APPENDIX 4 – OFFICE OF THE INSPECTOR GENERAL REPORT ON THE MOST SERIOUS MANAGEMENT CHALLENGES

U.S. SMALL BUSINESS ADMINISTRATION

OFFICE OF INSPECTOR GENERAL

Report No. 7-01

FY 2007 Report
on the Most Serious Management Challenges
Facing the Small Business Administration

October 16, 2006

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF
INSPECTOR GENERAL

October 16, 2006

MEMORANDUM

TO: Steven C. Preston
Administrator

FROM: Eric M. Thorson
Inspector General

SUBJECT: SBA's Top Management Challenges for Fiscal Year 2007

In accordance with the Reports Consolidation Act of 2000, we are providing you with the Office of Inspector General's (OIG) Report on the Most Serious Management Challenges Facing the Small Business Administration (SBA) in Fiscal Year (FY) 2007. This report represents our current assessment of Agency programs or activities that pose significant risks, including those that are particularly vulnerable to fraud, waste, error, mismanagement, or inefficiencies. The Challenges are not presented in order of priority, as we believe that all are critical management issues facing the Agency.

Our report is based on specific OIG, Government Accountability Office, or other official reports, as well as our general knowledge of SBA's programs and operations. Our analysis generally considers those accomplishments that SBA reported as of September 30, 2006.

Within each Management Challenge is a series of "action items" showing the actions recommended by the OIG to resolve that particular Challenge. Each action item is assigned a color status score, except that the OIG did not assign a color score to new actions in this report unless we notified the Agency of the new action by midyear. The scores are as follows: Green for Implemented; Yellow for Substantial Progress; Orange for Some Progress; and Red for No Progress. An upwards arrow in the color box indicates that the color score improved over last year's report; a downwards arrow indicates that the color score worsened. As part of the OIG's continuing evaluation of the Management Challenges, certain action items have been revised (revisions, other than minimal revisions, are indicated by "Revised Action").

Actions that were scored green last year, and which remained green this year, have been moved up to the "history bar" which is located above the action items. This history bar helps to show any progress that the Agency has made on the Challenge over the past four fiscal years (or as long as the Challenge has existed, if shorter) by reporting the number of actions that moved to Green each year.
Following is a summary of FY 2007 report on the ten Management Challenges.

		Status Score				Change in Status	
	Topic	Green	Yellow	Orange	Red	Improved[1]	Worsened[2]
1	Small Business Contracts			3			
2	Financial Reporting	4	2			4	
3	IT Security		8	2	1	4	
4	Human Capital		4	2		1	
5	Loan Guaranty Purchase		1	4		1	2
6	Lender Oversight	3	5	4	2	6	
7	8(a) BD Program	1		2	3	1	1
8	SBIC Program	1	1	4	1	2	1
9	Loan Agent Fraud		2	3	1	2	1
10	Policies and Procedures	1	3			3	

While Agency progress on a number of the challenges has been encouraging, much more remains to be done. By their nature, these challenges require continued long-term commitment and effort by the Agency. We would like to extend our appreciation to SBA's management and staff for their courtesy and cooperation in providing us with the information needed to complete this report in a timely manner.

This report will be incorporated into the SBA's FY 2006 Performance and Accountability Report, as required by law. Please contact me at (202) 205-6586, should you have any questions.

Attachment

[1] "Improved" refers to an action item that showed progress this year over last year's score.
[2] "Worsened" refers to an action item that showed regression this year from last year's score.

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Challenge 1. Procurement flaws allow large firms to obtain small business awards and agencies to count contracts performed by large firms towards their small business goals.

The Small Business Act establishes a Government-wide procurement goal that 23 percent of the total value of all prime contract awards for each fiscal year be awarded to small businesses. As the advocate for small business, the Small Business Administration (SBA) should strive to ensure that only small firms obtain small business awards and agencies only receive small business credit for awards to small firms.

Large companies improperly obtain small business contracts due to a variety of problems. In some cases, improper awards result from errors by contracting personnel, such as accepting questionable size self-certifications, unfamiliarity with small business contracting procedures, or miscoding a business as small in Federal databases. Although a new database, Online Representations and Certifications Application (ORCA), allows contractors to maintain current certification information electronically, questions remain as to whether contracting officers are required to review on-line certifications prior to awarding contracts. Some contractors obtain small business contracts for which they are not eligible by misrepresenting their size or by not diligently verifying whether they meet size criteria. SBA needs to do more to ensure that government contracting personnel receive adequate training on small business procurement procedures, promote contractor accuracy, and encourage greater accuracy in Federal agency small business contracting reports.

SBA also needs to work to close regulatory loopholes that allow agencies to take credit for meeting their small business procurement goals even though contracts are performed by large firms. For example, multiple award contracts, such as the General Services Administration Multiple Awards Schedule (MAS) Program and Government Wide Acquisition Contracts (GWACs), are structured so that a company's size is only relevant when admitted to the initial contract, not for the task orders issued under the contract. Task orders can be issued under these contracts for many years after the contract is awarded. In 2003, SBA proposed a regulation requiring companies to certify as to their size on an annual basis, but it now appears that a rule with a one-year certification requirement will not be issued. If this is the case, the OIG will reevaluate the matter to assess whether the Agency should take other steps to address this problem.

The Agency also needs to address another loophole with MAS contracts that contain multiple industrial codes. In being awarded such a contract, a company can identify itself as small even though it does not meet the size criteria for every industrial code. Thus, agencies may obtain small business credit for using a firm classified as small even if the firm is not small for the specific goods or services procured through a particular task order under such a MAS contract.

Challenge History Fiscal Year (FY) Issued: 2005	**Actions Accomplished (Green Status) during Past 4 FYs**			
				05-0

Remaining Actions Needed for FY 2007	**Status at end of FY 2006**
1. Develop and take steps to provide reasonable assurance that agencies are providing adequate basic and continuing education training to all contracting personnel on small business contracting procedures.	Orange
2. Develop and implement a program that promotes accurate contractor certifications, and which ensures that contracting personnel review contractor certifications.	Orange (Revised Action)
3. Develop and implement a plan that ensures that Federal agencies accurately report the number of contracts they award to small businesses.	New
4. Issue regulations to ensure that firms must meet the size standard for each order it receives under a GSA schedule contract.	Orange (Revised Action)

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

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

Various laws and regulations place significant responsibilities on Federal financial managers to assess whether they are effectively and efficiently managing public resources. Since FY 2002, the OIG, GAO, and external auditors have all noted weaknesses in SBA's financial management and reporting controls that result in SBA being unable to produce reliable, timely, and accurate financial information. SBA has responded by making sound financial management and reporting a top priority, and has taken the necessary steps to make improvements. These efforts have focused primarily on improving SBA's models for estimating subsidy costs, improving controls over financial statement preparation, and correcting accounting errors in prior periods related to loan sales and subsidy cost allowances.

The results of SBA's FY 2005 financial statement audit demonstrate that SBA made significant progress addressing a material weakness over financial management and reporting. SBA's financial management and reporting controls, however, continue to need improvement in the areas of funds management, financial accounting transactions, review of account balances, financial statement preparation and quality assurance. The Agency must also ensure it complies with laws and regulations related to its financial management and reporting responsibilities, and ensure that it can implement new reporting and internal control requirements in an effective and timely manner. The "Actions Needed" were revised for this report to consolidate related action items and to emphasize the importance of internal control on effective financial management and reporting.

Challenge History Fiscal Year (FY) Issued: 2003	**Actions Accomplished (Green Status) during Past 4 FYs**			
		03-0	04-0	05-0
Remaining Actions Needed for FY 2007				**Status at end of FY 2006**
SBA demonstrates its financial management and reporting controls achieve their objectives, and produces timely financial statements and other financial information in accordance with prevailing requirements and accounting standards.				
1. SBA submits financial reports that are free of misclassifications and errors and receives an unqualified audit opinion on its annual financial statements.				Yellow (Revised Action)
2. SBA submits accurate financial reports by established deadlines and does so without negatively affecting the timing or efficiency of other Agency operations.				Green↑
3. SBA evaluates its financial controls to identify deficiencies in their design or operation which prevent achieving objectives and implements corrective actions, and corrective actions result in no reportable conditions.				Yellow (Revised Action)
SBA maintains effective control over the subsidy re-estimation process.				
4. SBA produces reasonable estimates that can be developed, internally reviewed, and audited in a timely manner consistent with the Agency's financial reporting deadlines.				Green↑
5. SBA's financial systems provide data that are accurate, complete, and in sufficient detail for use in the subsidy estimate and re-estimate models.				Green↑
6. SBA refines its quality assurance and review procedures over the subsidy re-estimation process and demonstrates that these procedures are sufficient and working effectively.				Green↑

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

Challenge 3. Information systems security needs improvement.

The confidentiality, integrity, and availability of SBA's 19 major information systems are vital to the continued successful operation of the Agency. While information technology (IT) can result in a number of benefits, such as information being processed more quickly and communicated almost instantaneously, it can also increase the risk of fraud, inappropriate disclosure of sensitive data, and disruption of critical operations and services.

The level of resources the Agency has committed to manage computer security, maintain SBA systems, provide technical support staff, and administer security training is below what is generally necessary for an entity the size of SBA. This continues to weaken a computer security program that already lacks sufficient controls to fully protect SBA's systems. Due to the long-term nature of maintaining an adequate security program, completion of final actions on a number of OIG recommendations is not scheduled until FY 2007 or later. The OIG will be performing further audit work to evaluate the Agency's ongoing efforts in its information security program. Additions to, and changes in, the "actions needed" are due to new Federal Information Security Management Act (FISMA) requirements from OMB.

Challenge History Fiscal Year (FY) Issued: 1999	**Actions Accomplished (Green Status) during Past 4 FYs**			
	02-2	03-5	04-4	05-2

Remaining Actions Needed for FY 2007	**Status at end of FY 2006**
1. Entity-wide security program controls are in place and operating effectively.	Yellow↑
2. Access controls are in place and operating effectively.	Orange↑
3. Application software development and program change controls are in place and operating effectively.	Yellow
4. System software controls are in place and operating effectively.	Red
5. Segregation of duty controls are in place and operating effectively.	Yellow
6. Service continuity controls are in place and operating effectively.	Yellow↑
7. The SBA Certification and Accreditation (C&A) process is in compliance with NIST 800-37.	Yellow
8. The Plan of Actions and Milestones (POA&M) accurately reports all computer security weaknesses and corrective actions.	Yellow
9. SBA timely mitigates audit and system risk assessment weaknesses.	Orange↑
10. Procedures and practices for reporting security incidents are in place and operate effectively.	Yellow
11. SBA ensures adequate and up-to-date computer security program training.	Yellow

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

Challenge 4. Maximizing program performance requires that SBA fully develop, communicate, and implement a human capital management/transformation strategy.

As SBA's budget has decreased and small business practices, products, and needs have changed over the last decade, SBA began to make significant revisions in the structure of its workforce by delegating more authority to lenders, centralizing loan functions, and reducing staff. Although SBA issued a Human Capital Management Plan that dealt primarily with specific Office of Human Capital Management (OHCM) activities, this plan did not adequately address the significant changes in the Agency's workforce because it lacked a comprehensive SBA transformation strategy and specific strategies and milestones for moving SBA to the new vision posed in SBA's FY 2003-2008 Strategic Plan. For example, key program functions have been transferred from the District Offices to service centers without clarifying the new role and appropriate staffing of the District Offices.

In September 2006, OHCM issued a revised Strategic Human Capital (SHC) Plan that is linked to the Agency's FY 2003-2008 Strategic Plan. The OHCM has also drafted an Accountability Plan, but has not yet implemented this plan. The Office of Personnel Management's (OPM) *Human Capital Assessment and Accountability Framework* (HCAAF) guidance on developing human capital plans states that human capital management decisions should be guided by data-driven, results-oriented planning and accountability systems that align human capital strategies with Agency mission, goals, and objectives. In light of continuing changes to SBA's structure and workforce, an effective accountability system will be critical for the successful management of SBA's human capital in the coming years. However, resolving the human capital challenge and transforming SBA is more than just an OHCM challenge. The Agency has drafted but has yet to issue a comprehensive transformation strategy. Issuance of this transformation strategy would help agency employees understand how their role fits into SBA's strategic plan and reduce employee uncertainty and cynicism, thereby improving morale and productivity (the FY 2005 Government-wide employee survey revealed substantial morale problems in SBA). SBA also needs to make progress in identifying and addressing employee training needs and in developing succession plans in order to achieve satisfactory productivity and continuity of operations.

Challenge History Fiscal Year (FY) Issued: 2001	**Actions Accomplished (Green Status) during Past 4 FYs**			
	02-0	03-0	04-1	05-0

Remaining Actions Needed for FY 2007	**Status at end of FY 2006**
1. Develop, communicate to all employees, and implement a Human Capital Plan that is structured along the lines of OPM's HCAAF and includes appropriate metrics and accountability system for assessing the Agency's management of human capital.	Yellow (Revised Action)
2. Communicate to all employees and incorporate into the Human Capital Plan a transformation strategy that aligns with SBA's FY 2003-2008 Strategic Plan.	Orange
3. Identify and analyze the knowledge, skills, abilities, and other characteristics that SBA employees will need to perform successfully over the next five years and complete a gap analysis.	Yellow↑
4. Establish and implement competency models reflecting the core competencies that will be needed in the next five years.	Yellow
5. Establish and implement an evaluation control mechanism to ensure that all employees have received the appropriate training and have the necessary skills.	Yellow
6. Develop and implement a comprehensive succession planning process for all staff levels, including regular evaluations of the effectiveness/impact of various components of the process.	Orange

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

Challenge 5. SBA's National Guaranty Purchase Center needs better controls over the business loan purchase process.

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

SBA has taken actions to correct many of the deficiencies identified by the OIG, such as issuing revised Standard Operating Procedures (SOP) on loan servicing and loan liquidation, developing training modules, and training individuals responsible for making purchase decisions. SBA also centralized the 7(a) loan guaranty purchase process to improve the efficiency of the program and in the first quarter of FY 2005 re-established a quality assurance review program (an earlier program ended in FY 2003). While we agree that centralization will strengthen the process, an OIG management advisory report on the transfer of operations to the National Guaranty Purchase Center questioned the reasonableness of the 85 percent reduction in the guaranty purchase review staff and emphasized that additional actions are needed to strengthen the guarantee purchase decisions and effectively reduce improper payments.

Challenge History Fiscal Year (FY) Issued: 2001	**Actions Accomplished (Green Status) during Past 4 FYs**			
	02-2	03-4	04-0	05-2

Remaining Actions Needed for FY 2007	**Status at end of FY 2006**
1. Adequate resources are devoted to the purchase process.	Orange↑
2. SBA determines level of improper payments for the entire loan portfolio in compliance with the Improper Payments Information Act of 2002 and OMB guidance.	Orange↓
3. SBA establishes controls to identify risks of improper payments and establishes procedures for addressing these risks.	Orange (Revised Action)
4. SBA implements a quality assurance system that allows SBA to make progress in achieving established goals for reducing improper payments.	Orange ↓
5. Policies and procedures provide guidance to ensure consistency and accuracy in the purchase process.	Yellow

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

Challenge 6. SBA needs to effectively implement its participant oversight plan.

As the largest gap lender for small businesses, SBA necessarily takes more risk than a conventional lender. Since its inception in 1953, SBA has loaned or guaranteed billions of dollars to finance and spur investment in small business concerns, and has shifted over the years from an organization that processed loans to one that relies on program participants to originate and service loans. This reliance requires an effective participant oversight program to mitigate the increased risk of financial loss to SBA and participant noncompliance with SBA policies and procedures.

The Agency improved its oversight process by establishing a Lender Monitoring System (LMS) that identifies potential and actual financial risks at the portfolio, lender and loan levels. The LMS uses internal and external information to develop credit scores for each loan, aggregates the scores by lender, and produces ratings that measure lender loan portfolio performance. In addition, the Agency has identified the responsibilities and authorities of the Office of Lender Oversight (OLO), provided resources to support the oversight mission, and established the Portfolio Analysis and Lender Oversight committees to assess the portfolio and individual lender performance. OLO also issued guidance for on-site lender reviews, including fees to be charged to support the oversight process. The effectiveness of the new policies and the on-site review process will be assessed in the future. To further improve the oversight program, among other things, the Agency needs to issue regulations and an Standard Operating Procedure governing OLO, commence on-site reviews of section 504 entities, develop performance standards for lender ratings, expand the number of lenders with unsatisfactory ratings discussed by the Lender Oversight Committee, and ensure that deficiencies identified during on-site reviews are corrected. This Management Challenge was revised in October 2005 to reflect the Agency's progress and to modify the action items to emphasize implementation of the OLO strategic plan and the effectiveness of its oversight program.

Challenge History Fiscal Year (FY) Issued: 2001	**Actions Accomplished (Green Status) during Past 4 FYs**			
	02-7(a)-0 02-SBIC-0 02-504-0	03-7(a)-3 03-SBIC-2 03-504-4	04-7(a)-7 04-504-7	05-7(a)-0 05-504-3

Remaining Actions Needed for FY 2007	**Status at end of FY 2006**	
	7(a)	**504**
1. SBA has implemented a process that effectively assesses the level of financial risk of the portfolio, of participants, and of loans.	Yellow (New)	Yellow (New)
2. SBA provides guidance and training for new participants and those who demonstrate an unacceptable level of compliance.	Green↑	Green↑
3. SBA has implemented a program of reviews of lenders and Certified Development Companies (CDC) for compliance risks.	Yellow↑ (Revised Action)	Yellow↑ (Revised Action)
4. Adequate personnel resources have been provided for the participant oversight program.	Orange (New)	Orange (New)
5. A formal training program has been prepared and implemented for SBA and contractor personnel.	Green↑	Yellow↑
6. SBA has issued and implemented guidance providing for effective oversight of lending programs.	Red (Revised Action)	Red (Revised Action)
7. SBA ensures that appropriate corrective action is implemented and monitored for participants with unacceptable performance.	Orange (Revised Action)	Orange (Revised Action)

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

Challenge 7. The Section 8(a) Business Development (BD) program needs to be modified so more firms receive business development assistance, standards for determining economic disadvantage are clear and objective, and SBA ensures that firms follow 8(a) regulations when completing contracts.

SBA has not placed adequate emphasis on business development to enhance 8(a) firms' ability to compete, and does not adequately ensure that only 8(a) firms with economically disadvantaged owners in need of business development remain in the program. Allowing companies that are "business successes" to remain in the program and continue to receive 8(a) contracts can be a reason why a few companies receive most of the 8(a) contract dollars and many receive none. Based on FY 2005 FPDS-NG data, 50% of the dollars obligated against 8(a) contracts went to 1.7 percent of the 8(a) firms and over 70% of the eligible firms received no FY 2005 8(a) contract benefit at all. (This obligated contract figure excludes amounts awarded to firms that had left the 8(a) program before FY 2005.) Additionally, the program's primary database is ineffective and inefficient, and does not contain the information needed to successfully manage the program.

Finally, while SBA delegated its 8(a) BD contract execution authority to 26 Federal procuring agencies starting in 1998, it has not conducted any surveillance reviews to ensure that agencies were effectively monitoring compliance with 8(a) BD regulations on awarded contracts. Neither SBA nor delegated procuring agencies monitored 8(a) BD contracts to ensure SBA regulations have been followed. Therefore companies could violate 8(a) BD regulations and Federal officials would be unaware of the violations. An ever-changing Federal contracting arena has created an environment in which reengineering of the 8(a) BD program is needed.

Challenge History Fiscal Year (FY) Issued: 2003	Actions Accomplished (Green Status) during Past 4 FYs			
		03-0	04-0	05-0

Remaining Actions Needed for FY 2007	Status at end of FY 2006
1. Develop and implement a plan, including Standard Operating Procedure (SOP) provisions, which ensure that the 8(a) BD program identifies the business development needs of the program participants on an individualized basis and provides assistance to meet those needs.	Red (Revised Action)
2. Develop criteria defining "business success."	Green↑
3. Develop and implement SOP provisions to ensure that participants are graduated once they reach those levels defined as "business success."	Red (Revised Action)
4. Redefine "economic disadvantage" using objective, quantitative, qualitative, and other criteria that effectively measure capital and credit opportunities, and implement the new definition.	Red↓
5. Provide sufficient financial and analytical training to business development specialists (BDS) to enable them to evaluate a company's business profile and competitive potential.	Orange
6. Determine data needs to support and manage the program and implement a management information system (MIS) that will support the program mission and objectives, provide useful information, and enable SBA to measure program results.	Orange
7. Revise the partnership agreements with the procuring agencies so they are specifically required to (1) monitor 8(a) BD companies compliance with program requirements, and (2) take steps to ensure that contracting officers and technical representatives are adequately advised of their responsibilities concerning 8(a) compliance.	New
8. Develop and implement SOP provisions to ensure that SBA regularly reviews efforts by procuring agencies to effectively monitor and enforce compliance with specified 8(a) BD regulations on the contracts they administer.	New

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

Challenge 8. The current practices of the SBIC program place too much risk on taxpayer money.

The Small Business Investment Company (SBIC) Program is designed to stimulate and supplement the flow of private equity capital and long-term debt to small business concerns. SBA uses both guaranteed debt (debentures) and equity interest (participating securities) to provide government-backed financing to SBICs. As of September 30, 2006, SBA had about $10.5 billion of such financings at risk. The financial performance of the program for FY 1993 to FY 2004 resulted in about $2 billion in higher cost to the Federal Government than originally anticipated, which the Agency concluded was due to economic conditions, and the commercial terms of the participating securities.

Various Government Accountability Office and OIG audits attributed the program's unanticipated costs to the structure of the SBIC program, the funding process, and the lack of focus on limiting costs when liquidating SBICs. The audits determined that: (1) the subsidy model underestimated the cost of the program; (2) SBA's profits were not proportional to its investments in the participating security SBICs; (3) insufficient incentives existed to encourage participating security SBICs to repay principal debt as quickly as possible; (4) SBA allowed too much time for financially troubled SBICs to attempt rehabilitation; (5) better performance goals and indicators were needed to show how well and how timely recoveries were maximized for liquidated SBICs; (6) Standard Operating Procedures (SOPs) for SBIC operations and liquidations were outdated, and; (7) existing guidance did not provide a systematic approach for estimating the level of financial risk, implementing restrictive operations, transferring capitally impaired SBICs to liquidation status, liquidating SBICs with participating securities, and monitoring the liquidation of SBIC receiverships.

To address the Management Challenge, program officials have developed a new estimation methodology, drafted (but not implemented) a revised SOP for SBIC operations, and are filling personnel vacancies. No new participating security SBICs will be licensed since funding for this program ended on September 30, 2004. New "actions needed" were added as a result of a recently published OIG audit of the SBIC liquidation process. To address these actions, the Agency is hiring a consultant to review the entire liquidation process and will be revising the current SOP on SBIC liquidations.

Challenge History Fiscal Year (FY) Issued: 2004	**Actions Accomplished (Green Status) during Past 4 FYs**			
			04-2	05-0
Remaining Actions Needed for FY 2007				**Status at end of FY 2006**
1. Develop reasonable subsidy estimates.				Green↑
2. Provide documented analysis justifying the capital impairment percentages (CIP).				Yellow↑
3. Develop more systematic criteria and implement a more timely approach for transferring SBICs to liquidation status.				Orange
4. Revise SOP 10 06 to include a process to perform and document quarterly risk assessments, including an analysis of repayment potential, and recommended actions.				Orange
5. Codify in SOP 10 06 a requirement for the timely and consistent implementation of restrictive operations.				Orange
6. Develop and implement performance goals and indicators that address the efficiency, cost-effectiveness, and timeliness of the SBIC liquidation process.				Orange
7. Develop and implement procedures, that are included in a revised SOP 10 07, to address the liquidation of participating security SBICs and SBA's monitoring of the liquidation of SBICs in receivership.				Red↓ (Revised Action)

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

Challenge 9. Preventing loan agent fraud requires additional measures.

For years, OIG investigations have revealed a pattern of fraud in the 7(a) business loan guaranty program by loan packagers and other for-fee agents. Fraudulent schemes have involved hundreds of millions of dollars. Yet, SBA oversight of loan agents is limited, putting taxpayer dollars at risk. The Agency could reduce this risk if it established effective loan agent disclosure requirements and a database or equivalent means to track loan agent involvement.

Agency efforts to track loan agents have been limited and ineffective. In response to this Challenge, SBA revised its E-Tran system, which is designed to collect loan data electronically from lenders who *voluntarily* participate, so that lenders can indicate whether a loan agent was involved with a loan. However, the OIG has learned that lenders are confused by the E-Tran requirement to identify the "source" of the loan, and that the system is not accurately capturing loan agent involvement. Further problems with the system result from the lack of clear procedures to ensure that the lending official that is working with a borrower transmits loan agent information to the person that is entering data into E-Tran. In addition, the Agency does not capture sufficient identifying information about the loan agents that are being recorded on E-Tran. These flaws need to be addressed before the Agency can rely on E-Tran as an effective means of tracking loan agent activity.

Although the Agency has advised that a majority of loans are now being processed through E-Tran, SBA is also not yet certain how, or whether, it will capture, in a searchable database, loan agent information from the large number of lenders that are still not participating in E-Tran. The Agency has made progress by revising the guaranty purchase checklist (which lists the records that lenders need to provide when requesting SBA to pay a guaranty) to include the submission of the Form 159, which asks for information about loan agents. However, the Agency needs to formally issue this checklist to make this official. In order to establish effective loan agent tracking, SBA must also develop some system to capture loan agent information electronically and link it to individual loans. Such a system would enable the Agency to identify patterns of loan agent fraud and assess the various risks that loan agents present to the SBA's portfolio of guaranteed loans, regardless of whether or not a lender uses E-Tran. In addition, although SBA has enforcement authority under 13 C.F.R. Part 103, it needs to adopt procedures to accomplish an effective agent enforcement system.

Challenge History Fiscal Year (FY) Issued: 2000	Actions Accomplished (Green Status) during Past 4 FYs			
	02-0	03-0	04-0	05-0

Remaining Actions Needed for FY 2007	Status at end of FY 2006
1. Ensure that the E-Tran system's data fields require disclosure of agent involvement and sufficient loan agent identity information to track agent participation.	Orange
2. Ensure that SBA Form 159 or another SBA form requires disclosure of agent involvement and sufficient loan agent identity information to track agent participation.	Yellow↑
3. Provide guidance to lenders to ensure they enter correct loan agent data consistently.	Orange↓
4. Compile loan agent information obtained from lenders **not using E-Tran** in a database or equivalent means that can link loan agents with individual loans.	Red (Revised Action)
5. Formally issue the guaranty purchase checklist to require that lenders submit the Form 159 to SBA at the time the Agency purchases a loan.	Yellow↑
6. Implement effective procedures to (1) review loans for irregularities that could indicate loan agent fraud and abuse, and (2) undertake timely and effective enforcement action against loan agents when warranted.	Orange

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

Challenge 10. SBA needs to continue its efforts to update its system of directives to provide proper guidance and control over its operations.

SBA's system of directives—used to implement policies and procedures that govern agency programs —needs to be revised. Agency rules require that all long-term policies and procedures be implemented through permanent directives known as Standard Operating Procedures (SOPs). Yet, a number of Agency program offices have issued dozens of temporary notices to manage their programs either in lieu of SOPs or that even conflict with existing SOPs, and continue to rely upon these notices even after they have expired. In other cases, obsolete directives (some dating back to the 1970s) have been neither cancelled nor updated even though they apply to programs that no longer exist or that have been substantially altered. The result is an often incoherent and inefficient system that generates confusion and uncertainty in both SBA employees and resource partners that rely on these directives, leads to uneven and potentially arbitrary application of policies and procedures, and which reduces the effectiveness of the agency's internal controls system.

In particular, the SOPs governing SBA's multi-billion dollar business loan programs have not been updated for over six years despite the introduction of new lending programs and a significant number of policy and procedural changes. Specifically, the SOP that governs decisions on making guaranteed loans (SOP 50 10) has not been updated since 2000, is over 700 pages long (including appendixes), and contains many sections that are not actually related to making such loans. This SOP often provides outdated and confusing guidance to SBA employees that administer the small business loan programs and lenders participating in those programs.

Recently, the Agency has made some progress in resolving these issues. In FY 2005, SBA revised the SOP that governs the Directives Management System to implement more coherent directive clearance procedures and to require program managers, on an annual basis, to either certify that their SOPs were current or implement appropriate revisions. The Agency has also made many of the SOPs available to employees through an internal website, an improvement over the previous system where a number of SOPs were only available in paper copy. This website, however, continues to identify SOPs dating back to the 1970s and 1980s that are not available electronically, and which, by all appearances, are obsolete. The Agency also needs to ensure that current versions of relevant SOPs are available to the public through www.sba.gov since many of the SOPs on that website are out of date.

Challenge History Fiscal Year (FY) Issued: 2004	**Actions Accomplished (Green Status) during Past 4 FYs**			
			04-0	05-0

Remaining Actions Needed for FY 2007	**Status at end of FY 2006**
1. Issue a revised SOP governing directives management, including effective clearance procedures.	Green↑
2. Complete the current effort to update all SOPs and incorporate relevant temporary directives.	Yellow↑
3. Update SOP 50-10 so that it contains current and clear guidance and is applicable only to loan making policies.	New
4. Implement a regular review mechanism to maintain SOPs so that they are up-to-date.	Yellow↑
5. Make current versions of all SOPs available electronically on SBA's internal and publicly available Web sites and delete obsolete SOPs.	Yellow

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

Appendix 1: Relevant Reports

Most of the SBA OIG reports listed can be found at:
www.sba.gov/ig/igreadingroom.html.

Challenge 1:

- House Small Business Committee Democratic Staff, *Scorecard VII: Faulty Accounting by Administration Results in Missed Opportunities for Small Business*, July 26, 2006
- SBA OIG, *Review of Selected Small Business Procurements,* Report #5-16, March 8, 2005
- SBA OIG, *SBA Small Business Procurement Awards Are Not Always Going to Small Businesses,* Report #5-14, February 24, 2005
- SBA Office of Advocacy, *Analysis of Type of Business Coding for the Top 1,000 Contractors Receiving Small Business Awards in FY 2002,* December 2004
- The Center for Public Integrity, *The Big Business of Small Business: Top defense contracting companies reap the benefits meant for small businesses,* September 29, 2004
- The Center for Public Integrity, *The Pentagon's $200 Million Shingle: Defense data shows billions in mistakes and mislabeled contracts,* September 29, 2004
- SBA OIG, *Audit of SBA's Administration of the Procurement Activities of Asset Sale Due Diligence Contracts and Task Orders,* Report #4-16, March 17, 2004, pp. 8-9
- GAO, *Contract Management: Reporting of Small Business Contract Awards Does Not Reflect Current Business Size,* GAO-03-704T, May 7, 2003
- The Small Business Committee, U.S. House of Representatives Hearing, *Are Big Businesses Being Awarded Contracts Intended for Small Businesses?* Testimonies of Mr. Fred C. Armendariz, Associate Deputy Administrator, SBA, and Mr. Felipe Mendoza, Associate Administrator, Office of Small Business Utilization, U.S. General Services Administration, May 7, 2003

Challenge 2:

- SBA OIG, *Audit of SBA's FY 2005 Financial Statements Management Letter,* Report #6-10, January 18, 2006
- SBA OIG, *Review of the 1502 Reporting Process*, Report #6-07, December 9, 2005
- SBA OIG, *Audit of SBA's FY 2005 Financial Statements,* Report #6-04, November 15, 2005
- *SBA Disaster Loan Program: Accounting Anomalies Resolved but Additional Steps Would Improve Long-Term Reliability of Cost Estimates*, GAO-05-409, April 14, 2005
- SBA OIG, *Audit of SBA's FY 2004 Financial Statements Management Letter*, Report #5-13 February 23, 2005
- SBA OIG, *Audit of SBA's FY 2004 Financial Statements*, Report #5-05, November 15, 2004
- *Small Business Administration: Model for 7(a) Program Subsidy Had Reasonable Equations, but Inadequate Documentation Hampered External Reviews*, GAO-04-9, March 31, 2004
- SBA OIG, *Audit of SBA's FY 2003 Financial Statements Management Letter*, Report #4-17, March 23, 2004
- SBA OIG, *Audit of SBA's FY 2003 Financial Statements*, Report #4-10, January 30, 2004
- SBA OIG, *Audit of SBA's FY 2002 Financial Statements Management Letter*, Report #3-24, April 14, 2003
- SBA OIG, *Audit of SBA's FY 2002 Financial Statements*, Report #3-06, January 30, 2003
- 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*, Report #03-08, January 30, 2003
- SBA OIG, *Audit of SBA's FY 2001 Financial Statements Management Letter*, Report #2-17, April 12, 2002
- SBA OIG, *Audit of SBA's FY 2001 Financial Statements*, Report #2-04, February 27, 2002
- SBA OIG, *Audit of SBA's FY 2000 Financial Statements Management Letter*, Report #1-15, August 15, 2001
- SBA OIG, *Audit of SBA's FY 2000 Financial Statements*, Report #1-08, February 28, 2001

Challenge 3:

- SBA OIG, *Audit of SBA's Information System Control for FY 2005*, Report #6-08, December 22, 2005
- SBA OIG, *FISMA Independent Evaluation*, Report #6-01, October 7, 2005
- SBA OIG, *Audit of SBA's Informs System*, Report #5-25, September 25, 2005
- SBA OIG, *Memorandum Advisory Report on SBA needs to Implement a Viable Solution to its Loan Accounting System Migration Problem*, Report #5-29, September 30, 2005
- SBA OIG, *Memorandum Advisory Report on Consolidation of SBA's Systems Subject to the Federal Information Security Management Act*, Report #5-19, May 20, 2005
- SBA OIG, *Audit of SBA's Continuity of Operations Program,* Report #5-17, March 30, 2005
- SBA OIG, *Audit of SBA's Information System Controls for FY 2004*, Report #5-12, February 24, 2005
- SBA OIG, *Independent Evaluation of SBA's Computer Security Program,* Report #5-02, October 7, 2004
- SBA OIG, *Audit of SBA's Exchange Email System*, Report #4-42, September 10, 2004
- SBA OIG, *Audit of Selected SBA General Support Computer Operating Systems,* Report #4-41, September 10, 2004
- SBA OIG, *Audit of SBA's Information System Controls for FY 2003*, Report #4-19, April 29, 2004
- SBA OIG, *Audit of SBA's Loan Application Tracking System,* Report #4-18, April 5, 2004
- SBA OIG, *Enforcement of SBA Information Technology Enterprise Architecture During Development of the Disaster Credit Management System*, Report #4-14, March 2, 2004
- SBA OIG, *Monitoring of SBA's Implementation of its Disaster Credit Management System*, Report #3-39, September 24, 2003
- SBA OIG, *Independent Evaluation of SBA's Computer Security Program*, Advisory Memorandum Report #3-37, September 17, 2003
- SBA OIG, *Audit of SBA's Acquisition, Development and Implementation of its Joint Accounting and Administrative Management System*, Report #3-32, June 30, 2003
- SBA OIG, *Audit of SBA's Information System Controls for FY 2002*, Report #3-20, March 31, 2003

Challenge 4:

- SBA OIG, *Management Advisory Report on the Transfer of Operations to the National Guaranty Purchase Center*, Report #4-39, August 31, 2004
- GAO, *Small Business Administration: Progress Made, but Transformation Could Benefit from Practices Emphasizing Transparency and Communication,* GAO-04-076, October 2003
- OMB, *The President's Management Agenda and OMB's Human Capital Scorecard,* http://www.results.gov/agenda/fiveinitatives.html http://www.results.gov/agenda/departmentupdates12.html
- GAO, *Results Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations,* GAO-03-699, July 2003
- GAO, *Small Business Administration: Workforce Transformation Plan is Evolving*, GAO-02-931T, July 16, 2002
- SBA OIG, *Modernizing Human Capital Management,* Report #2-20, May 31, 2002
- GAO, *Small Business Administration: Current Structure Presents Challenges for Service Delivery,* GAO-02-17, October 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
- SBA OIG, *A Framework for Considering the Centralization of SBA Functions*, November 1996

Challenge 5:

- SBA OIG, *Survey of the Quality Assurance Review Process*, Report #6-26, July 12, 2006
- SBA OIG, *Audit of SBA's Implementation of the Improper Payments Information Act*, Report #6-25, June 21, 2006
- SBA OIG, *Audit of an SBA Guaranteed Loan*, Report #6-22, May 17, 2006
- SBA OIG, *Audit of an SBA Guaranteed Loan*, Report #6-17, March 20, 2006

- SBA OIG, *Audit of an SBA Guaranteed Loan*, Report #6-16, March 20, 2006
- SBA OIG, *Audit of an SBA Guaranteed Loan*, Report #6-14, March 2, 2006
- SBA OIG, *Audit of an SBA Guaranteed Loan,* Report #5-26, September 28, 2005
- SBA OIG, *Audit of an SBA Guaranteed Loan,* Report #5-21, July 15, 2005
- SBA OIG, *Management Advisory Report on the Transfer of Operations to the National Guaranty Purchase Center*, Report #4-39, August 31, 2004
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #4-38, August 24, 2004
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #4-33, July 30, 2004
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #4-28, July, 9, 2004
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #4-25, June 22, 2004
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #4-06, January 8, 2004
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #3-38, September 22, 2003
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #3-30, June 19, 2003
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #3-27, May 22, 2003
- SBA OIG, *Audit of the Guaranty Purchase Process*, Report #3-15, March 17, 2003
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #3-07, January 23, 2003
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #2-32, September 30, 2002
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #2-30, September 24, 2002
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #2-23, August 7, 2002
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #2-15, March 29, 2002
- SBA OIG, *Improvements are Needed in Small Business Lending Company Oversight Process*, Report #2-12, March 21, 2002
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #2-03, February 27, 2002
- SBA OIG, *Audit of an Early Defaulted Loan*, Report #2-05, February 27, 2002
- SBA OIG, *Audit of an Early Defaulted Loan,* Report #1-10, March 9, 2001
- GAO, *Major Management Challenges and Program Risks,* GAO-01-260, January 2001
- SBA OIG, *Audit of an Early Defaulted Loan,* Report #0-10, April 23, 2000
- SBA OIG, *Audit of an Early Defaulted Loan,* Report #0-12, March 28, 2000
- SBA OIG, *Audit of an Early Defaulted Loan,* Report #0-05, February 14, 2000

Challenge 6:

- GAO, Small Business Administration Improvements Made, But Loan Programs Face Ongoing Management Challenges, Report #GAO-06-605T, April 6, 2006
- SBA OIG, SBA's Administration of the Supplemental Terrorist Activity Relief (STAR) Loan Program, Report #6-09, December 23, 2005
- GAO, Small Business Administration: *New Service for Lender Oversight Reflects Some Best Practices, But Strategy for Use Lags Behind,* GAO-04-610, June 8, 2004
- 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,* Report # 1-19, September 27, 2001
- SBA OIG, *SBA Follow-up on SBLC Examinations,* Report # 1-16, August 17, 2001

Challenge 7:

- SBA OIG, *Audit of Monitoring Compliance with 8(a) Business Development Regulations During 8(a) Business Development Contract Performance*, Report #6-15, March 16, 2006
- SBA OIG, *Business Development Provided by SBA's 8(a) Business Development Program,* Report #4-22, June 2, 2004
- SBA OIG, *SACS/MEDCOR: Ineffective and Inefficient,* Report #4-15, March 9, 2004
- SBA OIG, *Section 8(a) Program Continuing Eligibility Reviews*, Report #4-3-H-006-021, September 30, 1994

Challenge 8:

- SBA OIG, *Audit of SBIC Liquidations Process*, Report #5-22, July 28, 2005
- SBA OIG, *The SBIC Program: At Risk for Significant Losses,* Report # 4-21, May 24, 2004
- OMB, *Small Business Administration: PART Assessment on the SBIC Program*, February 2, 2004
- SBA OIG, *FY 2003 Financial Statement Audit in the SBA FY 2003Performance and Accountability Report*, January 30, 2004, pp. 230-60
- SBA OIG, *Audit of SBIC Oversight*, Report # 3-33, July 1, 2003
- GAO, *Small Business: Update on SBA's Small Business Investment Company Program*, GAO/RCED-97-55, February 1997
- GAO, *Small Business Administration: SBA Monitoring Problems Identified in Case Studies of 12 SBICs and SSBICs*, GAO/OSI-96-3, April 1996
- GAO, *Small Business Administration: Better Oversight of SBIC Programs Could Reduce Federal Losses*, GAO/T-RCED-95-285, September 28, 1995
- GAO, *Small Business Administration: Inadequate Oversight of Capital Management Services, Inc.-An SSBIC*, GAO/T-OSI-95-19, August 7, 1995
- GAO, *Small Business Administration: Prohibited Practices and Inadequate Oversight in SBIC and SSBIC Programs*, GAO/OSI-95-16, May 28, 1995
- GAO, *Small Business Administration: Inadequate Oversight of Capital Management Services, Inc.-An SSBIC*, GAO/OSI-94-23, March 1994
- SBA OIG, *Audit Report on the Small Business Investment Company (SBIC) Liquidation Function*, Report #3-2-E-004-031, March 31, 1993

Challenge 9:

- SBA OIG, *Applicant Character Verification in SBA's Business Loan Program*, Report #3-43, April 5, 2001
- SBA OIG, *Summary Audit of Section 7(a) Loan Processing*, Report #0-03, January 11, 2000
- SBA OIG, *Loan Agents and the Section 7(a) Program*, Report #98-03-01, March 31, 1998
- SBA OIG, *Fraud Detection in SBA Programs*, Report #97-11-01, November 24, 1997
- SBA OIG, *Operation Cleansweep Memorandum*, August 21, 1996

Challenge 10:

- SBA OIG, *Audit of SBIC Oversight*, Report #3-33, July 1, 2003
- SBA OIG, *Problems with SBA's Directives System*, Advisory Memorandum #3-28, May 22, 2003
- SBA OIG, *Guaranty Purchase Processing: Directors' Survey Responses and Loan Officers' Survey Responses*, Report #3-16, March 18, 2003
- SBA OIG, *Audit of the Guaranty Purchase Process*, Report #3-15, March 17, 2003
- SBA OIG, *The Microloan Program: Moving Toward Performance Management*, Report #3-26, May 13, 2003
- SBA OIG, *Standard Operating Procedure 00-11*, Memorandum, December 17, 2002
- SBA OIG, *Travel of SBA's Former Regional Administrator*, Report #2-22, August 7, 2002

APPENDIX 5 – AGENCY RESPONSE TO THE OIG MANAGEMENT CHALLENGES

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

Date: October 24, 2006

To: Eric M. Thorson
Inspector General

From: Stephen D. Galvan
Chief Operating Officer

Subject: FY 2007 OIG-Identified Major Management Challenges

On October 16, 2006, the OIG published a report, entitled: "FY 2007 Report on the Most Serious Management Challenges Facing the Small Business Administration." One of my primary functions as Chief Operating Officer (COO) is to ensure that SBA exercises cost-effective stewardship over its resources and offers cost effective service to our customers. We can achieve this goal by instituting a more accountable process for addressing effectively these challenges, monitoring progress through an internal scorecard, and linking an individual's success to organizational improvements.

SBA appreciates the cooperation and work done by the OIG in helping the Agency to address these challenges. The Administrator is a results-driven executive who wants to be held accountable for creating an agency that is well managed and operationally efficient. Accordingly, we are committed to improving our management and oversight and look forward to continued collaboration with the OIG.

With two notable exceptions, the Agency concurs with the FY 2007 Report that states that we improved in 24 of the 65 recommended actions and worsened in 5 of the recommended actions. We question the basis for two of the "no progress" assessments in the Capital Access programs (i.e., SBIC liquidation and loan agent fraud reduction) that reflect a backward movement from "minimal progress" last year to "no progress" this year. A "red" rating signifies that nothing is being done. That is just not the case in (1) SBIC liquidation and monitoring of those SBICs in receivership and (2) the commitment to collect and link loan agent information to individual loans for possible fraud detection.

First, SBA believes that it continues to make progress in monitoring SBICs in receivership and improving the SBIC liquidation program, achieving a record 17.2 percent collection (of the beginning Participating Security balance at beginning of year) compared to a 9 percent collection in FY 2005. For example, SBICs in liquidation are liquidated primarily through receiverships and self-managed wind-downs. Receiverships are legal entities administered through the court system. As such they receive extensive oversight as all substantive actions require court authorizations and at least annual reports are due to the court. More frequent meetings (quarterly) are held with the management teams liquidating the receiverships. Managers are required to provide a plan of liquidation and SBA actively monitors progress towards completion of the plan. The plan contains operating budgets and expected recoveries. Analysts review progress periodically to determine compliance with these goals and take action based upon this review. Failure to achieve adequate progress may result in the appointment of a receiver. Personnel in the Office of Liquidations have performance plans that require the above level of oversight and are judged accordingly. For FY 2005 and FY 2006, SBA has dramatically exceeded its recovery goals, reflecting, in our estimation, some level of progress.

Second, although we did not concur in the suggested action to collect loan agent information *using the current LAS mainframe system*, SBA submitted to the OIG a letter of intent/commitment to pursue three alternative courses of action to collect the information and achieve the desired goal—alternatives for which we expect to be held accountable: 1) Use the normal SBA on-site safety and soundness reviews of lenders to collect the information (manually) on brokers used by those lenders reviewed; 2) Collect the information through the procedures implemented in the 7(a) centralization process that mirrors the electronic collection now done by E-TRAN; and 3) Ensure that within the next 15 months through the LMAS project, the remaining 30 percent of SBA loans now originated in a paper format will be handled electronically where the loan agent information will be collected into a database and linked to an individual loan. Given the commitment to collect the desired information, we do not believe that this action merits a "no progress" assessment.

Thank you for your continued help in highlighting ways to improve our management environment.

APPENDIX 6 – THE SBA'S ACTIONS IN RESPONSE TO OMB'S PART EVALUATIONS

Strategic Goal 2	Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.
Program Name	**Section 7 (a) Guaranteed Loan Program**
Ratings	**FY 2004 Adequate**
Major Findings	• The agency has developed meaningful outcome goals for the program but results will take several years to measure. • While different in structure, the 7(a) program overlaps with the SBA's Section 504 program in that both can provide long-term financing for the same borrowers. The program also overlaps, to some extent, with other Federal agency credit programs. • SBA's defaulted loan purchase and liquidation processes needed better controls. • Further evaluations are necessary to ensure that the program complements rather than competes with private-sector loans. • The Agency has demonstrated improved efficiencies in achieving program annual goals.
Actions Taken/Planned	In response to these findings: • The agency is developing baselines for its outcome measures. • SBA consolidated the loan liquidation function from 69 District Offices to a single center in order to reduce costs and ensure consistency in processing. • SBA has identified other loan management strategies to further reduce administrative costs. Approximately six percent of 7(a) loans are still processed in the 69 district offices. The other 94 percent are processed centrally under expedited procedures. • The agency has contracted with the Urban Institute to study whether the Agency's loans supplement or supplant credit available in the private markets or with other federal programs. The results of the Study will be released towards the end of 2006. • In response to the finding, the Office of Capital Access implemented a 7(a) loan charge-off project during FY 2006 to improve the management of purchased 7(a) loans by properly classifying liquidated loans as charge-off. • The Office of Capital Access is also rewriting the 7(a) loan liquidation regulations, which are designed to require that purchased loans are addressed immediately.

Program Name	**SCORE**
Ratings	**FY 2002 Results Not Demonstrated** **FY 2003 Moderately Effective** **FY 2004 Moderately Effective**
Major Findings	• The program has successfully brought together volunteers with entrepreneurs for mentoring. • Due to the use of volunteers, the cost per client under the SCORE program was low relative to similar programs. • While client satisfaction is high, there are no other data to show that the program has resulted in long-term benefits to recipients. • Client satisfaction is high. The ED Impact Study (2003-2004) shows that the program has resulted in long-term benefits to recipients. • Client satisfaction is high. The ED Impact Study (2003-2004) shows that the program has resulted in long-term benefits to recipients.
Actions Taken/Planned	• SBA developed a new strategic plan with meaningful annual and long-term outcome-oriented measures. The program now has clear goals from which to assess performance. • SBA has developed a standardized evaluation strategy for all of its technical assistance programs. The results of the first phase of the longitudinal survey became available in FY 2005. To further improve the program, SBA will continue evaluating the program's performance and make program changes as warranted. The Agency's budget requests includes requests of funding for evaluations.

Appendix 6

Program Name	Small Business Development Centers
Ratings	**FY 2002 Results Not Demonstrated** **FY 2003 Moderately Effective** **FY 2004 Moderately Effective**
Major Findings	• An independent evaluation of the program found that each $1 spent on counseling resulted in $2.78 in tax revenue. • Funds are allocated to SBDCs based on formulas rather than performance. In addition, the hourly cost of counseling services varied significantly among SBDCs without any evidence that the quality of services or outcomes differed.
Actions Taken/Planned	The program has taken a number of steps to address deficiencies identified through the initial PART assessment: • In response to initial findings that the program did not have adequate performance measures, SBA developed a new five-year strategic plan with meaningful annual and long-term outcome-oriented measures. The program now has clear goals from which to assess performance. • The original PART assessment found that the agency lacked independent evaluation data to assess the impact of the program. SBA has developed a standardized evaluation strategy for all of its technical assistance programs. The results of the first phase of the longitudinal survey became available in FY 2005. To further improve the program, SBA will continue evaluating the programs performance and make program changes as warranted. The Agency's budget includes requests of funding for evaluations. • SBA has proposed legislation that would make lead center grants competitive to help ensure promulgation of best practices. Implementation would help address concerns that have resulted in low program purpose rating. • In response, the SBDC has moved its goaling/performance measures from outputs to outcomes. For 2007, the goals are business starts, capital infusion and long-term counseling clients. In its report to the President, OMB cited SBDC as an excellent example of moving from outputs to outcomes.

Program Name	Section 504 Certified Development Company Guaranteed Loan Program
Ratings	**FY 2002 Results Not Demonstrated** **FY 2003 Adequate**
Major Findings	• 504 loans differ in structure from the Small Business Administration's (SBA) 7 (a) General Business loans. Nonetheless, the program overlap in that they both provide long-term financing for the same potential borrowers. • Inadequate competition among intermediaries resulted in limited loan availability in some geographic areas. • Further evaluations are necessary to ensure that the program complements rather than competes with private-sector loans. • Lenders' and intermediaries' incentives to properly manage SBA Section 504 loans may be negated by the structure of the program; lenders receive the first lien on borrower assets and program intermediaries receive a 100% guarantee from SBA.
Actions Taken/Planned	• All CDCs now have a statewide territory. In addition, SBA has approved several CDCs to work in communities that are in contiguous states. • Completed: Is changing servicing requirements so that CDCs (intermediaries) will be responsible for loan liquidations in the event of default. • Actions Taken But Not Completed: • The Agency is in the process of issuing regulations that will provide CDCs with the ability to liquidate their own loans. • The agency has contracted with the Urban Institute to study whether the Agency's loans supplement or supplant credit available in the private markets or with other federal programs. The results of the Study will be released towards the end of 2006. • Completed: Issued regulations that remove barriers to competition among certified Development Company program intermediaries.

Program Name	Small Business Surety Bond
Ratings	FY2006 Adequate
Major Finding	• Program enhancements are needed to maximize effectiveness and achieve performance goals. SBA needs to develop an Internet-based electronic application and claims processing system and restructure its program outreach. • A rigorous program evaluation is necessary to determine whether the program supplements or supplants private surety bonding activities.
Actions Taken/Planned	• Revised the reporting chain of the Area Offices to standardize procedures for consistency and to improve customer service. • Received $200,000 in funding for the internet based application processing system and developed the Functional Requirements Document. OSG is currently working with OCIO to develop the project plan and completion schedule. • Completed a Proposed Rule consisting of six regulatory changes to enhance the program - currently at OMB for review and approval. • Submitted a Statement of Work for the Urban Institute study to the CFO.

Program Name	HUBZone
Ratings	FY2005 Moderately Effective
Major Findings	• In a 2003 report initiated by the HUBZone Program Office the Inspector General found some ineligible companies certified under the program.
Actions Taken/Planned	• The Program Office program plans to take a number of steps to address deficiencies identified through the initial PART assessment: • Reviewing 5% of the portfolio annually for compliance with program requirements. • Improving the timeliness of decertification of firms that are deemed ineligible for failure to respond to recertification or program examination notifications. • Upgrading the HUBZone system to specifically identify and report the reason(s) for decertification actions. • Expanding the existing capability of the system to effectively monitor the award of HUBZone firms to ensure that ineligible firms do not receive such HUBZone contract awards. • Evaluating and measuring program outcomes.

Program Name	8(a) Business Development Program
Ratings	FY2005 Adequate
Major Findings	• The SBA should adopt a detailed definition of what it means to be economically disadvantaged, and reconsider the current exclusion of residential and business equity in the computation of an individuals net worth. • Replace the ineffective and inefficient Servicing Contracts System/Minority Enterprise Development Central Office Repository data system. • Re-position this program as a business development program for culturally and economically disadvantaged entrepreneurs rather than focusing of Federal procurement.
Actions Taken/Planned	The program has taken a number of steps to address deficiencies identified through the PART assessment: • Strengthening criteria relating to economic disadvantage: In FY 2006, the Office of Business Development solicited a study to develop quantitative information for the criteria of economic disadvantaged. The study did provide possible indicators for the criteria of economic disadvantage; however, a more in-depth analysis and determination of the criteria is required for comparison and implementation into SBA policy and procedures. Therefore, with the assistance of the CFO, the Office of Business Development will contract for a more in-depth study to validate the indicators that were provided in the previous study. • Developing and implementing new information technology management systems including electronic applications and annual review processing as well as a dynamic management reporting system: The Office of Business Development (BD) has placed the last two phases of the BD-MIS, the E-Annual Review and replacement of SACS/MEDCOR on hold to allow for an Independent Verification and Validation of the system to occur, as well as correct existing bugs and regulation issues. Effective March 6, 2006, a contractor began the assessment of the E-Application portion of the BD-MIS. BD has held several meeting with OCIO and the Chief of Staff regarding issues relating to the BD-MIS. The OCIO will provide the necessary support to regain the functionality of the system and meet regulatory requirements. An investment request of $300k for the final module of the BD-MIS was approved for incorporation in the FY 2008 budget. • Centralizing 8(a) annual review process to reduce costs: BD is reviewing the idea of centralizing the annual review process to reduce costs for two reasons. The first reason is that the second phase of the Business Development Management Information System (BD-MIS), the electronic annual review, will be a web-based application that allows for the 8(a) certified firms to enter the annual review data into the system. This will save time and money since in the current system the BDS in the field enters all of the information into the system for each 8(a) firm he or she services. The e-annual review will be deployed in FY 2007. Secondly, BD has developed a two page streamlined annual review worksheet which has been cleared by OGC. The streamlined worksheet will be disseminated to the Field with a Procedural Notice by the beginning of Fiscal Year 2007. The streamlined process will save the BDS time and will therefore reduce costs. Once both processes are in place, BD will re-evaluate the need for centralizing the 8(a) annual review process.

Strategic Goal 3	Restore homes and business affected by disaster.
Program Name	Disaster Loan Program
Ratings	FY2003 Moderately Effective FY2004 Effective
Major Findings	• The program complements rather than duplicates other disaster assistance programs; • SBA lacked reliable credit models for measuring the Federal government's costs; • Loan making costs, due to fraud prevention, are high.
Actions Taken/Planned	• The program has taken a number of steps to address deficiencies identified through the PART assessment: • SBA has developed a new loan-level subsidy model that better reflects taxpayer costs for the program. • SBA has developed a new, long-term strategic plan. • SBA will continue to measure the program's performance against newly developed performance baselines and the Administration will review options for reducing loan administrative costs through technological advances and streamlining the loan making process.

APPENDIX 7 – IMPROPER PAYMENTS

As required by the Improper Payments Information Act the SBA reviewed its payment programs during FY 2006. From this analysis, the SBA identified the 7(a) guaranty purchase program as medium risk under IPIA guidelines issued by the OMB. The SBA has also included three other major credit programs in this report in accordance with OMB guidance in OMB Circular A-136, as these programs were previously identified by OMB in the former Section 57 of OMB Circular A-11 as subject to Improper Payment reporting. The four SBA credit programs included in this report are the 7(a) Business Loan Program, the Section 504 Certified Development Company (CDC) Debenture Program, the Small Business Investment Company (SBIC) Program and the Disaster Assistance Loan Program. OMB guidance was modified during FY 2006 to include guaranty issuance as well as payments on guaranty defaults in Improper Payment reporting, and this new requirement will be implemented for the 7(a) and 504 programs in FY 2007. Guaranty issuance is included in this FY 2006 reporting for SBIC program improper payments.

I. Describe your agency's risk assessment(s), performed subsequent to compiling your full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11.

Response: Risk Assessments have been performed for the SBA's credit programs previously identified under Section 57 of OMB Circular A-11 reporting requirements. The credit programs are (1) 7(a) business loan guaranty purchase, (2) Certified Development Company Program, (3) Small Business Investment Company Program and (4) Disaster Loan program.

The delegation of responsibility for 7(a) guaranty program to SBA's participating lenders around the United States for issuance, servicing and liquidation of 7(a) loans causes a medium risk of improper payment that is subject to SBA oversight, monitoring and attention to identified discrepancies. As a result, the 7(a) program has been designated as Medium Risk under IPIA guidelines. The 7(a) guaranty purchase program utilizes the Quality Assurance Program to monitor and report improper payments in 7(a) purchase centers. The 7(a) purchase centers include the National Guaranty Purchase Center in Herndon Virginia that purchases defaulted 7(a) guaranties as well as centers in Fresno California and Little Rock Arkansas that purchase defaulted SBAExpress guaranties.

The risk of FY 2006 improper payment in the CDC program is deemed by SBA to be practically non existent due to extensive control over debenture guaranty processing and purchase operations that includes review by program and legal professionals prior to issuance of the debenture guaranty and the purchase of defaulted guaranties. The SBA is developing a program for use in FY 2007 Improper Payment reporting on development company loans to small business in order to meet OMB's expanded requirement for Improper Payment reporting.

SBIC program improper payment risk is minimal again due to extensive operational controls, including legal review, over guaranty issuance and default purchase activities. In addition the SBIC examination program subjects SBICs to at least a biennial review of the SBIC company investments in small business ventures.

Disaster program risk of improper payment is minimal due to extensive, thorough operational controls over the Disaster application, damage verification, credit review and loan closing activities. The huge volume of Disaster loan approval processing in FY 2006 due to the Gulf Coast and Florida hurricanes in 2004 and 2005 was monitored closely during FY 2006. The risk of Disaster program improper payment continues to be low due to the operation controls over disaster loan processing.

II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

Response: 7(a) guaranty purchase statistical sampling utilized OMB guidance in Appendix C of OMB Circular A-123. The sample size of purchases reviewed consisted of 246 cases. This sample size is appropriate for a projected improper payments rate of approximately 6% according to OMB guidance. The sample cases were chosen through a random selection process from the purchases processed at each of SBA's centers responsible for guaranty purchases: the National Guaranty Purchase Center (NGPC) in Herndon, Virginia; the Fresno, California Commercial Loan Servicing Center; and the Little Rock, Arkansas Commercial Loan Servicing Center. Of the 246 purchases reviewed, 120 were from those processed at the NGPC and 126 each were from purchases processed by the Fresno and Little Rock centers (63 from each center). SBA's previous improper payments rate was calculated at 1.44% for fiscal year 2005. Since the minimum sample size of purchases needed to yield an improper payment estimate of 2% (with a 90% confidence interval of plus or minus 2.5%) is approximately 85, SBA is using a very conservative approach and employed a larger sample size equivalent to an improper payment estimate that was over three times higher – approximately 6%. The sample size determination is consistent with OMB's guidance based on the formula, $n \geq 2.706\,(1\text{-}P)/(0.025/P)^2P$, where "n" is the minimum sample size and "P" is the estimated percentage of improper payments. As agreed to with OMB, 7(a) improper payments in FY 2006 consisted of the fourth quarter of fiscal year 2005 and the first three quarters of fiscal year 2006. The FY 2006 improper payment rate determined was 1.56 percent.

The 504 program statistical sampling was not completed because each and every Section 504 debenture guaranty issued is subject to thorough review by SBA program and legal professionals, and due to the non existence of improper payment in this program. As a result of expanded OMB requirements in prompt payment guidance, the SBA is developing a sampling program for use in FY 2007 Improper Payment reporting on development company loans to small business. The FY 2006 improper payment rate assumed is zero percent.

The SBIC program used OMB guidance in Appendix C of Circular A-123 to determine a random sample of 95 SBIC financings by SBICs having SBA guarantied leverage. Improper payments were identified when an SBIC examination or a review by a SBIC program analyst found a discrepancy in the financing with SBIC program regulations. About 45 percent of the sampled financings were subject to an SBIC examination during the year. The rest of the sampled financings were reviewed by program analysts. The program analysts reviewed term sheets (which include the terms of the financings), Forms 468 (financial statements), Forms 1031s (Reports of individual financings) and other material to determine compliance with regulatory requirements. The FY 2006 improper payment rate determined was zero percent.

The Disaster program improper payment rate is determined using the Disaster Quality Assurance Review (QAR) program. Using the OMB guidance in Appendix C of Circular A-123, a sample of 315 randomly selected loans was selected. This sample size far exceeded the size mandated by OMB guidance considering the improper payment rate. The scope of the QAR review covers three compliance areas: (1) basic eligibility, (2) adherence to relevant laws, rules, regulations and standard operating procedures and (3) credit worthiness. The FY 2006 improper payment rate determined was .8 percent.

III. Describe the Corrective Action Plans for:

A. Reducing the estimate rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.

B. Grant-making agencies with risk susceptible grant programs, discuss what your agency has accomplished in the area of funds stewardship past the primary recipient. Include the status of projects and such results of any reviews.

A. Response: The 7(a) guaranty purchase program plan is to identify and track the reasons for any improper payments discovered in the QAP, and then make appropriate changes in the QAP to reduce the purchase error rate. Improper payments in the guaranty purchase process arise from the failure of a purchase processor to identify material lender deficiencies in the handling of an SBA guaranteed loan. Primary reasons identified for the determination that all or a portion of a guaranty purchase was improper are:

- Failure of lender to provide adequate evidence of required cash equity injection. In one case reviewed, although there was a reduction in the guaranty purchase amount, the proper remedy would have been a refusal to purchase in totality because it was an early defaulted loan and the required cash injection was material in size. In these circumstances the presumption is that the borrower failed because of the lack of the required equity in the business.
- Failure of lender to obtain required lien position which resulted in a significant loss during loan collateral recovery proceedings.
- Failure of lender to verify through obtaining tax transcripts from IRS the financial information of the business purchased by the borrower. The financial information of the purchased business was relied on by the lender in its cash flow analysis to determine repayment ability for the SBA guaranteed loan.
- Transcript of account was not adequately analyzed resulting in overpayment of the lender. In this regard, further guidelines are being developed by Office of Financial Assistance as an SOP revision.
- Improper allocation of liquidation proceeds by lender to a non-SBA loan thereby constituting a preference to the lender.

Corrective action procedures for the **7(a) guaranty purchase program** followed are to advise the purchase processing team of improper payment determinations and also to provide clarification as to the nature of the issues to avoid possible improper payments in the future. This has been and will continue to be accomplished by:

- Identifying and analyzing error patterns,
- Communicating error patterns to the centers processing purchases,
- Reviewing current policies and procedures to ensure that any error
- Patterns are appropriately addressed in current guidance,
- Updating policies and procedures where necessary,
- Issuing guidance to the purchase centers on specific issues,
- Providing training as needed, and
- Adding to center resources where necessary to ensure the existence of quality assurance review programs that will identify any emerging patterns or potential problem areas that might result in future improper payments, as well as taking action to mitigate these potential problem areas.

The **CDC program** risk of improper payment for the debenture guaranty is practically non existent. The SBA is developing a program to include CDC loans to small business in OMB's revised Improper Payment requirements for FY 2007 reporting.

Although the **SBIC guaranty program** was determined by SBA's testing to have no improper payments in FY 2006, we do believe some minimal improper payments do exist. We believe these payments involve regulatory violations that are generally not substantive or easily correctable but do not involve fraud or inappropriate enrichment of any SBIC personnel. We believe this will continue to be the case and have instituted a number of steps to ensure that improper payments remain minimal. First, in the early to mid 1990s, more rigorous program standards were instituted. This has led to a more knowledgeable fund manager and reduced the likelihood that program fraud would be committed. Second, we require all fund managers to undergo training on our regulations as a condition for receiving leverage. Almost all SBICs are represented by very knowledgeable service providers who have extensive experience in the program. As part of the licensing process, we conduct extremely detailed background checks on fund managers with both the Office of the Inspector General and the

Federal Bureau of Investigation. We have also instituted a policy of doing credit checks on all potential fund managers as part of our due diligence process in licensing. We believe this will further ensure that only fiscally prudent managers become part of the program.

The Disaster Loan improper payment rate of .8percent in FY 2006 is consistently well below the 2.5% OMB threshold. The errors that did occur were the result of incorrect Disaster approval processing of disaster eligibility, loss verification of the damage amount and credit status impact on the loan payment amount. ODA will continue its current plan to more fully automate its processes as well as update and continue the Quality Assurance Review of its Loss Verification function and the Processing and Disbursement Center. The new computer system has allowed us to better monitor our loan portfolio. We are able to run reports that allow us to address eligibility issues on a regular basis. This ensures that we can address any issues in a timely manner and correct potential improper payments early in the process.

B. Response: Not Applicable. SBA is not a grant making agency.

IV. Improper Payment Reduction Outlook FY 2004 – FY 2007

Response: The SBA's planned reduction of Improper Payments is shown as required in the following table.

Improper Payment Reduction Outlook
($ in millions)

Program	FY05[b] $ Outlays	FY05 IP %	FY05 IP $	FY06[a] $ Outlays	FY06 IP %	FY06 IP $	FY07[a] Est. $ Outlays	FY07 IP %	FY07 IP $	FY08[a] Est. $ Outlays	FY08 IP %	FY08 IP	FY09[a] Est. $ Outlays	FY09 IP %	FY09 IP $
7(a) Guaranty Purchase [a]	605.1	1.44	8.7	650.9	1.56	10.2	670.0	1.54	10.3.	690.0	1.52	10.5	710.0	1.50	10.7
CDC Debentures [c]	4,942.1	NA	NA	4,273.6	NA	NA	4,200.0	NA	NA	4,200.0	NA	NA	4,200.0	NA	NA
SBIC Part. Securities [d]	2,684.0	4.65	125	2,709.0	0.0	0.0	2,500.0	2.00	50.0	2,000.0	2.00	40.0	1,250.0	2.00	25.0
Disaster Loan Program [e]	2,230.5	.07	1.6	11,170.3	.8	89.4	1,200.0	.75	9.0	1,300.0	.70	9.1	1,300.0	.65	8.5

[a] Outlays in this report represent the "base amount" of the program activity related to SBA Improper Payments; and this amount will differ from the amount reported as outlays in SBA's President's Budget submissions because they include reestimates of subsidy cost, reimbursements to SBA administrative funds and other costs.

[b] FY 05 7(a) figures are restated to provide final FY 05 results not available at last years reporting date. Beginning with FY 07, 7(a) reporting will include 7(a) guaranties issued as well as purchases of 7(a) defaults.

[c] SBA had zero improper payments for the CDC Debentures program. SBA will report on guarantied CDC loans beginning in FY 07.

[d] SBIC Participating Security reporting in FY 06 includes SBIC debentures and SBA guaranties of SBIC investments in small business.

[e] A 5 year historical average of Disaster activity was used to project FY +1, 2 and 3 Est. $ Outlays figures. The Disaster FY outlay figure will depend on the magnitude of Gulf Coast loans.

V. Discuss your agency's recovery auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. In addition complete the table below.

Agency component (if applicable)	Amount subject to Review for CY Reporting	Actual Amount Reviewed and Reported	Amounts Identified for Recovery	Amounts Identified/Actual Amount Reviewed	Amounts Recovered CY	Amounts recovered PY(s)
na	na	na	na	na	na	Na

Response: The SBA's credit programs reported under IPIA requirements are not subject to recovery auditing activities. SBA's programs, however, do include activities to recover improper payments if appropriate.

For **7(a) guaranty purchases**, SBA has established a recovery target of 85% of the aggregate amount of improper payments identified ($258,762 for the reporting period ended June 30, 2006). While SBA will attempt to recover 100% of the amounts identified as improper payments, litigation may be necessary in some instances with uncooperative lenders. In this regard, decisions may be made when appropriate to accept reasonable settlements of improper payment claims rather than to pursue protracted court proceedings.

Procedures for Recovery of 7 (a) guaranty purchases: SBA will make formal written demand upon and/or engage in discussions with 7(a) lenders it identifies as having received improper payments. If a lender refuses to return a payment, litigation will be explored if analysis determines that such action will be cost effective and there will be a reasonable chance for the Agency to prevail. The litigation office in SBA's Office of General Counsel conducts this analysis.

For **504 Debentures guaranties**, recovery auditing is not appropriate.

For **SBIC Debenture guaranties**, SBA has determined that "Recovery Auditing" is not applicable to SBIC Improper Payment recovery. SBA's current recovery efforts are very effective. Most regulatory violations are resolved in a fairly short time frame. The resolution can be in a number of ways. The violation may be determined not to be a violation of the regulations after further study. In other instances, the SBIC may be asked to change the terms of the investment in the portfolio concern in a manner that resolves the issue. If the situation cannot be corrected, the SBIC may be asked to divest its interest in the portfolio concern. In very rare instances, the SBIC might be found to be in default of its covenants and transferred to the Office of SBIC Liquidations, where recovery efforts will be implemented. This is a very rare step and has not been necessary for the most part.

VI. Describe the steps the agency has taken and plans to take (including time line) to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.

Response: The Improper Payment initiative is included in the President's Management Agenda along with the Administrations other management initiatives. The SBA's Strategic Goal Four is to assure the SBA programs operate efficiently and effectively, including compliance with PMA initiatives. The SBA's strategic goals are included in annual performance plans for all of its programs as business objectives, and these business objectives are included in employee performance plans. SBA management monitors accomplishment of its business objectives in its performance plan using its Execution Scorecard, and action is taken when progress is not on target. Executive and management bonuses are based on the accomplishment of business objectives included in employee annual performance plans. This management process assures accountability of improper payment follow up for SBA's four credit programs included in this report. Additionally:

For the **SBIC program**, operations analysts are evaluated, in part, on the resolution of regulatory violations in a timely manner. They are also evaluated, in part, on responding to requests for clarification on regulations by licensees. Although examiners are not evaluated on the number of violations they uncover, they are evaluated on the number of exams they perform. We believe the assistance provided by SBIC operations analysts and the approximately annual exams for leveraged SBICs provide an incentive to perform within the framework of the regulations.

For the **Disaster program**, it is important to note that as a part of the annual Quality Assurance Review, the following number and dollar amount of Improper Payments has been identified:

(2003) 8 loans for $96,266 in IP loans

(2004) 11 loans for $34,089 in IP loans

(2005) 9 loans for $18,280 in IP loans

(2006) 11 loans for $125,047 in IP loans

The majority of IP loans identified thru annual Quality Assurance Reviews indicate minimal findings of unauthorized and/or ineligible loans. It is also important to note that SBA annual sample sizes exceed OMB sampling requirements and most of these findings are relatively minor math errors that resulted in small excess eligibility determinations rather than ineligible loans. More specifically, ODA's internal controls (in this regard) include the following:

- Disaster related damages are verified onsite by SBA staff. The cost to repair and/or replace the disaster damaged property is determined by SBA construction analysts. ODA also makes appropriate credit checks, verification of income, verification of ownership and checks with FEMA to ensure that federal assistance is not duplicated during loan processing and disbursement of all disaster loan funds. Finally every secured disaster loan is reviewed by staff attorneys for legal sufficiency and the use of electronic funds transfer is utilized to prevent lost and stolen checks.
- Please note that while the IP dollar amounts indicated above is represented by the approved loan amount, the actual cost of the loan to the government is determined by the subsidy rate. Applying the subsidy rate to the loan amount would reduce the actual erroneous payment amount by approximately 80 percent.

The SBA asserts that its Disaster program internal controls (checks and balances) that have always been a part of its loan making and disbursement function are responsible for the relatively minimal amounts of IP loan amounts designated above. In addition, the Disaster Loan Program, by its very nature, legally obligates the recipient of any disaster loan (or any IP portion of a disaster loan) to pay back all the loan funds whether the loan contains any Improper Payments or not. Not only is there a legally binding contract (between the government and the SBA) to repay the loan, the contract is usually secured by real estate collateral which further strengthens the government's recovery position. Accordingly, an ODA recovery auditing effort is ***not applicable*** because each loan contract legally assures recovery of the entire loan (with interest) as soon as the loan agreement is signed – notwithstanding the circumstances.

In summary, the collateralized repayment requirements, sophisticated system of checks and balances as well as the Disaster program historical record of low IP (of which all are currently being repaid) clearly supports SBA's assertion that its management and operations are responsive to improper payment requirements.

VII. A. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.

Response: The SBA's 7(a) program Guaranty Purchase Tracking System supports the 7(a) guaranty purchase process very well, and it is continually updated to enhance the overall integrity of the purchase process. The 504 program software used by the Central Servicing Agent is owned by SBA, and thus the Agency has a higher level of control over that software than would typically exist when contractors are used. In addition the contractor provides audited financial statements and a SAS 70 report to verify its system. The SBIC program maintains a data system that tracks exams, exam findings and their resolution. All individuals are empowered to refer any case of suspected fraud to the Inspector General. The Disaster loan program has the information systems and other infrastructure it needs to reduce improper payments to targeted levels and it is already well below the improper payments levels the OMB has targeted. An integrated, electronic loan processing system to streamline, enhance and improve the disaster loan-making process has been implemented. This system will support work-flow management, electronic file management and document generation functions. In fact, A Quality Assurance Task Force partnered with the Disaster Credit Management System (DCMS) development team to improve the Quality Assurance process with a goal to minimize future Improper Payments events as much as possible. As a result, many of the business rules that govern the programming of this new system have been designed to help improve the Quality Assurance process. The DCMS will significantly impact the disaster assistance program and the manner in which it delivers services to disaster victims.

B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its FY2007 budget submission to Congress to obtain the necessary information systems and infrastructure.

Response: Not applicable.

VIII. A description of any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments.

Response: Not applicable. The SBA does not have any statutory or regulatory barriers limiting improvement to its performance on Improper Payments initiative.

IX. Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.

Response: The SBA had previously applied to OMB for an exemption to the requirements of the IPIA for its CDC and Disaster programs because improper payments are non existent or very minimal. The SBA's risk assessment of improper payment in these programs, as well as the SBIC program, indicate a low level of risk below the IPIA threshold.

These applications have been set aside for the time being by OMB and SBA due to developments in SBA's programs and OMB's expanded improper payment reporting requirements. The Gulf Coast disasters of 2005 and the SBA response to Katrina victims has mushroomed disaster approvals to an astounding $11 billion this year. Also, the SBIC program implemented a new improper payment testing program in FY 06 that includes a statistically valid random sampling process. In addition, the OMB's expansion of improper payment reporting from program disbursements to now include guaranties issued in the 7(a) and 504 programs has imposed a new improper payment program requirement on these programs.

The SBA's FY 2006 improper payments results are still, however, extremely low.

	FY 2006 Improper Payment Rate
7(a) Guaranty program	1.56 percent
504 Development Company program	Zero percent (assumed)
SBIC Security Guaranty program	Zero percent
Disaster	.8 percent

As a result, the SBA is reevaluating its application for exclusion from improper payment reporting of SBIC and Disaster program results, and we may resubmit our application for exclusion from IPIA reporting requirements. In addition, we will monitor the results of the expanded improper payment reporting of the 7(a) and 504 guaranty programs during FY 2007. Depending on the results of this monitoring, we may recommend to OMB that these programs be excluded from IPIA reporting requirements in FY 2008.

APPENDIX 8 – THE SBA'S 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. Several of the more frequently visited sites are listed below:

SBA INFORMATION

Who We Are and What We Do: http://www.sba.gov/aboutsba/index.html

Find Your Local Office: http://www.sba.gov/localresources/index.html

SBA En Español: http://www.sba.gov/espanol/

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

Online Library: http://www.sba.gov/tools/resourcelibrary/index.html

On Line Training: http://www.sba.gov/services/training/index.html

FOR START-UP BUSINESSES

Starting Your Business: http://www.sba.gov/smallbusinessplanner/start/index.html

Frequently Asked Questions: http://app1.sba.gov/faqs/

Get Ready: http://www.sba.gov/smallbusinessplanner/plan/getready/index.htm

Start-up Kit: http://www.sba.gov/smallbusinessplanner/plan/getready/serv_sbplanner_stguide.html

Training: http://www.sba.gov/services/counseling/index.html

Business Plans: http://www.sba.gov/smallbusinessplanner/index.html

Outside Resources and Business Hotlinks: http://app1.sba.gov/hotlist/default.cfm

FOR ESTABLISHED BUSINESSES

Financing Your Business: http://www.sba.gov/services/financialassistance/index.html

Loan Programs: http://www.sba.gov/services/financialassistance/sbaloantopics/index.html

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

Contracting: http://www.sba.gov/services/contractingopportunities/basics/index.html

Surety Bond: http://www.sba.gov/services/financialassistance/suretybond/index.html

Business Opportunities: http://www.sba.gov/services/index.html

CONTRACTING WITH THE GOVERNMENT

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

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

DISASTER ASSISTANCE

Disaster Assistance: http://www.sba.gov/services/disasterassistance/officelocations/index.html

Disaster Area Office Locations: http://www.sba.gov/services/disasterassistance/officelocations/index.html

Loan Information: http://www.sba.gov/services/disasterassistance/index.html

FEMA Information: http://www.fema.gov/

APPENDIX 9 – GLOSSARY OF ACRONYMS AND ABBREVIATIONS

504 — **504 Loan Program**
Provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings and long-life capital equipment. For more information, please go to http://www.sba.gov/financing/sbaloan/cdc504.html.

7(a) — **Basic 7(a) Loan Guaranty Program**
The SBA's primary loan program. Provides general loan financing for a wide variety of purposes. SBA guarantees small business loans for virtually every business purpose. For more information, please go to http://www.sba.gov/financing/sbaloan/7a.html.

8(a) — **8(a) Business Development Program**
This program assists firms owned and controlled by socially and economically disadvantaged individuals to enter and succeed in the economic mainstream. For more information, please go to http://www.sba.gov/businessop/programs/8a.html.

AICPA — **American Institute of Certified Public Accountants**
The national, professional organization for all certified public accountants. For more information, please go to http://www.aicpa.org/index.htm

BATF — **Business Assistance Trust Fund**
A trust fund in the U.S. Treasury maintained to receive and account for donations made by private entities for activities to assist small business. SBA authorizes BATF disbursements in accordance with the donor's intention to assist small business.

BD — **Business Development**
Uses the SBA's statutory authority to provide business development and Federal contract support to small disadvantaged firms. Manages the business development 8(a) and 7(j) programs. For more information, please go to http://www.sba.gov/gcbd/indexbd.html.

BLIF — **Business Loan and Investment Fund**
The Treasury fund used to maintain the accounting records of loans approved prior to 1992. It includes activity on direct loans, loan guarantees and defaulted guarantees purchased by SBA. Loans approved subsequent to FY 1991 are maintained in another set of accounts under Federal Credit Reform guidelines.

CA — **Capital Access**
The Office of Capital Access is responsible for small business program loans, lender oversight, the investment company program, the surety bond program and international trade.

CDC — **Section 504 Certified Development Company Debenture Program**
A participating CDC issues debentures to private investors to finance transactions with small business borrowers. SBA's guaranty covers 100 percent of the debenture financing, and the Agency honors its guarantee to the investor through a single Central Servicing Agent (CSA). For more information, please go to http://www.sba.gov/financing/sbaloan/cdc504.html.

CFO — **Chief Financial Officer**
The Chief Financial Officer is responsible for the financial leadership of the Agency. This includes responsibility for all Agency disbursements, management and coordination of Agency planning, budgeting, analysis and accountability processes. For more information, please go to http://www.sba.gov/cfo/.

CFR	**Code of Federal Regulations** The codification of the general and permanent rules published in the Federal Register by the executive departments and agencies of the Federal Government. For more information, please go to http://cfr.law.cornell.edu/cfr/
CIO	**Chief Information Officer** The Chief Information Officer is responsible for the management of information technology for the Agency, including the design, implementation and continuing successful operation(s) of information programs and initiatives. For more information, please go to http://www.sba.gov/ocio/
COTS	**Commercial off-the-Shelf** Software readily available for purchase rather than specially developed when needed.
CSBR	**Combined Statement of Budgetary Resources**
CSRS	**Civil Service Retirement System** The CSRS originated in 1920 and has provided retirement, disability and survivor benefits for most civilian employees in the Federal Government. For more information, please go to http://www.opm.gov/retire/html/library/csrs.asp
DA	**Disaster Assistance** The Office of Disaster Assistance promotes economic recovery in disaster ravaged areas. In the wake of physical disasters, SBA's loans are the primary form of federal assistance for non-farm, private sector disaster losses for individuals and businesses. For more information, please go to http://www.sba.gov/services/disasterassistance/index.html .
DCMS	**Disaster Credit Management System** The electronic system which is used by the SBA to process loan applications for all new disaster declarations.
DLF	**Disaster Loan Fund** Assists eligible small businesses impacted by the disasters. For more information, please go to http://www.sba.gov/disaster_recov/index.html
DOC	**U.S. Department of Commerce**
DOI	**U.S. Department of Interior**
DOJ	**U.S. Department of Justice**
DOL	**U.S. Department of Labor**
DOT	**U.S. Department of Transportation**
DSO	**Designated Security Officer** The individual designated by the head of an office to be responsible for the implementation and management of the Information Technology Security Program within his/her organization.
ED	**Entrepreneurial Development** The Office of Entrepreneurial Development provides management and business development assistance through a network of over 1,500 resource partner locations. For more information, please go to http://www.sba.gov/ed/.

EDMIS — **Entrepreneurial Development Management Information System**
A centralized database used by the Office of Entrepreneurial Development and its resource partners to collect client data and demographics.

EEOC — **U.S. Equal Employment Opportunity Commission**

EOL — **Equal Opportunity Loan Program**

EWCP — **Export Working Capital Program**
An SBA program that allows the SBA to provide lenders with a repayment guaranty of up to $1 million or 90 percent on short-term working capital loans that participating lenders make to small business exporters. For more information, please go to http://www.sba.gov/financialassistance/SpecialPurposeLoans/ewcp/index.html.

FASAB — **Federal Accounting Standards Advisory Board**
Promulgates accounting principles for Federal Government reporting entities. For more information, please go to http://www.fasab.gov/

FCRA — **Federal Credit Reform Act**
The Federal Credit Reform Act of 1990 was enacted to provide a more realistic picture of the cost of U.S. Government direct loans and loan guarantees. The credit subsidy cost of direct loans and loan guarantees is the net present value of the estimated long-term cost to the Government for these credit activities, exclusive of administrative expenses. For more information, please go to http://www.fms.treas.gov/ussgl/creditreform/fcra.html

FECA — **Federal Employees' Compensation Act**
Provides compensation benefits to federal civilian employees for work-related injuries or illnesses and to their surviving dependents if a work-related injury or illness results in the employee's death.

FEMA — **Federal Emergency Management Agency**
FEMA is a former independent agency that became part of the new Department of Homeland Security in March 2003. It is tasked with responding to, planning for, recovering from and mitigating against disasters. For more information, please go to http://www.fema.gov/

FERS — **Federal Employees' Retirement System**
FERS became effective in 1987, and most federal civilian employees hired after 1983 are covered by this retirement system. Many of the FERS features are portable so that employees who leave federal employment may still qualify for the benefits. For more information, please go to http://www.opm.gov/retire/index.asp

FFMIA — **Federal Financial Management Improvement Act**

FFS — **Federal Financial System**
A central standardized accounting system is used during the 1990s in SBA, and later replaced by an Oracle-based administrative accounting system.

FICA — **Federal Insurance Contribution Act**
The Act establishing a social security tax, a largely self-supporting program for employees.

FMFIA — **Federal Managers Financial Integrity Act**
The Act primarily requiring ongoing evaluations and reports on the adequacy of the internal accounting and administrative control systems of executive agencies. For more information, please go to http://www.whitehouse.gov/omb/financial/fmfia1982.html

FPDS-NG **Federal Procurement Data System-Next Generation**

FY **Fiscal Year**
The SBA fiscal year begins on October 1st and ends the following September 30th. For example FY 2006 is from 10/01/05 - 9/30/06.

GAO **U.S. Government Accountability Office**
The GAO is the audit, evaluation and investigative arm of Congress. GAO exists to support the Congress in meeting its Constitutional responsibilities and to help improve the performance and ensure the accountability of the Federal Government for the American people. For more information, please go to http://www.gao.gov/.

GCBD **Government Contracting and Business Development**
GCBD works to create an environment for maximum participation by small, disadvantaged and woman-owned businesses in Federal Government contract awards and large prime subcontract awards. For more information, please go to http://www.sba.gov/GC/.

GISRA **Government Information Security Reform Act**
The Act that requires federal agencies to perform an internal risk assessment of their electronic information systems and security processes.

GPRA **Government Performance and Results Act**
The Act enacted primarily to require strategic planning and performance measurement in the Federal Government. For more information, please go to http://www.whitehouse.gov/omb/mgmt-gpra/gplaw2m.html

GSA **General Services Administration**

HUD **U.S. Department of Housing and Urban Development**

HUBZone **Historically Underutilized Business-Zone**
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 their eligibility, the SBA lists qualified businesses in its PRO-Net® database. For more information, please go to https://eweb1.sba.gov/hubzone/internet/.

IRM **Information Resource Manager**
Information technology resources are approved for purchase by the Agency Information Resource Manager. The IRM is also responsible for determining what level of approval is required for each item.

IT **Information Technology**
Includes matters concerned with the design, development, installation, and implementation of information systems and applications.

ITL **International Trade Loan**
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. For more information, please go to http://www.sba.gov/services/financialassistance/SpecialPurposeLoans/tradeloans/index.html.

JAAMS **Joint Accounting and Administrative Management System**
The SBA's current administrative accounting system.

LAMP — **Lender Analysis and Management Program**
Assists SBA in reaching its goal of providing field offices and CDC partners with improved oversight and management tools, particularly 504 portfolio risk management.

LINC — **Learning, Information, Networking, Collaboration**
A joint effort between the Treasury and the SBA to encourage more private sector business-to-business linkages that enhance the economic vitality and competitive capacity of small businesses, particularly those located in economically distressed urban and rural areas.

LMS — **Loan Monitoring System**
The new loan monitoring system aids the SBA in managing its core loan guarantee programs and serves as one of the building blocks in the overall systems modernization project.

LowDoc — **Low Documentation Loan**
A loan with reduced paperwork used for some loan requests of $150,000 or less. It uses a one-page application that relies on the strength of the applicant's character and credit history.

LTO — **Long-Term Objective**

M&A — **Office of Management and Administration**
The Office of Management and Administration primarily serves in support of the SBA offices by directing human resources, information technology, contracting and purchases, grants management and Agency administration.

MD&A — **Management's Discussion and Analysis**
The MD&A is a component of the PAR and is considered Required Supplementary Information for Federal financial statements and is designed to provide a high level overview of the Agency.

MRF — **Master Reserve Fund**
SBA's fiscal and transfer agent maintains this reserve fund to facilitate the operation of the 7(a) secondary market program.

N/A — **Not applicable**

OCFO — **Office of the Chief Financial Officer**
The OCFO is responsible for the financial activity of the Agency. This includes Agency disbursements, management and coordination of Agency planning, budgeting, analysis and accountability processes. For more information, please go to http://www.sba.gov/cfo/.

OCIO — **Office of the Chief Information Officer**
Supports and provides guidance for the SBA's Nationwide computer automation and information technology efforts. For more information, please go to http://www.sba.gov/ocio/

ODA — **Office of Disaster Assistance**
The ODA promotes economic recovery in disaster ravaged areas. In the wake of physical disasters, SBA's loans are the primary form of federal assistance for non-farm, private sector disaster losses for individuals and businesses. For more information please go to http://www.sba.gov/disaster_recov/index.html

OFA — **Office of Financial Assistance**
The OFA administers various loan programs to assist small businesses. For more information please go to http://www.sba.gov/financing/

OFO **Office of Field Operations**
The OFO provides policy guidance and oversight to regional administrators and district directors in implementing Agency goals and objectives

OGC **Office of General Counsel**
The OGC provides legal advice for senior management, as well as legal support for all of the Agency's programs, initiatives and administrative responsibilities.

OIG **Office of Inspector General**
The OIG conducts and supervises audits, inspections and investigations relating to SBA programs and operations. For more information, please go to http://www.sba.gov/ig/

OLO **Office of Lender Oversight**
The OLO provides oversight and evaluation of SBA's lenders and lending programs in order to identify and monitor the risk in the Agency's loan programs. For more information, please go to *http://www.sba.gov/olo/*

OMB **U.S. Office of Management and Budget**
The OMB assists the President in overseeing the preparation of the federal budget and to supervise its administration in Executive Branch agencies. For more information, please go to http://www.whitehouse.gov/omb/.

OPM **U.S. Office of Personnel Management**
The Federal Government's Human Resource Agency. For more information, please go to http://www.opm.gov/.

PAR **Performance and Accountability Report**

PART **Program Assessment Rating Tool**

PCECGF **The Pollution Control Equipment Contract Guarantee Fund**
PCECGF supports the costs associated with the credit portfolio of pre-October 1991 pollution control equipment loans and guarantees being liquidated by the Agency.

PI **Performance Indicator**

PLP **Preferred Lender Program**
Program covers certified or preferred lenders that receive full delegation of lending authority.

PMA **President's Management Agenda**

RFA **Regulatory Flexibility Act**
The Act requires Federal agencies to prepare a Regulatory Flexibility Analysis to find simpler, less burdensome ways for small businesses, not-for-profit organizations, or small governmental entities to comply with Federal requirements. SBA oversees the Act's enforcement. For more information, please go to http://www.sbaonline.sba.gov/advo/laws/regflex.html

S&E **Salaries and Expenses**
The Salaries and Expenses Fund is funded by appropriations which are used to support the administrative costs incurred in carrying out the missions and functions of the SBA.

SAS **Statement on Auditing Standards**
Establish standards and provide guidance on the design and selection of an audit sample and the evaluation of the sample results.

SBA — **Small Business Administration**
A Federal agency of the Executive Branch whose mission is to aid, counsel and protect the interests of small businesses and help families and businesses recover from national disasters. For more information, please go to http://www.sba.gov/.

SBDC — **Office of Small Business Development Centers**
Delivers management and technical assistance, economic development and management training to existing and prospective small businesses through cooperative agreements with universities and colleges and government organizations. For more information, please go to http://www.sba.gov/sbdc/sbdcnear.html.

SBG — **Surety Bond Guarantee**
Provides 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. For more information, please go to http://www.sba.gov/services/financialassistance/suretybond/index.html

SBGRF — **Surety Bond Guarantees Revolving Fund**
Provides assistance to small business contractors in obtaining bid, performance and payment bonds for construction, service and supply contracts.

SBIC — **Small Business Investment Company**
Provides equity capital, long-term loans, debt-equity investments and management assistance to small businesses, particularly during their growth stages. For more information, please go to http://www.sba.gov/INV/.

SBIR — **Small Business Innovation and Research**
Provides a vehicle for small businesses to propose innovative ideas in competition for Phase I and Phase II awards, which represent specific research and R & D needs of the participating federal agencies.

SBLC — **Small Business Lending Companies**
A group of 14 non-depository small business lending companies listed by Capital Access.

SBPRA — **Small Business Paperwork Relief Act of 1992**

SBREFA — **Small Business Regulatory Enforcement Fairness Act**
The Act assists small businesses with unfair and excessive Federal regulatory enforcement, such as repetitive audits or investigations, excessive fines, penalties or retaliation by a Federal agency. For more information, please go to http://www.sba.gov/advo/laws/law_lib.html#statutes

SBTN — **Small Business Training Network**

SCOG — **Special Competitive Opportunity Gaps**
Refers to groups that own and control little productive capital. A significant part of the SBA's mandate is to identify and formulate strategies to close the gaps for groups facing special competitive opportunity gaps.

SCORE — **Service Corps of Retired Executives**
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. For more information, please go to http://www.score.org.

SDB — **Small Disadvantaged Business**
Small business owned and controlled by individual(s) claiming to be socially and economically disadvantaged. For more information, please go to http://www.sba.gov/sdb/index.html.

SFFAS **Statement of Federal Financial Accounting Standards**
Accounting standards and principles for Federal Government, published by the Federal Accounting Standards Advisory Board, (FASAB).

SOP **Standard Operating Procedure**
Standard Operating Procedures are the primary source of the Agency's internal control.

SSBIC **Specialized Small Business Investment Company**
Provides equity capital, long-term loans, debt-equity investments and management assistance to socially or economically disadvantaged small businesses.

ST&E **Security Test & Evaluation**
Performs Security Test & Evaluation reviews on all of SBA's high-priority computer systems by the CIO.

STTR **Small Business Technology Transfer**

USEAC **U.S. Export Assistance Center**
Offers a full range of Federal export programs and services from the SBA, the U.S. Department of Commerce, the Export-Import Bank of the U.S, and other public and private organizations.

WBC **Women's Business Center Program**
Provides long-term training and counseling to women owning or managing a business, including financial, management, marketing and technical assistance, and procurement. For more information, please go to http://www.onlinewbc.gov/.

APPENDIX 10 – DISCONTINUED PERFORMANCE INDICATORS

LTO	Program	Indicators	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	Justification for Discontinuation
1.1	Ombudsman	1.2.1 Achieve a 10 percent decrease in the annual number of Federal regulatory enforcement actions taken against small businesses.	N/A	Base Year	120,665	-5%	UNAVAIL	Section 4 of the Small Business Paperwork Relief Act expired at the end of 2004. As a result, federal agencies are not longer required to submit data to ONO.
1.1	Ombudsman	1.2.2 Achieve a 5 percent increase in the number of enforcement actions in which the civil penalty is reduced or waived, by FY 2008.	N/A	Base Year	-11,748	5%	UNAVAIL	
1.1	Ombudsman	Regulatory assistance meetings	N/A	40	32		UNAVAIL	Recategorized as a strategy rather than an indicator
1.5	Prime Contracting Assistance	Small businesses trained (number)	N/A	16,896	19,894	10,500	30458	The program does not considers this indicator to be a key performance indicator.
1.5	Prime Contracting Assistance	Small businesses counseled (number)	N/A	16,946	30,618	10,500	29675	The program does not considers this indicator to be a key performance indicator.
1.5	Prime Contracting Assistance	Increase number of requirements reviewed for potential set asides (Percentage)	N/A	N/A	23.0%	N/A	UNAVAIL	The program does not considers this indicator to be a key performance indicator.
2.1	504 Loan Program	% SSB Assisted	19.3%	17.5%	14.4%	14.0%	16.0%	The 504 program is designed for existing businesses with proven cash flow that are at a point where owning, rather than renting, the space in which the business is located, makes economic sense thereby fixing their costs, permitting the business to grow and add more jobs or assist in a public policy goal such as international trade or re-tooling to compete with foreign imports. A goal for new business lending is not appropriate for this program.
2.1	504 Loan Program	Loans Approved (number)	1,321	1,460	1,290	1,408	1,600	Same
2.1	504 Loan Program	Net Loans Funded (number)	1,161	1,311	1,262	1,275	1,558	
2.1	504 Loan Program	SSB Assisted	1,150	1,297	1,249	1,264	1,496	

LTO	Program	Indicators	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	Justification for Discontinuation
2.2	International Trade	Lenders Trained (number)	N/A	2,505	3,373	3,375	2,853	OIT has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.
2.2	International Trade	Attendees trained (number)	N/A	1,292	6,143	6,150	5,960	OIT has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.
2.3	International Trade	Value Export Sales Financing ($)	373,059	467,949	682,175	582,250	UNAVAIL	OIT has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.
2.1	Microloan Program	Small Businesses Receiving Technical Assistance (number)	N/A	1,022	948	N/A	UNAVAIL	OCA has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.
2.2	Microloan Program	Small businesses receiving technical assistance (number)	N/A	1,377	1,488	N/A	UNAVAIL	OCA has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.
2.2	Microloan Program	ESB Assisted	N/A	1,022	948	N/A	UNAVAIL	OCA has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.
2.3	Microloan Program	Small businesses receiving technical assistance (number)	N/A	UNAVAIL.	1,833	N/A	UNAVAIL	OCA has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.
2.1	NMVC	Small Businesses Assisted (number)	N/A	N/A	6	3	12	The NMVC program is very small and the impact on the category is limited. By law NMVC companies are required to invest substantially all their funds in low income areas. Therefore, we track that requirement as it is the more relevant measure.
2.1	NMVC	SSB Assisted	N/A	UNAVAIL.	1,833	N/A	12	
2.1	SBIC	SSB Assisted	N/A	UNAVAIL.	1,833	N/A	633	With the effective termination of the participating securities program the Investment Division lacks a true equity program.).
2.1	SBIC	% SSB Assisted	35.8%	30.5%	32.2%		30.0%	
2.1	SBIC	Small Businesses Assisted (number)	935	734	740	685	633	
2.2 ; 2.3	8(a) Program	Applications Processed (number)	N/A	N/A	3,980	6,000	1,096	This indicator has been discontinued because it measures program output. The program office would rather measure program outcomes to ensure the program is fulfilling its mission as a business development program
2.2 ; 2.3	8(a) Program	Applications Approved (number)	1,350	1,328	1,477	2,000	898	This indicator has been discontinued because it measures program output. The program office would rather measure program outcomes to ensure the program is fulfilling its mission as a business development program

Appendix 10

LTO	Program	Indicators	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	Justification for Discontinuation
2.2 ; 2.3	8(a) Program	Participants Serviced (number)	8,431	8,900	9,458	8,500	8,884	This indicator has been discontinued because it measures program output. The program office would rather measure program outcomes to ensure the program is fulfilling its mission as a business development program
2.2 ; 2.3	HUBZone	Capital Investment Increase (percentage)	N/A	N/A	32%	5.00%	UNAVAIL	The source of data for this indicator is being evaluated
2.1	SBDC	Attendees Trained (number)	249,035	271,995	274,558	273,110	293,164	OED has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.
2.1	SCORE	Jobs created/retained (number)	N/A	TBD	TBD	TBD	TBD	The source of data for this indicator is being evaluated
2.1	SCORE	Revenue ($ million)	N/A	TBD	TBD	TBD	TBD	The source of data for this indicator is being evaluated
2.1	SBTN	Registered Clients - Online	N/A	N/A	214,443	TBD	217,456	The source of data for this indicator is being evaluated
2.1	SBTN	SSB Assisted	N/A	N/A	214,443	TBD	217,456	The source of data for this indicator is being evaluated
2.2	SBDC	Training hours (number)	686,765	745,855	768,232	791,279	1239765	OED has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.
2.2	SBDC	Counseling Hours (number)	610,835	574,243	591,470	589,770	662,927	OED has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.
2.2	SBTN	Registered Clients - Online	N/A	N/A	N/A	TBD	TBD	The source of data for this indicator is being evaluated
2.2	SBTN	ESB assisted	N/A	N/A	N/A	N/A	N/A	The source of data for this indicator is being evaluated
2.2	SBTN	Total Program Cost ($000)	N/A	$420	$197	484	N/A	The source of data for this indicator is being evaluated
2.3	SBDC	Attendees trained (number)	181,960	195,357	Base Year	184,550	209,028	OED has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.
2.3	SCORE	Attendees trained (number)	N/A	49,449	Base Year	35,843	51,189	OED has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.
2.3	SCORE	Clients counseled (number)	N/A	76,285	Base Year	N/A	N/A	OED has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.
2.3	WBC	Attendees trained (number)	N/A	50,573	Base Year	68,481	66,627	OED has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.
2.3	WBC	Clients counseled (number)	N/A	26,652	Base Year	22,800	17,576	OED has chosen "KEY" indicators to be included in the PAR. This is not a "KEY" indicator.

APPENDIX 11 – VALIDATION OF DATA USED IN PERFORMANCE MEASURE

Office	Full name of the office Example: Office of Capital Access Incorrect Example: Capital Access
Program	Full, unabbreviated name of the program Example: Small Business Investment Company Incorrect Example: SBIC, WBC, IT
Performance Indicator (PI)	The performance indicator (PI) that you wish to use in the Performance and Accountability Report or the PART
Strategic Goal	Indicate the Agency's strategic goal to which the above PI is contributing. Choose one of the following: Improve economic environment for small businesses. Increase small businesses success by bridging competitive gaps facing entrepreneurs. Restore homes and businesses affected by disaster. Ensure that all SBA programs operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services.
Long Term Objective	Indicate the long term objective to which the above PI is contributing. Choose from these Long term objectives: 1.1, 1.2, 1.3, 2.1, 2.2, 2.3, 3.1
Nature of the PI	Indicate whether PI is an (1) Output (2) Intermediate Outcome
Qualitative definition of PI	Be as specific as possible when defining the PI. Example: Dollar amount of financing provided by SBICs to businesses facing special competitive opportunity gaps, including equity, mezzanine and debt. Incorrect Example: financing assistance provided by SBICs; technical assistance provided, clients served (terminology is no longer used). If appropriate please also give the operational definition. Example: Definition: Net dollar amount of loans funded to small businesses Operational: Dollar amount of loans approved during fiscal year, net full and partial cancellations
Indicate if indicator is a key performance indicator	( ) Yes ( ) No
Indicate why this indicator has been identified as a key performance indicator. Does it: • measures major contributions that your program makes to the achievement of SBA's outcomes • helps manage a program • justifies budget requests	Explain in which way each criterion is met by this indicator.
SBA Outcome(s) to which this PI contributes.	Identify the Agency outcome(s) to which the PI contributes. SBA outcomes are described as goals that SBA seeks to achieve through each of its long-term objectives. Outcomes have been identified in the SBA strategic plan and determine the success of the Agency's ability to meet its long-term objectives. Examples: 2.3.1 Increase the number of start-ups and existing small businesses facing special competitive opportunity gaps (SCOGs) receiving SBA assistance. 2.3.2 By FY 2008, small businesses facing special competitive opportunity gaps that were assisted by SBA, will exceed the national survivability rate for comparable small businesses within the first 2 years of existence.

Explain for each outcome its connection with the PI	Example: There is believed to be a positive correlation between the amount of financing provided to SCOG businesses and their likelihood of success. (Include the basis for this belief. For example, is it based on a published study? Is it based on a independent program evaluation?) Incorrect Example: No connection with the PI. (There must be a connection established between the performance indicator and the outcome.) or there is no supporting evidence for the connection (In some cases the evidence will be anecdotal)
Verification (done or planned) of the outcome/PI connection	Steps that your organization has taken, is currently taking, or will be taking to verify the connection between the PI and outcome. Please be specific, and provide dates. Give copy of study, survey or evaluation including methodology followed.
Limitations of the PI connection with the outcome	Any reasons why the PI may not be a good proxy for the effect that the program intended to have. The connection is more anecdotal and presumed than based upon scholarly research. There may be other significant contributing factors that are more critical to the success of a business. Please be specific Example: Data is collected on an "as reported" basis. There is a lag between when the investment is made and when it is reported. Therefore, FY data is aggregated on the basis of report date rather than when the investment is made.
Describe plans to address limitations to the connection	Describe any completed or ongoing actions. Example: Survey of small business receiving long term or short counseling to determine effect on job's creation If you have future plans, please provide date. It is understood that any future plans will depend on funding.
Data source for PI (name of report and Data System)	Explain how data is being gathered. What report is being submitted? Is data coming from lenders/outside party? Example: Reported by SBICs on Form 1031 Identify data system providing source data. Example: Loan Accounting System If the data is originated in a system, but obtained from a different one you should specify both systems. Example: Loan Accounting System as reported in Cognos Cube Apr0007
Frequency of collection and reporting	Is data being reported weekly, monthly, bi-annually, or annually? Example: Within 30 days of investment. Is frequency determined by statute or regulation?
By the end of this FY, the PI's value will be identified as either an estimate or actual	Identify if the data provided is an estimate or actual (as of September 30th) If value will be an estimate, please provide copy of the methodology that will be used for the forecast.
Methodology used for setting target values	Provide worksheets showing how target values were set. Please include any assumptions made in the calculation.
Describe any issues with completeness of data	Do all sources report the data? Is the reporting of the data optional or mandatory? Example: Although data is accurate as reported, some SBICs may not report within proscribed time frame.
Methods used to determine accuracy of data	Example: Data is also subject to financial and regulatory audit.
Limitations to accuracy of data (records without data, wrong data, double counting, etc.)	Do all sources use the same definition?
Is the data self-reported?	

Describe plans to address limitations to accuracy of data	Example: A disclosure will be included on reports to inform that data is reported based upon when the investment is reported to us rather than when it is made. Incorrect Example: No limitations
Formula to calculate the PI (if appropriate)	If an estimate is being calculated, explain the methodology used for calculating the estimate.
Are all the contributors to this PI using the same definitions?	Yes/No
Were all data points for this PI produced during the current FY?	Yes/No
How is this PI being used for program management decision making?	All performance indicators must be linked to the SBA's strategic goals and, therefore, to program management decisions. Example: Data used to direct outreach efforts and in the design and implementation of new programs. Incorrect Example: No link
Limitations to the PI use for program management decisions	Example: Overall economic trends have much larger impact on data. Additionally, fund managers control investment decision, not SBA.
Plans to address limitations to PI use for program management decisions	Identify plans
Describe any outstanding OIG or GAO recommendation that may affect this PI	Example: Working with the OIG to ensure appropriate disclosure on data collection.