

## STRATEGIC GOAL 4

### **Ensure that all the SBA programs operate at maximum efficiency and effectiveness by providing them with high quality executive leadership and support services**

Effective, sound management is the foundation that supports the SBA in fulfilling its mission. The Agency's non-programmatic areas of general management and administration, along with human capital, information technology and financial management functions, exist primarily to support SBA programs. The best measure of success is the degree to which these functions help maximize the efficiency and effectiveness of the Agency in achieving its programmatic goals, while also complying with relevant statutory and administrative mandates.

The Agency strives to meet Strategic Goal 4 by focusing on the following Long-Term Objectives:

**LTO 4.1 SBA's general planning and management will result in clearly defined goals and effective strategies, and the coordination of operational support systems, so as to maximize the Agency's mission performance through a comprehensive performance management system.**

**LTO 4.2 The SBA will recruit, sustain and effectively deploy a skilled, knowledgeable, diverse workforce and executive cadre capable of executing high quality programs and activities that meet the current and emerging needs of its customers.**

**LTO 4.3 Financial management systems will support both the SBA strategic management and financial accountability by providing financial information that is useful, relevant, timely and accurate and which assists the SBA in maximizing program performance and accountability.**

**LTO 4.4 Information and related technology will be managed effectively and securely through SBA leveraging data and systems to support program execution and promote cost efficiency.**

**LTO 4.5 Procurement and contracting services will be planned and managed to support the SBA program management and the achievement of the Agency's goals.**

Each Long-Term Objective supports one or more of the following functional areas:

- Administrative Management,
- Human Capital Management,
- Financial Management,
- Performance Management, and
- Information Technology Management.

The following pages present the outcome measures for Strategic Goal 4 by functional area. Appendix 2, on page 269, provides a visual crosswalk of the outcome measures to the functional areas.

### **This Business May Not Have Known it, But the SBA Had its Back!**

Mark Lore, President of Ride-Away Handicap Equipment Corporation, remembers the disastrous New Hampshire bank failures of the early 90s. Many fledging companies were facing financial ruin, Mark recalls. "They came to me and said, 'we're calling in your notes.' I said, 'what am I going to do?' They said, 'go find another bank.'" Mark's company was running a profit with \$4 million in annual sales, and he had never been late or missed a payment. Still, he couldn't find a bank that wanted his business.

With a young family to support and employees and customers who depended on him, Mark didn't know what to do. "I was actually talking to one of my clients in the showroom about the situation. I was thinking I was going to go bankrupt," he remembers. The customer suggested he call the SBA. Mark said, "What's the SBA?"

In December 1991, the SBA was already aware of the potentially disastrous consequences unfolding in New Hampshire. By January 1992, SBA loan officers were culling through the thousands of loans acquired from failed banks by the Federal Deposit Insurance Corporation to see which businesses could be saved. It was about this time that Mark made his call.

With the SBA's 504 and 7(a) loan programs, Mark's business, along with hundreds of others, was saved. Today, Ride-Away is a \$30 million-a-year business with 120 employees, six store locations, and is the east coast's largest provider of modified vehicles and adaptive equipment for the disabled. Mark notes, "Without the SBA, Ride-Away is one company that would not have survived to serve the clients we do."



## ADMINISTRATIVE MANAGEMENT

To excel, the SBA's program offices need strong executive leadership and efficient and effective support services. The following outcome measures, numbered to correspond with the LTOs, describe performance in the area of Administrative Management.

### **OUTCOME MEASURE 4.1.1 – By FY 2008, through effective policy guidance, leadership and administration, ensure that the SBA regularly achieves at least 90% of its annual performance goals.**

In FY 2006, the SBA met or exceeded 53 of its 69 Annual Performance Goals, or 77%.

The SBA Office of Administrative Service directs and executes all administrative management functions within SBA headquarters and monitors administrative programs in field offices. The Office develops policies and procedures for the procurement of supplies, equipment and non-personnel services. It also implements and manages approved grants and cooperative agreements. In FY 2006 key accomplishments included:

- Rent initiative to reduce space — Over 73,000 square feet of space was returned to GSA (General Services Administration) for an annual savings of almost \$2 million. The SBA also updated its policy on space acquisition and utilization, providing heads of field offices clear guidance on managing office space.
- Procurement and grants management — Processed more than 487 awards, including modifications, purchase orders and contracts. Of these awards, approximately 66% of the dollars went to small businesses. This is down from 72% in FY 2005, but up from 59% in 2004. The reduction from last year is due to several large contract efforts for Disaster and the Office of the Chief Financial Officer. The SBA purchased services from large businesses that in previous years were provided by the U.S. Treasury Department.
- Developed a design of the headquarters lobby which incorporates all the security upgrades that were recommended by Homeland Security. The SBA also met the implementation date of Homeland Security Presidential Directive 12 (HSPD-12) mandated by the OMB. The Agency is working to identify and implement a common identification standard/policy for federal employees and contractors.

The SBA Office of Hearings and Appeals provides an independent, quasi-judicial appeal of certain SBA program decisions. It formally adjudicates disputes arising in numerous jurisdictional areas. These include appeals having to do with SBA formal size determinations; appeals from contracting officer designations of NAICS codes for procurements government-wide; 8(a) business development program eligibility, suspension, and termination appeals; and FOIA appeals. In FY 2006, the SBA developed and published a sample 8(a) eligibility appeal format to simplify the process and assist those who choose to file an appeal without the assistance of an attorney.

The SBA also developed and submitted to OMB an Agency-specific plan to improve FOIA operations for FY 2006 and 2007. SBA developed a survey instrument and conducted a review of the Agency's FOIA operations. The Agency's FOIA Improvement Plan was developed based on the results of the review.

Through the Office of Communications and Public Liaison, the SBA initiated a series of projects in FY 2006 to more efficiently enhance the visibility of the Agency and improve communications with employees. Highlights include:

- Developed new information materials to better communicate, in a variety of formats, the SBA's products and services, including the aggressive use of print and electronic publications to communicate disaster assistance-related information.
- Enhanced the look and feel of the Agency's web site and added an interactive feature to attract visitors.
- Provided marketing training to headquarters and field staff, including online instruction on topics related to marketing and press functions.

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- Conducted two employee town hall meetings and produced video-on-demand products for employees.

The Office of Policy and Planning works to ensure that all SBA programs operate at maximum efficiency and effectiveness, to help create clearly defined goals and effective strategies, and to help SBA leadership minimize the regulatory, taxation, and health care burdens on small business. FY 2006 highlights include:

- Provided briefings for the Administrator and senior staff on significant policy and regulatory issues and assisted with Congressional hearing preparation.
- Established the SBA Policy Board, which now considers new programs and projects at the earliest stages to help maintain efficiency and consistency with the Administration's priorities.
- Implemented the development and integration of the Urban Entrepreneur Partnership, including the development of the official web site for the initiative that was launched in July of 2006 ([www.uep.gov](http://www.uep.gov)).
- Provided leadership, strategic guidance and advice on the Agency's proper policies concerning venture capital investment in firms that participate in the Small Business Innovation Research (SBIR) program.

The SBA Office of General Counsel supports all of the Agency's strategic goals by providing cost effective, quality legal products and services. It strives to defend the Agency in all legal matters; participate in the Agency's implementation of external and internal initiatives; and support the Agency in its execution of A-76 competitions. The office was successful in achieving each of these goals and, in so doing, contributing towards the accomplishment of the Agency's long-term objective, specifically:

- As enforcement counsel for the Small Business Investment Company (SBIC) program, collected \$292 million and resolved more than 800 separate assets.
- Reviewed and approved the transfer of 16 SBIC licenses to liquidation status, with outstanding leverage at the time of transfer of over \$315 million.
- Negotiated a \$9 million settlement in favor of the Agency in a False Claims Act case.
- Successfully defended the Agency in 26 EEOC cases and five MSPB cases.
- Worked closely with Capital Access to provide the legal staffing necessary to remove a backlog of over 6,100 loan cases ready for charge-off.
- Completed legal review of approximately 200 cases following the Agency's purchase of the guaranteed portion of the loans to ensure that the lenders had closed, serviced, and liquidated the loans in compliance with program requirements.
- Resolved legal issues relating to the competitive sourcing of the legal functions relating to the disaster loan servicing functions.

### **OUTCOME MEASURE 4.1.2 — By FY 2006 lead SBA to achieving/maintaining a rating of "Green" on each of the five initiatives on the PMA.**

The President's Management Agenda contains five government-wide goals to improve federal management and deliver results — Strategic Management of Human Capital; Competitive Sourcing; Improved Financial Performance; Expanded E-Government; and Budget and Performance Integration. In addition to these, SBA has three agency-specific goals — Faith-based and Community Initiatives; Eliminating Improper Payments; and, added in FY 2006, Improved Credit Management.

For each initiative, agencies are rated on Status and on Progress. A "Green" rating indicates that the Agency has been successful in the element, and that it met established standards. A "Yellow" rating means mixed results, with some standards not met. And a "Red" rating is unsatisfactory, indicating serious flaws are present.

During FY 2006, the SBA earned a “Green” rating on Progress on all five of the government-wide goals, a solid indicator that the Agency is on the right track to fully achieving its goals.

On the Status measure, the Agency earned a “Green” rating on three of the five initiatives. It earned a “Yellow” Status rating for Human Capital, showing that some but not all standards were met.

For the initiative on Budget and Performance Integration, the Agency has maintained a “Green” rating on both Status and Progress for 24 straight months.

For the Financial Performance initiative the Agency earned a “Red” on Status. By way of explanation, as the result of a restatement of a FY 2005 footnote on the amount of SBA’s loan guaranty portfolio, the auditor found a continuing material weakness in SBA’s financial reporting process. The SBA is committed to eliminating this material weakness in FY 2007 through improved documentation of its quality assurance procedures, adjustments to its financial reporting schedule, and through further automation of manual accounting processes to improve efficiency and increase the reliability of financial data. In FY 2006, the SBA maintained its unqualified opinion on its financial statement audit for the second year in a row.

For the three Agency-specific goals, the SBA showed mixed results. It earned a double “Green” rating on Status and Progress for the initiative on Eliminating Improper Payments, showing an improvement from “Yellow” on Status last year.

For Faith-Based and Community Initiatives, the Agency earned a “Green” rating on Progress but showed a “Red” rating on Status. The Agency completed 15 of the 16 FY 2006 milestones; in order to complete the 16th milestone it is redesigning a survey tool for determining the value of its workshop training for Faith-Based and Community Organization participants.

Improved Credit Management, a new initiative in FY 2006, is focused on improving the management and oversight of the guaranteed loan portfolio and the disaster loan portfolio from a credit management perspective. The SBA met 12 of 15 milestones this year, earning a “Red” rating on Status and a “Yellow” rating on Progress. Three milestones were not met for the following reasons. First, a contract award was projected to have occurred earlier in the year so that the results of the review would have been received by fiscal year end. Since the contract was awarded at year-end, results were not available to meet that aspect of the milestones. Second, liquidation regulations were not finalized as subsequently identified policy issues required additional analysis. Finally, while centralization of the 7(a) loan processing and 504 liquidations were approved and implementation plans developed, the SBA was unable to move forward without Congressional notification and approval for the reprogramming activities. Full approval was received in October 2006.

**OUTCOME MEASURE 4.1.4 — By FY 2004 and each year thereafter, SBA district offices’ goals will consistently, directly, and measurably support the Strategic Goals and Long-Term Objectives of the Agency, as established in the Strategic Plan.**

The role of the SBA’s district offices is changing, due in part to the Agency’s Transformation Plan to modernize the workforce and rearrange business processes. For example, backroom functions of the 7(a) and 504 loan programs have been centralized, where before many of these functions were performed at the district office level. The goals remain consistent with the mission of the Agency,

The SBA Office of Field Operations provides guidance and oversight to the field offices for the purpose of defining goals and effective strategies, and coordinating operational support systems so as to maximize SBA’s resources. FY 2006 highlights include:

- Provided formal training for Administrative Officers in the field on federal rules and regulations as well as internal procedures and reporting requirements.

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- With the Office of Business Development, conducted a Business Development Training conference that resulted in the identification of the top recurring issues and developed recommendations for the Administrator.
- Conducted a survey of regional and district offices to assess the level of customer service provided by the headquarters staff. Four performance goals were established on the SBA scorecard to track the results: Communication, Timeliness, Courtesy, and Customer Service. An improved follow-up survey was conducted in July 2006 and will be repeated annually to assess customer satisfaction.

## HUMAN CAPITAL MANAGEMENT

The SBA recognizes that human capital is applied talent: the sum of talent, energy, knowledge and enthusiasm that people invest in their work. Management of human capital is the key to having a well-trained, skilled, motivated, diverse, accountable and satisfied workforce that delivers results. The SBA is committed to continuous improvement of human capital programs and processes to ensure that SBA has an effective workforce to carry out its mission. The foundation of the SBA and the key to the Agency's future success rests with its workforce.

The following outcome measures, numbered to correspond with the LTOs, describe performance in the area of human capital management.

### **OUTCOME MEASURE 4.2.1 — In FY 2004, and maintained each year thereafter, SBA will achieve a rating of Green for having met all of the Core Criteria of the Human Capital initiative on the PMA.**

The SBA earned a "Green" rating on "Progress" for Human Capital, indicating that the Agency is on the right track in this initiative. It earned a "Yellow" Status rating, unchanged from fiscal years 2005 and FY 2004, showing that some, but not all standards were met.

In FY 2006, the SBA met all of its 2006 milestones and deliverables for this initiative. Highlights include:

- Updated the Strategic Human Capital Plan that contains the Human Capital Accountability and Assessment Framework systems and measures for success.
- Revised recruitment plans for mission critical occupational series to ensure that the SBA will receive a diverse pool of highly qualified applicants.
- Moved the human resources processes to a paperless environment.

In its efforts to obtain a "Green" rating on Status, the Agency continues to improve progress in three remaining areas: succession planning, skill gap narrowing, and the human capital accountability system.

In FY 2006, the SBA drafted a formal leadership succession plan that was submitted and approved by Office of Personnel Management (OPM). To mitigate its skills gaps, the Agency re-administered its mission critical occupations skills and competency gap survey.

OMB required Federal agencies to include leadership with their mission critical occupations. To address this new requirement, the SBA performed a gap analysis for its human resources specialists and developed and implemented a plan to narrow the gap. The Agency also conducted an online training needs assessment for all managers and supervisors that focused on improving leadership and management skills. A similar assessment was conducted for all SBA employees that focused on skills improvement. SBA employees' interest in receiving more training opportunities was evidenced by a high 75% participation rate.

**OUTCOME MEASURE 4.2.2 — As a result of a revised management and performance culture, SBA employees' rating of overall satisfaction with their jobs will increase each year and by FY 2008 will exceed the government-wide average by at least 10%.**

In FY 2005, the SBA ranked last on the Federal Human Capital Survey of Federal Employees, a tool that measures employees' perceptions of whether conditions that characterize successful organizations are present in their agencies. To improve results in FY 2006, the SBA's strategies for improving employees' rating of overall satisfaction with their jobs were focused principally on communications and training initiatives.

To improve communications, in FY 2006 the SBA conducted "Administrator Town Hall" meetings. The core questions asked by employees, and addressed by the Administrator, were in the areas of training, job security, and job performance. SBA also administered a survey for the new Administrator to obtain feedback from employees regarding their needs for tools and resources to perform their assigned tasks.

To better prepare employees for the work they do, the SBA completed a training initiative based on survey results from employees and managers. Each employee developed an employee-centered Career Development Plan that included achievable individual-centered professional development strategies and goals with realistic milestone completion dates.

In late FY 2006, OPM announced the second Federal Human Capital Survey. Results, when they become available, will give the SBA critical information to determine whether the target for FY 2006 was met and will help the Agency make improvements based on employee perceptions.

Throughout the year, the SBA works to advance diversity at all levels. During FY 2006, it conducted an agency self-assessment, analyzed workforce data, and identified barriers to equal opportunity. It developed and conducted in-house training on equal employment opportunity (EEO) and civil rights compliance for newly appointed district directors; and basic EEO counselor training was provided to new collateral duty EEO counselors.

SBA's Transformation Plan to modernize the workforce and rearrange business processes to make the Agency more efficient was completed in FY 2006.

The Agency also worked with the national and local union presidents to create a new Master Collective Bargaining Agreement.

**OUTCOME MEASURE 4.2.3 — The percentage of SBA employees possessing core competencies identified for their positions is identified in FY 2004 and the resulting gaps in current and future skills and competencies in mission-critical occupations is reduced by 20% each year.**

In FY 2006, the SBA re-administered the skills and competency gap analysis for mission-critical occupations (MCO) after flaws were discovered with the vendor's raw survey data in the FY 2005 assessment. The Agency will subsequently assess skills and competencies, analyze gaps and revise the Agency's gap mitigation plans for MCOs in FY 2007 in an effort to ensure gaps in job-critical skills are effectively narrowed and ultimately closed.

The Agency's management and leadership training program – "LEAD" (Leadership Effectiveness through Active Development) — is dedicated exclusively for managers and supervisors to ensure SBA has a qualified pool that possess OPM's Five Executive Core Qualifications. LEAD provides developmental opportunities to managers and supervisors through instructor-led training, online training, speakers' forums, and other training tools for the individual.

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### **OUTCOME MEASURE 4.5.1 — By FY 2006, SBA will achieve a rating of Green for having met all of the Core Criteria of the Competitive Sourcing initiative on the PMA.**

The SBA fully succeeded by achieving a rating of Green in both Status and Progress for having met all of the core criteria of the initiative. All milestones and deliverables were met. Highlights include:

- Improved the alignment of competitive sourcing efforts with the Agency's human capital transformation initiative.
- Announced the competition for drivers and mailroom activities.
- Incorporated 2006 FAIR ACT guidance into competitive sourcing plans.
- Developed funding strategies for proposed FY 2006/2007 competitions.
- Developed a schedule to review competitions after implementation for validation of projected cost and performance impact.

### **OUTCOME MEASURE 4.5.2 — By 2006 and maintained each year thereafter, the average time for competitive sourcing competitions will decrease to 12 months, from the FY 2003 baseline of 36 months.**

The time for competitive sourcing competitions averaged 12 to 16 months in FY 2006. While this was an improvement over the baseline of 36 months, the shortfall in reaching the 12-month target was due to the unforeseen heavy workload. By 2007, the average time for competitive sourcing competitions can be expected to decrease to 12 months.

## FINANCIAL MANAGEMENT

To fulfill its mission and serve the interests of small business, the SBA is committed to strong financial management and proper stewardship of taxpayer dollars. The following outcome measures, numbered to correspond with the LTOs, describe performance in the area of Financial Management.

### **OUTCOME MEASURE 4.3.1 — By FY 2007, achieve a status rating of Green for the Financial Management initiative of the Presidents Management Agenda.**

In FY 2006, the SBA achieved a rating of "Green" on Progress for the initiative, but received a "Red" on the Status measure. The SBA maintained its unqualified opinion on the FY 2006 financial statement audit but, as a result of the restatement of a FY 2005 footnote on the amount of SBA's loan guaranty portfolio, the auditor found a continuing material weakness in the internal control over the SBA's financial reporting process. This repeat material weakness, along with the FFMI non-compliance finding for financial management systems, precludes the SBA from improving from "Red" Status until these issues are resolved. The SBA expects to resolve these issues in FY 2007. Specifically, the Agency will document quality assurance performed on the financial statements to address the auditor's finding on SBA's financial reporting process. Also, the financial reporting process will be reviewed to fine tune the year-end schedule including the entry of subsidy re-estimates. Additionally, plans are to further automate year-end accounting entries to minimize manual accounting activity and to make the reporting process more efficient and reliable. Many of the necessary improvements in the financial systems area are already well underway and the Office of the Chief Financial Officer will coordinate with the Office of the Chief Information Officer to take the steps necessary to resolve the remaining issues.



This year the Agency completed actions to address virtually all of the issues raised by its independent auditor in the FY 2005 financial audit, while meeting the accelerated November 15<sup>th</sup> financial statement deadline for the third year. It continued to use internal teams to address the audit findings and solve problems that required the involvement of subsidy, budget and accounting personnel. The team-based process has helped facilitate strong communication and accountability within the Agency.

During FY 2006, the internal control processes over financial reporting and subsidy cost modeling were further enhanced. The SBA accountants and modeling personnel use cash flow reports to ensure consistency of loan program data at key points in the modeling and accounting processes. This is a critical element in the quality control over the loan program accounts in the Agency's financial reports. Several key staff resources were added to the financial reporting team during the year, and staff skill was enhanced through training, including budgetary accounting. This facilitated more quality assurance testing throughout the yearly reporting cycle that enhanced internal control. The control process over accounting and reporting changes was enhanced during the year to better document and control changes made. Also, the SBA's advisory committee of recognized financial management experts met several times during the year with Agency financial managers and audit personnel to promote financial management improvement.

SBA's credit subsidy modeling team continued to enhance the controls around the data, models and processes used in estimating the credit program costs. The modeling team now completes annual subsidy re-estimates for every program including the smaller credit programs. The team developed quarterly reports for credit program managers during the past year that provide key information about the performance of SBA's credit programs.

The SBA successfully implemented the enhanced internal controls over financial reporting in FY 2006, as required by Appendix A of OMB Circular A-123. Internal controls tested included the financial reporting process, the budget process and the guaranty reporting process for the Agency's 7(a) program. The findings of this review were consistent with previous audits. They included several program operating deficiencies but none that were significant enough to have a material effect on SBA's financial reports.

Beyond attaining and maintaining a clean audit opinion with no material internal control weaknesses, to achieve a "Green" rating, the Agency must continuously expand the use of financial management data by program managers for decision-making. During FY 2006, the SBA completed three initiatives in this area. The first was the initiative to charge off defaulted 7(a) and 504 guaranteed loans where all liquidation opportunities had been exhausted. The Treasury Report on Receivables and other reports showed a growing balance of defaulted loans in liquidation. The SBA determined the existing processes were not working as intended and established a project to resolve the situation. The second initiative was to reduce late interest payments to vendors required by the Prompt Pay Act. By generating and circulating monthly reports on late interest payments and creating a new procedural notice, the SBA increased understanding of the invoice payment process and reduced overall late interest payments by 32% compared to FY 2005. Finally, the Agency continued its efforts to establish a best-in-class lender and loan oversight system. The SBA rated all of its lenders based on overall credit exposure to the Agency. Those ratings were used to determine the priorities for on-sight and off-sight lender reviews.

**OUTCOME MEASURE 4.3.3 — Each year, SBA financial systems will meet the standard as prescribed in the Federal Financial Management Improvement Act (FFMIA).**

The SBA has made great progress in this area. As part of the FY 2006 financial statement audit, the Agency's independent auditor found it in compliance with the FFMIA requirements for accounting standards and the Standard General Ledger, but found the Agency non compliant with financial systems standards due to an internal control deficiency in information system security. This is an improvement from last year when the SBA's auditor found the Agency in non compliance in all three areas.

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The SBA's systems are still subject to lingering information technology constraints and limited resources. The Agency has begun a long-term project to develop a new loan management and accounting system, but this is a project that will be funded gradually and not completed for several years.

The Agency has developed effective compensating procedural controls over its financial management activity to support its financial systems processing. During FY 2006, the Agency tightened control over program and administrative processing. Its financial data was subjected to comprehensive, thorough quality assurance processes in its interim and year-end reports, especially budgetary data. Internal control over financial management was also improved through the implementation of the new OMB A-123 internal control requirements.

As discussed under LTO 4.4, the SBA continues to make improvements in its information technology management, and it will be able to build on these improvements in FY 2007 to resolve the FFMIA non-compliance issue. Working together as a team, the OCFO and the OCIO will take additional steps to strengthen the Agency's information security, ensure proper segregation of duties among technology staff, and effectively utilize and document proper change control procedures.

### **OUTCOME MEASURE 4.3.4 — Each year, SBA will receive an unqualified opinion on its financial statement audit.**

SBA is proud to have achieved a clean audit opinion in FY 2006 for the second year in a row. This year's unqualified opinion substantiates last year's unqualified opinion by a previous auditor. This accomplishment reflects a genuine and significant improvement in the financial management capacity and practices of the Agency. The SBA was able to achieve its goal primarily by working steadfastly over the past several years to address a number of systemic financial management issues. Its improved financial management processes will provide ongoing benefits to the SBA as it faces ever-new challenges in the future.

## PERFORMANCE MANAGEMENT

### **OUTCOME MEASURE 4.3.2 — By FY 2005, achieve a rating of Green for the Budget and Performance Integration initiative of the PMA.**

The SBA achieved a Green rating for the Budget and Performance Integration initiative of the President's Management Agenda in FY 2004 – well ahead of schedule. The Agency is proud to have maintained this Green rating, on both progress and status, ever since.

The cornerstone of the Agency's integration of budget and performance is its five-year strategic plan. The plan was designed so that all Agency programs and operations support SBA's four goals. Each goal has long-term objectives with measurable outputs, intermediate outcomes, and outcomes. Through the SBA's activity-based costing model, the use and priorities of resources that the Agency devotes to achieving its mission are clearly identified. These resources are reported in documents such as this PAR, and in all budget submissions to OMB and to the Congress. The information is also used during all internal planning and budget exercises. The SBA makes use of this information in a number of ways:

- It has been used to compare different 7(a) delivery systems, leading the Agency to terminate use of the most costly one.
- The Agency is able to compare the costs of different programs, such as the 7(a) program vs. the Microloan program, showing how much more costly the latter is.
- The SBA understood how costly one of its management assistance programs was, leading to the termination of that program.

- The Agency analyzed how costly certain decentralized operations were, and was able to show savings once operations were centralized.
- The information demonstrated the increasing efficiency of the 7(a) program.

This year the SBA faced a new challenge in using the results of its activity-based costing model. This methodology measures the full cost of the SBA's programs, including direct, indirect, and overhead costs. In the past, total Agency overhead averaged about 22%. Included in Agency overhead are such items as: general planning and management; human capital management; information technology management; and procurement and administration. FY 2006, and to a lesser extent, FY 2005, were anomalies. These anomalies were due to the size of the Disaster assistance program. Whereas in FY 2002 to 2004, the direct and indirect costs of that program averaged \$122 million, in FY 2005 and 2006 such costs were \$219 and \$451 million respectively. As a result, the FY 2005 and 2006 overhead rates were only 17% and 12% respectively. Therefore, all non-Disaster programs bore a significantly smaller overhead burden in FY 2006 than in previous years. This fact biases any comparison of program costs among fiscal years. For example, in a comparison of non-Disaster programs from FY 2004 to FY 2006, the total of direct plus indirect costs (excluding grants) decreased by two percent; once overhead is added, the decrease is nine percent. This impact of the Disaster program on agency-wide overhead should be noted when making comparison among fiscal years.

In FY 2006 the SBA's efforts in budget and performance integration focused on two major areas: program evaluations and marginal cost analysis. The SBA contracted for an independent analysis to evaluate the impact of its financial assistance programs. Measuring the true impact of federal programs can be extremely challenging as can determining the validity of the outcomes that are measured. During FY 2006 the Agency completed detailed planning for the evaluation of its financial assistance programs, and results are expected in FY 2007. These results will be used to help revise and improve the strategic plan in FY 2007 by allowing the Agency to set targets for the outcomes that measure SBA's impact. In addition, the SBA completed the second year of a longitudinal impact study of management assistance programs. This three-year study should also be completed in FY 2007. In addition, the SBA intends to initiate an independent evaluation of its procurement assistance programs.

In FY 2005 the SBA developed an analysis to determine the marginal cost of its programs. In FY 2006 the analysis was expanded to include the SBDC and HUBZone programs. The results were used for internal decision-making in formulating the Agency's FY 2008 budget request. In addition, the lessons learned from the impact of the Gulf Coast hurricanes on the Disaster loan-making operation led to the creation of a model to calculate the administrative requirements and cost of that program under a wide range of disaster scenarios. It is believed that this model will help the Agency quickly determine its resource requirements when disasters of various magnitudes strike.

**OUTCOME MEASURE 4.1.3 — By FY 2008 all major programs rated by OMB will receive a PART evaluation of "Effective". By FY 2006, SBA will ensure that at least 60% of major SBA programs rated by OMB receive a PART evaluation of "Effective" and that none is rated less than "moderately effective".**

The Office of Management and Budget (OMB) uses the Program Assessment Rating Tool (PART) to assess federal programs. The PART represents a series of diagnostic questions used to assess and evaluate programs across a set of performance-related criteria, including program design and purpose, strategic planning, program management, and results. Rating results are classified into one of five categories: Effective, Moderately Effective, Adequate, Ineffective, and Results Not Demonstrated.

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The OMB rated ten of the SBA major programs.<sup>46</sup> Of these, only the Disaster Loan Program was rated “Effective.” Those rated “Moderately Effective” were the HUBZone Program, SCORE, and the Small Business Development Centers. The SBA is working to maintain the rating for the Disaster program and improve the rating of the others from “Moderately Effective” to fully “Effective.”

Four programs were rated “Adequate”—the 8(a) Business Development Program, Small Business Surety Bonds, the Section 504 Certified Development Company Guaranteed Loan Program, and the Section 7(a) Guaranteed Loan Program. To improve the performance of these programs, the SBA is taking the following actions:

**8(a) Business Development Program** — The purpose of this program is to help grow small businesses owned by socially and economically disadvantaged individuals. To improve the program, the SBA is 1) strengthening criteria related to economic disadvantage; and 2) implementing new information technology management systems including electronic applications, annual review processing and a dynamic management reporting system.

**Small Business Surety Bonds** — The purpose of this program is to assist small, disadvantaged and competitive opportunity gap contractors obtain bonding for public and private contracts. To improve the program, the SBA is 1) restructuring the field component of the program and linking district office goals to program performance; 2) implementing an Internet-based application and claim processing system; and 3) undertaking an evaluation of the program.

**504 Certified Development Company Guaranteed Loan Program** — This program provides long-term, fixed rate financing to small businesses for property and heavy machinery purchases. To improve the program, the SBA is 1) changing loan servicing requirements so that intermediaries are responsible for loan liquidations in the event of a default, and 2) developing an evaluation strategy to ensure that loans supplement rather than compete with private sector credit.

**7(a) Guaranteed Loan Program** — This program provides general financing to small businesses that cannot obtain credit on reasonable terms from other sources. To improve the program, the SBA 1) consolidated the loan liquidation function from 69 district offices to a single center in order to reduce costs and ensure consistency in processing, 2) identified other loan management strategies to further reduce administrative costs, and 3) is developing an evaluation strategy to ensure that loans supplement rather than compete with credit available from other sources.

### **OUTCOME MEASURE 4.3.5 — By FY 2008, budgeting and performance measurement will be fully integrated at SBA.**

The SBA continues to work to meet this outcome, using and improving its activity-based costing model to allow for the creation of efficiency measures with increased utility for managing the programs. In addition, the Agency has integrated the various phases of the budget planning cycle with program performance measurements. These practices will continue to build on themselves, and the SBA will remain a Federal Government leader in this area. The SBA has maintained a double Green rating on the Budget and Performance Integration initiative of the President’s Management Agenda for two years in a row.

### **OUTCOME MEASURE 4.3.6 — By FY 2008, 75% of non-financial managers will agree with the statement that financial performance information is being used in SBA budget formulation and strategic planning and that they understand how such uses have been relevant to their own areas of responsibility.**

<sup>46</sup> Two of the ten programs rated were discontinued by the SBA—Business Information Centers and Small Business Investment Company. They are not discussed in this section.

The cornerstone of the Agency's integration of budget and performance is its strategic plan. The plan was designed so that all programs and operations support the SBA's four goals. Each goal has long-term objectives with measurable outputs, intermediate outcomes, and outcomes. Through use of the SBA's activity-based costing model, the resources devoted to programs and outputs are clearly identified.

During FY 2006, all of the SBA's non-financial managers were trained and received regular briefings on principles of budget and performance integration, and they used information about allocated resources as a factor in determining targets and evaluating performance.

## INFORMATION TECHNOLOGY MANAGEMENT

The core of the SBA information technology strategy is a concerted effort to provide services and products to small firms and SBA employees when they need it, wherever they are, and in a format that is user-friendly, comprehensive and cost-effective. It focuses on maximizing service delivery while minimizing the cost of operations associated with both government-wide and Agency systems. Internally, the Agency is building the capacity to deliver web services directly and in collaboration with the federal community. This includes efforts to deliver the SBA's internal core businesses online (e.g., procurement, travel, training, human resources). Externally, the SBA collaborates with the private sector to sensitize and educate small businesses on the importance of the Internet to their survival and growth; on methods of utilizing e-commerce through distance learning tools to create training and education programs with resource partners; and to advocate for infrastructure improvements and legislation that help small businesses get online. SBA is also working to deliver all of its goods and services online, expanding its outreach to more small businesses and providing more user-friendly assistance to help them succeed.

The following outcome measures, numbered to correspond with the LTOs, describe performance in the area of Information Technology Management.

### **OUTCOME MEASURE 4.4.1 — Continue the Agency's progress toward "Enterprise Architecture" by aligning Agency's program and systems.**

An "Enterprise Architecture" is a blueprint for organizational change that describes how the entity operates today and how it intends to operate in the future. It also includes a plan for transitioning to this future state. The SBA continues progress on implementing a comprehensive program of information technology governance practices, including an "Enterprise Architecture" by aligning Agency program goals and line of business practices with actual and proposed information technology systems. Aligning proposed IT investments with the Enterprise Architecture should ensure that SBA's business needs are matched with IT projects that will deliver measurable results that contribute to improved program delivery for the public.

### **OUTCOME MEASURE 4.4.2 — By FY 2008, standardized Information Technology (IT) portfolio selection, control, and evaluation processes and performance metrics will be developed and used to gauge the progress of investments and their contribution to program outcomes.**

This is the Agency-level set of practices and methods by which proposed information technology projects are developed, approved and reviewed for performance as an active portfolio of key investments. This process is married to the Enterprise Architecture policies, project management practices and the Agency's Strategic Plan so that the theory and results of IT planning achieve the best practical results for the Agency when measured by cost and performance.

## Strategic Goal 4

By applying Earned Value Management, the SBA continues to work to ensure that major IT projects are within cost, schedule and performance objectives and that all SBA IT systems are certified and accredited. Principal achievements in the main components in this area were:

**Enterprise Change Control Board** — OCIO is leading the establishment of an Agency Enterprise Change Control Board to ensure enterprise-wide change management of the Agency's major application systems (*software*) and technical infrastructure (*hardware*) to ensure technological standardization across the Agency. The configuration and change management of standardized technologies across the Agency reduced maintenance costs and increased the reliability of the Agency's technology environment and infrastructure.

**Capital Planning and Investment Control** — SBA made significant progress in maturing its Capital Planning and Investment Control and was recognized by OMB for its IT investment management practices and progress. OCIO continued maturing the Agency's CPIC guidance, developing an Agency-wide IT performance measurement framework and reporting model, consisting of two "SBA IT Portfolio Dashboards." That management framework was used to monitor the performance of the Agency's entire IT portfolio and to report results to OMB. The Dashboards reflect IT project performance in terms of cost and schedule metrics, IT security vulnerabilities, compliance with Agency technical standards, and compliance with Agency system development and investment control policies.

**IT Infrastructure Modernization Project** — Infrastructure modernization is the periodic improvement of these supporting systems to ensure they are operating at peak efficiency. The IT Infrastructure Modernization Project, that began in FY 2006 and will be concluded during the first quarter of FY 2007, will align SBA infrastructure to the Enterprise Architecture and bring modern technologies and efficiencies to key areas including desktop and server software upgrades, messaging, and networking. This project consists of three phases: Planning, Proof of Concept, and Deployment. In FY 2006, the SBA completed the first two phases and initiated phase three, Deployment, which is expected to continue into early FY 2007.

### **OUTCOME MEASURE 4.4.3 — SBA will continue to achieve efficiencies of business processes and cost reductions by taking advantage of the economies of scale offered by participating in common E-Government solutions and technologies.**

The focus of this initiative is to ensure that the Federal government's \$60 billion annual investment in information technology significantly improves the government's ability to serve citizens, and that IT systems are secure, and delivered on time and on budget.

One of the goals is to eliminate redundant systems. The SBA participated in 28 E-government initiatives and is the managing partner for the Business Gateway initiative. A first stage analysis completed at the end of FY 2006 indicated that SBA had no planned systems that would be halted, or existing systems that would be retired, because of duplication with E-government initiatives. During FY 2007 the SBA will conduct an assessment to determine what benefits the Agency may be realizing from its participation in these cross-government initiatives. For example, the SBA was one of only a few agencies to begin implementing E-authentication, allowing secure, single sign-on to a number of agency-specific applications. During FY 2006, SBA doubled (from 15 to 31) the number of applications available to the public through its E-authentication portal.

In FY 2006 SBA made significant improvements to the Agency's overall IT Security Program. It continued to mitigate and or reduce risks associated with IT security vulnerabilities identified in Federal Information Security Management Act (FISMA) GAO and OIG reviews. It certified and accredited critical and non-critical IT systems as required by FISMA; modified and implemented Security and Privacy Policy and Guidance; upgraded the SBA's firewall; completed vulnerability analysis and penetration testing; and it initiated key revisions to SBA's computer incident response policy.

Other FY 2006 accomplishments include:

**Enhancements to Web-based Systems** — In FY 2006, the SBA increased and improved the information and services provided to small businesses via the Internet, most notably through implementation of EDMIS II, a centralized data collection and reporting system for SBA's Office of Entrepreneurial Development programs. Acknowledging the Internet as a mission essential content source for all SBA programs, the Agency also implemented Stellent's content management for district and regional [www.sba.gov](http://www.sba.gov) website pages, developed LAORS (Loan Accounting Online Reports System) and redesigned SBA's web portal GLS (General Login System).

**Modernized Data Center** — The SBA now has a number of enterprise level systems that operate in a web-based technical environment. To meet customer expectations, these web-based systems must be available 24/7 and they must operate efficiently so that information requests are processed quickly and reliably. To ensure that SBA can meet those expectations, the Agency replaced eight servers in its headquarters data center with newer models offering better performance and more capacity. The replacement equipment will improve system performance and customer experience by ensuring high operational performance and reducing the risk of failure or operational slowdowns.

