http://www.whitehouse.gov/>

Appendix 6 – Glossary of Acronyms

Acronyms

504 - 504 Loan Program	FEDSIM – Federal Systems Integration and Management Center
7(a) - Section 7(a) Loan Guaranty, SBA's Primary Loan Program	FEGLI - Federal Employees Group Life Insurance
8(a) - Section 8(a) Business Loan Program	FEHB - Federal Employees Health Benefit
ABB - Activity Based Budgeting	FEMA - Federal Emergency Management Agency
ABC - Activity Based Cost Accounting	FERS - Federal Employees' Retirement System
AICPA - Council of American Institute of Certified Public Accountants	FFB - Federal Financing Bank
BATF – Business Assistance Trust Fund	FFS - Federal Financial System
BD - Business Development	FICA - Federal Insurance Contribution Act
BIC - Business Information Centers	FMFIA - Federal Managers Financial Integrity Act
BLIF - Business Loan and Investment Fund	FY - Fiscal Year
CA - Office of Capital Access	GAO - General Accounting Office
CDC - Certified Development Company	GC or GC/BD - Office of Government Contracting/Business Development
CEAR - Certificate of Excellence in Accountability Reporting	GISRA - Government Information Security Reform Act
CFO - Chief Financial Officer	GPR - Guaranty Purchase Review
CFR - Code of Federal Regulations	GPRA - Government Performance and Results Act
CIO - Chief Information Officer	GRTS - Guaranty Repair Tracking System
COSO - Committee of Sponsoring Organizations of the Treadway Commission	HUBZone - Historically Underutilized Business-Zone (HUBZone) Empowerment Contracting Program
COTS - Commercial Off-The-Shelf	IRM - Information Resource Manager
CSRS - Civil Service Retirement System	IT - Information Technology
DA - Office of Disaster Assistance	ITL - International Trade Loan
DLF - Disaster Loan Fund	JAAMS or JA ² MS - Joint Accounting and Administrative Management System
DSO - Designated Security Officer	LAMP - Lender Analysis and Management Program
ED - Office of Entrepreneurial Development	LINC - Learning, Information, Networking, Collaboration
EFT - Electronic Funds Transfer	LMS - Loan Monitoring System
ERP - Enterprise Resource Plan	LowDoc - Low Documentation Loan
EWCP - Export Working Capital Program	MA - Office of Management and Administration
FACA - Federal Advisory Committee Act	MAP - Management's Assessment Process
FACTS - Federal Agencies Centralized Trial-Balance System	
FASAB - Federal Accounting Standards Advisory Board	
FASB - Financial Accounting Standards Board	
FBI - Federal Bureau of Investigation	
FCRA - Federal Credit Reform Act	
FECA - Federal Employees' Compensation Act	

MD&A - Management's Discussion and Analysis
MRF - Master Reserve Fund
NCIC - National Crime Information Center
OCFO - Office of the Chief Financial Officer
OCIO - Office of the Chief Information Officer
ODA - Office of Disaster Assistance
OFA - Office of Financial Assistance
OFO - Office of Field Operations
OGC - Office of General Counsel
OIG - Office of Inspector General
OLO - Office of Lender Oversight
OMB - Office of Management and Budget
OPM - Office of Personnel Management
ORB - Other Retirement Benefits
PCECGF - Pollution Control Equipment Contract Guarantees Fund
PCLP - Premier Certified Lenders Program
PDD - Presidential Decision Directive
PIMS - Partner Information Management System
PLP - Preferred Lender Program
PMI - Presidential Management Interns
QSR - Quality Service Review
RFA - Regulatory Flexibility Act
SE or S&E - Salaries and Expenses
SAS - Statement on Auditing Standards
SBA - Small Business Administration
SBDC - Small Business Development Center
SBG - Surety Bond Guarantee
SBGRF - Surety Bond Guarantees Revolving Fund
SBIC - Small Business Investment Company
SBIR - Small Business Innovation and Research
SBLC - Small Business Lending Companies
SBREFA - Small Business Regulatory Enforcement Fairness Act
SCORE - Service Corps of Retired Executives
SDB - Small Disadvantaged Business
SDM - Systems Development Methodology
SESCDP - Senior Executive Service Candidate Development Program
SFFAS - Statement of Federal Financial Standard
SOP - Standard Operating Procedure

SSBIC - Specialized Small Business Investment Company
ST&E - Security Test & Evaluation
TBIC - Tribal Business Information Center
TOP - Treasury Offset Program
TSP - Thrift Savings Plan
USEAC - U.S. Export Assistance Center
WBC - Women's Business Center Program

Appendix 7 – SBA Programs and Offices

Program or Office	Description
7(a) Loan Guaranty	<p>Serves as SBA's primary loan program. It provides short- and long-term loans to eligible, creditworthy, start-up and existing small businesses that cannot obtain financing on reasonable terms through normal lending channels. The SBA provides financial assistance through its participating lenders in the form of loan guarantees not direct loans. The Agency does not provide grants for business start-up or expansion. The SBA Office of Capital Access administers the 7(a) Loan Guaranty program. Loans are available for most business purposes, including the purchase of real estate, machinery, equipment and inventory, or for working capital. The loans cannot be used for speculative 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. Generally, the interest rate cannot exceed 2.85 percent over the prime rate in effect on the day the SBA receives the application. This rate is printed in <i>The Wall Street Journal</i> on the next business day. For loans under \$50,000, the rates may be slightly higher. Loan maturity is up to 10 years for working capital and up to 25 years for fixed assets.</p>
8(a) Business Development	<p>Uses the SBA's statutory authority to provide business development and Federal contract support to small disadvantaged firms.</p>
Business Information Center (BIC)	<p>Provides hardware, software and telecommunications at multiple locations to help small businesses start and grow. BIC counseling and training are provided by the Service Corps of Retired Executives (SCORE) and other SBA partners and community organizations.</p>
Certified and Preferred Lenders	<p>Certified lenders have SBA's delegation of authority to approve loans. Preferred lenders receive full delegation of lending authority. Only the most active and expert SBA participating lenders are designated as certified or preferred. SBA district offices have listings of participating lenders.</p>

Program or Office	Description
Certified Development Company (CDC), a 504 Loan Program	Provides long-term, fixed-rate financing to small businesses to acquire real estate, machinery or equipment for expansion or modernization. Typically, a 504 project includes a loan secured with a senior lien from a private-sector lender, a loan secured with a junior lien from a CDC (a 100 percent SBA-guaranteed debenture) covering up to 40 percent of the total cost and a contribution of at least 10 percent equity from the borrower. The maximum SBA debenture is \$1 million.
District Office and Branch Office	Serves as the point of delivery for most SBA programs and services. District and branch offices work to accomplish the SBA mission by providing quality service to the small business community. District and branch offices work with SBA partners, community groups and intermediaries.
Export Working Capital (EWCP)	Enables the SBA to guarantee up to 90 percent of a secured loan, or \$1 million, whichever is less. Loan maturity may be for up to 3 years with annual renewals. Loans can be for single or multiple export sales, and can be extended for pre-shipment working capital, post-shipment exposure coverage or a combination of the two. Proceeds can be used only to finance export transactions.
HUBZone Empowerment Contracting	Encourages economic development in historically underutilized business zones (HUBZones) through the establishment of Federal contract award preferences for small businesses located in such areas. After determining eligibility, the SBA lists qualified businesses in its PRO-Net [®] database.
International Trade Loan (ITL)	Offers long-term financing to small companies engaged in or preparing to engage in international trade, as well as to small businesses adversely affected by import competition. The SBA can guarantee up to \$1.25 million for a combination of fixed-asset financing and working capital. The working-capital portion cannot exceed \$750,000.
Loan Prequalification	Enables the SBA to prequalify an applicant for a 7(a) loan guaranty on a loan application of \$250,000 or less before the applicant goes to a bank. The program focuses on the applicant's character, credit, experience and reliability, rather than assets. A SBA-designated intermediary works with the business owner to review and strengthen the loan application. The review is based on key financial ratios, credit, business history and the loan-request terms. The program is administered by the SBA's Office of Field Operations.
Low Documentation Loan (LowDoc)	Reduces the paperwork involved in loan requests of \$150,000 or less. The Agency uses a one-page application that relies on the strength of the applicant's character and credit history. Once an applicant satisfies all of the lender's requirements, the lender may request a LowDoc guaranty from the SBA.

Program or Office	Description
Microloan, Section 7(m) Loan Program	Provides short-term loans of up to \$35,000 to small businesses for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery and/or equipment. Proceeds cannot be used to pay existing debts or to purchase real estate. SBA-approved nonprofit groups make the loans, and provide management and technical assistance. The SBA does not guarantee the loans. The Microloan program is available in selected locations in most states.
Office of Administration	Plans, directs and executes all administrative management functions within SBA Headquarters and monitors administrative programs in field offices. The Office of Administration develops policies and procedures for the procurement of supplies, equipment and non-personnel services. This office also implements and manages approved grants and cooperative agreements.
Office of Economic Research (Advocacy)	Produces the annual report to Congress, (The State of Small Business: A Report of the President); oversees research on small business issues, banking and the economy; and compiles and interprets statistics on small businesses according to size, industry and geographic distribution.
Office of Field Operations	Represents SBA field offices at Headquarters. This office— <ul style="list-style-type: none"> ? Provides policy guidance and oversight to regional administrators and district directors in implementing Agency goals and objectives, and in solving problems in specific operational areas; ? Establishes and monitors performance goals for district offices; ? Provides Associate Deputy Administrators, Associate Administrators and General Counsel with a vehicle for overseeing field office program and policy implementation; ? Provides feedback to Headquarters management regarding the performance of their programs; ? Ensures that field offices have adequate input into all policy formation and participate in policy deliberations at Headquarters; ? Organizes reviews of field offices; and ? Informs the SBA Administrator of field activity.
Office of General Counsel	Provides advice for senior management, as well as legal support for all of the Agency's programs, initiatives and administrative responsibilities. The Office of General Counsel conducts litigation necessary to resolve legal issues, collect sums due and defend the Agency.
Office of Human Resources	Provides personnel program leadership and advisory services to SBA program offices. Personnel program responsibilities include recruitment, employment, training, position classification, payroll, labor relations, performance management, adverse/disciplinary actions, benefits, awards and incentives. The Office of Human Resources develops Agencywide personnel management policies and procedures, and conducts personnel management program evaluations.

Program or Office	Description
Office of the Chief Information Officer	Supports and provides guidance for the SBA's Nationwide computer automation and information technology efforts. This office helps SBA field and Headquarters program offices identify the ways automation and technology can improve service delivery, acquire new technology and develop new systems. It also administers the SBA's home page (www.sba.gov).
Online Women's Business Center	Serves as an interactive, state-of-the-art website offering the information an entrepreneur needs to start and build a successful business. The numerous features of the Online include training, mentoring and topic forums. Information is available in several languages.
Personal Property Loan (Disaster)	Provides qualified homeowners and renters who have sustained uninsured losses up to \$40,000 with funds to repair or replace personal property such as clothing, furniture, cars, etc. This loan is not intended to replace extraordinarily expensive or irreplaceable items such as antiques, pleasure craft, recreational vehicles, fur coats, etc.
Physical Disaster Business Loan	Provides qualified businesses of any size that have sustained uninsured losses up to \$1.5 million with funds to repair or replace business property to pre-disaster conditions. Loans may be used to replace or repair equipment, fixtures and inventory, and to make leasehold improvements.
Prime Contracting	Increases small business opportunities in the Federal acquisition process. This is accomplished through initiating small business set-asides, identifying new small business sources, counseling small businesses on doing business with the Federal Government and assessing compliance with the Small Business Act through surveillance reviews.
Procurement Marketing & Access Network (PRO-Net®)	Serves as an Internet-based search engine for contracting officers, a marketing tool for small firms and a link to procurement opportunities and information. PRO-Net® contains business information on thousands of small firms. It also provides links to the online Commerce Business Daily, Federal agencies' home pages and other sources of procurement opportunities. Administered by the SBA's Office of Government Contracting, PRO-Net® registration is free.
SBAExpress	Encourages lenders to make more small loans to small businesses. Participating banks use their own documentation and procedures to approve, service and liquidate loans of up to \$150,000. In return, the SBA guarantees up to 50 percent of each loan.
Secondary Market	Gives lenders holding SBA-guaranteed loans an opportunity to improve their liquidity by selling both the guaranteed and unguaranteed portion of the loans to investors. Frequent secondary market buyers include banks, savings and loan companies, credit unions, pension funds and insurance companies.

Program or Office	Description
Service Corps of Retired Executives (SCORE)	Offers counseling and training for small business owners who are starting, building or growing their businesses. Sponsored by the SBA, SCORE's services are free of charge and are provided by retired or active business volunteers.
Small Business Development Center (SBDC)	Provides management and technical assistance, counseling and training to current and prospective small business owners through SBDCs. Administered by the SBA, the program is a cooperative effort of the private sector, the educational community and Federal, state and local Governments.
Small Business Innovation Research (SBIR)	Provides a vehicle for small businesses to propose innovative ideas in competition for Phase I and Phase II awards, which represent specific research and development needs of the participating Federal agencies. These awards may result in commercialization of the effort at the Phase III level and are administered by the SBA's Office of Technology.
Small Business Investment Company (SBIC)	Provides equity capital, long-term loans, debt-equity investments and management assistance to small businesses, particularly during their growth stages. The SBA licenses SBICs and supplements their capital with U.S. Government-guaranteed debentures or participating securities. SBICs are privately owned and managed, profit-motivated companies, investing with the prospect of sharing in the success of the funded small businesses as they grow and prosper.
Small Business Ombudsman	Receives comments from small businesses about the regulatory enforcement and compliance activities of Federal agencies and refers comments to the appropriate agency's inspector general on a confidential basis. Coordinates the efforts of the small business regulatory fairness boards and reports annually to the SBA Administrator and to the Heads of the affected agencies on the boards' activities, findings and recommendations.
Small Business Research	Measures and reports the amount of Federal funding for research and R&D (excluding the amounts for SBIR and STTR) awarded to small businesses each year by the major research and R&D Federal agencies. The program is administered by the SBA's Office of Technology.
Small Business Technology Transfer (STTR)	Requires each small business competing for a Federal R&D project to collaborate with a nonprofit research institution. This program is a joint venture from the initial proposal to project completion. The program is administered by the SBA's Office of Technology.
Small Disadvantaged Business (SDB) Certification	Ensures that small businesses owned and controlled by individuals claiming to be socially and economically disadvantaged meet the eligibility criteria. Once certified, the businesses are eligible to receive price evaluation credits when bidding on Federal contracts.
Subcontracting Goals	Ensures that small businesses receive the maximum practical opportunity to participate in Federal contracts as subcontractors and suppliers.

Program or Office	Description
Surety Bond Guarantee	Guarantees bid, performance and payment bonds for contracts up to \$2 million for eligible small businesses that cannot obtain surety bonds through regular commercial channels. By law, prime contractors to the Federal Government must post surety bonds on Federal construction projects valued at \$100,000 or more. In addition, many states, counties, municipalities and private-sector projects and subcontracts also require surety bonds. Contractors must apply through a surety bonding agent, since the SBA's guaranty goes to the surety company.
U.S. Export Assistance Center (USEAC)	Combines the trade-promotion and export-finance resources of the SBA, the U.S. Department of Commerce, the Export-Import Bank and, in some locations, the Agency for International Development. Designed to improve delivery of services to small and medium-sized businesses, USEACs work closely with other Federal, state and trade partners in local communities.
Veterans Business Outreach Center (VBOC)	Provides entrepreneurial training, business development assistance, counseling and management assistance through VBOCs to eligible veterans who own and control small businesses.
Women's Business Center (WBC)	Provides long-term training and counseling in all aspects of owning or managing a business, including financial, management, marketing and technical assistance, and procurement through WBCs.
Women-Owned Business Procurement	Uses a multifaceted outreach and educational program to teach women business owners how to market to the Federal Government.