Management's Discussion and Analysis

FISCAL YEAR 2006

Rebuilding America’s Communities One Small Business at a Time

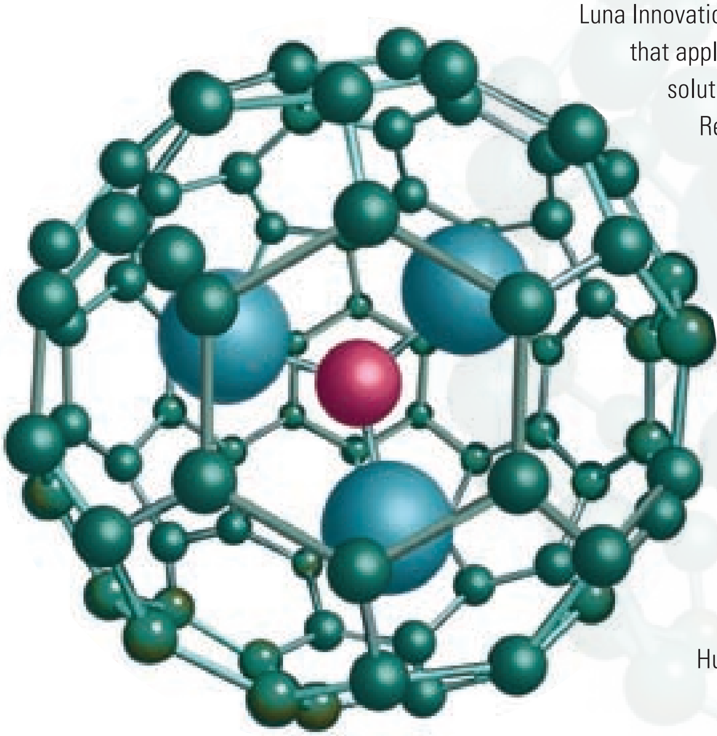
The City of Danville has a population of 48,411 and has lost 2,400 jobs over the last 24-36 months. These job losses have caused the unemployment rate to hover at more than double the state average (11.9% February 2006 versus 3.3% for Virginia for at that same month). Furthermore, the Danville MSA has held the position of the state’s highest MSA unemployment level for two years or more. Only three area MSAs ranked higher than Danville for job losses in 2005. All three are located in areas devastated and ravaged by hurricanes.

Through a collaborative effort of federal, state, local and private partnerships, Luna Innovations Incorporated successfully established one of the nation’s first carbonaceaous nanomanufacturing facilities in Danville, Virginia. In 2004, Luna NanoWorks, a division of Luna Innovations Incorporated, renovated a circa 1870 tobacco storage warehouse into an ultramodern 24,000 square foot nanomaterial manufacturing and R&D facility.

Luna Innovations Incorporated is a small business and HUBZone company that applies innovative science and technology to develop unique solutions for real world problems. The Small Business Innovation Research (SBIR) program plays a supporting role in allowing Luna Innovations the opportunity to investigate ideas and then move ideas with quantifiable results on to commercial viability.

The Luna project scope was a $6.5 million investment that will result in the creation of 54 high technology jobs over a 30-month period. Today, Luna is 25 employees strong and growing.

This success story owes its happy ending to a coalition of forces including the City of Danville, who purchased a building that is leased to Luna, the Governor’s Opportunity Fund, the Tobacco Region Opportunity Fund, DBA workforce services, higher educational institutions and the SBA HubZone.



Luna Innovations’ exclusive carbon nanomaterial that is manufactured at the Luna NanoWorks Division in Danville

EXECUTIVE SUMMARY

Record Challenges and Accomplishments

FY 2006 was a year of great challenge but also tremendous accomplishment for the Small Business Administration (SBA). In the fall of 2005, Hurricanes Katrina, Rita, and Wilma wreaked devastation on homes and businesses across the Gulf Coast and collectively resulted in the worst natural disaster in American history. As the Federal source for long-term recovery loans for homeowners and businesses, SBA's disaster loan program was challenged like never before. By the end of FY 2006, the SBA had approved a record $11.2 billion in disaster loans, including $10.6 billion for victims of the Gulf Coast hurricanes.

At the same time, the Agency continued to set historic records in its financial assistance programs, while implementing fundamental management and organizational improvements in many key areas. By improving the economic environment for small businesses and by expanding the amount of financial and management assistance available to them, the SBA has been one of the primary forces fueling the Nation's economic growth engine – small businesses.

FY 2006 was also a year of transition in SBA's leadership. Former Administrator Hector Barreto departed after five years heading the Agency, and a new Administrator, Steven Preston, took the helm in early July. While the Agency continues to face tough challenges, under Administrator Preston's leadership the SBA has already taken steps to further improve customer service and operations, increase the effectiveness of our workforce, strengthen accountability and transparency, and focus attention on outcomes.

As described throughout this report, the SBA achieved important performance results both in helping small businesses directly and in improving key aspects of the Agency's operations. The highlights of the SBA's accomplishments over the past year are described below under the five major areas of assistance: disaster recovery, financial, management, procurement, and regulatory. The SBA's success in improving Agency operations is also summarized below.

Disaster Recovery Assistance

The magnitude of the Gulf Coast hurricanes was completely unprecedented. Over 422,000 Gulf Coast hurricane victims applied for SBA disaster assistance in FY 2006. While the SBA was at the disaster site within three days, the overwhelming application volume, coupled with the extent of the physical devastation, meant that the Agency had to significantly increase its personnel, operating space and processing capacity. As a result, the SBA did not meet its standard processing target of 85% of applications for home loans processed within an average of 14 days. In the ensuing four months, the SBA disaster program staff grew from 880 to nearly 4,000, including many who had previously assisted SBA on a temporary basis. Staff from SBA's district offices around the country joined in the effort to help the Gulf Coast disaster victims. By fiscal year end, the Agency had approved $10.6 billion in loans to those affected by the three hurricanes plus another $0.6 billion for other disasters. By comparison, in FY 2005 a total of 153,000 applications were processed, and $2.3 billion in loans were approved. Put into context, over 20% of all disaster loan dollars approved in the 53-year history of the SBA occurred in FY 2006.

The Agency also experienced a significant loan disbursement backlog through most of the fiscal year. In the closing months of FY 2006, the SBA's disaster team reengineered its processes to enhance customer support and improve disbursement processes to ensure funds reached the hands of disaster victims as quickly as possible. As a result, by late October the weekly number of loans disbursed had more than doubled. While the Agency is largely caught up with the backlog as of the date of this report, many borrowers have not yet received a portion or all of their funds because they have not completed, or in some cases have not even begun, the rebuilding process. Therefore, it is critical that the Agency have processes in place that enable a rapid disbursement of funds when the borrower's need occurs. The SBA also took significant steps to prepare for another potential catastrophic event, including upgrading the disaster loan processing system to accommodate four times as many users, completing a comprehensive Agency-wide disaster preparedness plan, developing a loan demand model for improving forecasts of expected need in the wake of a disaster, and taking measures to rollout additional changes to improve speed and service quality.

Financial Assistance

In FY 2006, the SBA funded over 100,000 7(a) and 504 loan guarantees, at a value of $19.5 billion - the most in its history. Since FY 2003, loans to small businesses have increased by 55%, and loans to minorities have increased 74%. The SBA guaranteed over 90,000 7(a) loans to help more than 80,000 qualified small businesses obtain the financing for which they would not be eligible through normal lending channels. These numbers represent a benefit to the public in that these small businesses were able to get started, or to expand and grow, through access to capital that likely would not have been available without the SBA's involvement. For example, in FY 2006, the SBA provided access to capital to over 27,000 new, start-up businesses through the 7(a) program, an increase of more than 100% over FY 2003.

These accomplishments were achieved while the Agency continued to streamline and modernize its lending operations. The Agency revised the National Preferred Lender Program, which offers delegated underwriting authority to lenders, to provide for a national approval and renewal process. This change saves SBA's lending partners from having to request approvals and renewals in multiple district offices – a major program improvement from the perspective of many of SBA's lending partners. The SBA also significantly reduced the backlog of loans in liquidation, charging off an additional 6,000 loans for $525 million with projected post charge-off recoveries of $50 million. In addition, the SBA implemented additional phases of its state-of-the-art lender oversight system, which combines credit scores with current and historical performance of lenders, allowing the SBA to assign risk ratings to lenders.

Management and Technical Assistance

During FY 2006, the SBA provided counseling to businesses ranging from assistance in developing business plans to help with planning and conducting market studies, to advice on complying with employee tax withholding requirements and similar topics vital to the success of a typical small business. Seventy percent of the small businesses utilizing SBA's primary management assistance programs were new, start-up small businesses.

The SBA capitalized on the expertise of its resource partners in its response to Hurricane Katrina, when the SBA worked with the Small Business Development Centers (SBDCs) to enable 45 of their counselors from 16 states to travel to the Gulf Coast to assist small businesses in their recovery efforts. SBA's clients were able to launch, continue, or grow their businesses more successfully than they would have without the technical knowledge and counseling provided by the Agency and its resource partners.

DID YOU KNOW?

Small firms:

- Represent 99.7% of all employer firms.
- Employ half of all private sector employees.
- Pay more than 45% of total U.S. private payroll.
- Have generated 60 to 80% of net new jobs annually over the last decade.
- Create more than 50% of nonfarm private gross domestic product (GDP).
- Supplied more than 23% of the total value of federal prime contracts in FY 2005.
- Produce 13 to 14 times more patents per employee than large patenting firms. These patents are twice as likely as large firm patents to be among the one percent most cited.
- Are employers of 41% of high tech workers (such as scientists, engineers, and computer workers).
- Are 53% home-based and three percent franchises.
- Made up 97% of all identified exporters and produced 28.6% of the known export value in FY 2004.

Sources: U.S. Bureau of the Census; Advocacy-funded research by Joel Popkin and Company, Jan. 2002 www.sba.gov/advo/research/rs211.pdf

Federal Procurement Data System; Advocacy-funded research by CHI Research, Inc., Feb. 2003 www.sba.gov/advo/research/rs225.pdf

Bureau of Labor Statistics, Current Population Survey; U.S. Department of Commerce, ITA

In 2006, the Office of Entrepreneurial Development published the second year report of a three-year longitudinal study of resource partner clients. The Agency undertook this initiative to ascertain external, unbiased evaluation and program impact. Highlights of the study include:

- Respondents gave high ratings to the usefulness of assistance they received.
- SBA resource clients have a higher survival rate than those analyzed in the PSED Kauffman Study. [1]
- SBA resource clients had revenue growth of approximately 9% and an average increase in number of employees of 19%. By comparison, real gross domestic product – the output of goods and services produced by labor and property located in the U.S. – increased at an annual rate of 3.8% during this period, according to the Bureau of Economic Analysis.

Procurement Assistance

The SBA also continued its mission to support the Administration in meeting its statutory commitment to provide a fair share of federal contracting dollars to small businesses. The Agency administers a small business goal-setting program across all federal agencies to assist in the achievement of this government-wide goal. In FY 2005 (the most recent fiscal year for which data is available), federal agencies reported that more than 25% of all federal prime contract dollars (a total of $80 billion) went to small businesses, exceeding the total dollars awarded to small business in FY 2004 by more than $10 billion. It should be noted, however, that the OIG, the GAO, and others have raised concerns about the validity of these numbers. The SBA is taking steps to address these issues.

During FY 2006, the SBA's 8(a) Business Development program provided technical and management assistance to 9,600 existing small businesses, slightly exceeding both its goal for FY 2006 as well as the number in FY 2005. In FY 2006 the HUBZone program, which targets economic development in historically underutilized business zones, slightly exceeded its FY 2006 target of 4,900 and provided assistance to obtain federal contracts to over 5,000 small businesses. However, despite the SBA's success in reaching HUBZone businesses, federal government agencies have not met the statutory contracting goal for HUBZone set asides in the past seven years. However, the dollar amount of contracts with HUBZone businesses and the percentage of procurement dollars going to them has increased in each of the last three years. This continues to be an ongoing challenge for the Agency.

Regulatory Assistance

The SBA's efforts to work with federal agencies to find effective and less burdensome regulatory alternatives resulted in a tremendous benefit to the Nation's small businesses by reducing regulatory costs on small businesses by an estimated $7.2 billion in FY 2006. Millions of small businesses were able to save the time and money that would otherwise have been expended on compliance with these federally-mandated regulations, and were able to use those resources in more productive ways.

Improved Agency Management

In 2006, the SBA achieved and/or maintained a Green rating for Status for reaching goals established for four of the eight initiatives of the President's Management Agenda (PMA): Competitive Sourcing, Budget and Performance Integration, E-Government, and Improper Payments. The SBA received one Yellow rating for Status for Human Capital and three ratings of Red for the remaining PMA goals. The SBA's commitment to the PMA is evident in its Green rating on Progress in reaching goals in seven out of the eight areas, with the new SBA agency specific goal, Improved Credit Management, receiving a Yellow. The

1 Impact Study of Entrepreneurial Development Resources, SBA, Office of Entrepreneurial Development http://www.sba.gov/ed/2004_Final_ED_Report.pdf

SBA's Green rating for Budget and Performance Integration reflects the Agency's efforts to accurately measure the impact and effectiveness of its programs and to focus its resources on those activities that produce the best results.

During the year, the Agency completed actions to address virtually all of the issues raised by its independent external auditor in the FY 2005 financial audit. The SBA also implemented the new internal control requirements for financial reporting required by OMB's Circular A-123, Appendix A. These and other efforts resulted in an unqualified audit opinion for FY 2006. However, the identification and correction by the SBA of a prior year financial reporting error necessitated a restatement of a footnote item from the FY 2005 statements. That restatement is included in the FY 2006 financials contained in this report. SBA's independent auditor concluded that the circumstances of the restatement reflected a material weakness in financial reporting. Because of that weakness, the SBA maintains its Red status in the Financial Management PMA item.

The SBA benefited from the advice of its independent Audit and Financial Management Advisory Committee. The SBA is one of few federal agencies to have this additional level of oversight over its financial management processes.

Access and Efficiency through Technology

The Nation, its economy, and businesses of all sizes continue to evolve with advances in technology. For its products and services to remain relevant to the small business community, the SBA, too, must leverage technology. A flagship example of this is the SBA's role as the managing partner of the Business Gateway, a user-friendly compliance assistance portal. The portal, launched in FY 2004, provides a one-stop, common access point for small business owners to find, understand, and comply with federal regulations. Use of this portal saved American small businesses an estimated 4.6 million hours of time.

SBA BY THE NUMBERS

		FY 2003	FY 2004	FY 2005	FY 2006
Financial Assistance					
7(a) Loans [2]	Value of Loans Funded ($ Million)	$10,487	$12,713	$14,287	$13,758
504 Loans	Value of Loans Funded ($ Million)	$3,142	$3,966	$5,000	$5,701
Microloans	Value of Loans Funded ($ Million)	$30	$23	$20	$19
SBIC [3]	Value Financings Funded ($ Million)	$1,646	$4,607	$355	$477
7(a) Loans	Total Number of New Loans Funded	59,540	72,179	88,845	90,483
504 Loans [4]	Total Number of New Loans Funded	4,956	6,383	7,712	9,720
Microloan	Total Number of New Loans Funded	2,442	2,399	2,436	2,395
SBIC	Total Number Small Businesses Assisted	1,675	1,675	1,559	1,488
Management Assistance					
SCORE	Number Small Businesses Assisted	474,310	468,152	403,724	382,740
SBDC	Number Small Businesses Assisted	687,535	725,799	706,501	703,019
WBC	Number Small Businesses Assisted	106,612	122,712	144,316	126,305
District Offices Counseling and Training	Number Small Businesses Assisted	N/A	329,270	409,276	315,665
Procurement Assistance					
Prime Contracting	Annual Value of Federal Contracts ($ Billion)	$66	$69	$80	N/A
Surety Bond	Final Bonds Guaranteed	N/A	N/A	1,680	1,706
HubZone	Annual Value of Federal Contracts ($ Billion)	$3.4	$4.8	$6.1	N/A
8(a) Program	Small Businesses Assisted	8,431	8,900	9,458	9,600
Regulatory Assistance					
Advocacy	Regulatory Cost Savings ($ Million)	$6,350	$17,050	$6,600	$7,250
Disaster Assistance [2,5]					
	Value of Loans Funded ($ Million)	$780	$688	$1,272	$8,785
	Number of Loans Funded	21,170	22,264	41,651	137,803

2 Value of loans funded includes new loan approvals less decreases/cancellations to current year loans, plus increases to loans in the current year plus reinstatements. Number of new loans funded includes loans approved in the current year less cancellations of current year loans. All 7 (a) data in this table include the 7(a) STAR program.

3 The Participating Securities Program ended in FY 2004.

4 Includes loans for start-ups and existing small businesses.

5 The Disaster data in this table includes the World Trade Center Program.

REPORT OVERVIEW

Purpose

The Small Business Administration's FY 2006 Performance and Accountability Report (PAR) presents performance and financial information on the SBA programs and activities for review by the public, Congress, and the President. The PAR reports the Agency's progress towards attaining its goals and, if applicable, details any corrective actions required by the Agency to meet these goals in the future.

Organization of this Report

The PAR has five components: a Message from the Administrator, Management's Discussion and Analysis, the Performance Report, the Financial Report, and Appendices. In addition, a CD-ROM containing the complete text of the report, plus supplemental information not presented in the paper version of the PAR, is provided with every paper copy of the PAR. The content of each component is described below.

Message from the Administrator

This section highlights program and management accomplishments during FY 2006 and identifies challenges ahead. The message also attests to the reliability and completeness of the financial and performance data. In addition, the Administrator uses this section to address the most important management challenges affecting the Agency.

Management's Discussion and Analysis (MD&A)

A summary of the entire report, the MD&A reflects on the achievement of the Agency as a whole and strives to help the reader answer the question — how well is the SBA achieving its mission?

The MD&A is organized by Strategic Goal and type of assistance or function. It provides information at the Agency level, with program highlights, and an overview of the Agency's financial and performance results and challenges during FY 2006. For purposes of providing the public with greater transparency, the MD&A also includes a discussion of significant management actions and presents resource-related performance data. Efficiency measures are presented at the level of program indicators in the Performance Report section.

In the MD&A, the SBA attests to the Agency's conformance to U.S. Generally Accepted Accounting Principles for Federal Entities; provides a brief description of the SBA's control environment and legal compliance; and informs the reader on SBA's status and progress in implementing the President's Management Agenda. It provides a statement of assurance, as required by the Federal Manager's Integrity Act (FMFIA), indicating, among other things, whether the Agency's management controls and financial systems conform to government-wide standards set by FMFIA. Finally, it provides the reconciliation of the budgetary resources incurred in achieving the Agency's goals reported in Budgetary Resources Allocated to Achieve Performance with the SBA financial statements in the section called Reconciliation of Performance Budgetary Resources with Costs in the Financial Statements.

The MD&A also contains the Performance Statements. These tables give information at the Agency level about how well the SBA met the targets it had set for its outcomes. These outcomes measure the value-added that the SBA brings to the small business community and, by extension, to the country's economy.

The Performance Statements also contain information about the individual functional areas that contribute to the Agency achieving a Strategic Goal. The narrative highlights the major program contributors to any indicator.

Changes in this section from the FY 2005 PAR include the following:

1. The various sections of the MD&A are grouped according to their characteristics.
2. The MD&A is no longer organized by Strategic Goal and Long-Term Objectives. Instead it is organized by Strategic Goal and by functional area, with the Agency-level tables providing the level of resources used by functional area. Those areas are:
   - **Strategic Goal 1**
     - Regulatory Assistance
     - E-Gov Assistance
     - Procurement Assistance
     - Trade Assistance
   - **Strategic Goal 2**
     - Financial Assistance
     - Management Assistance
     - Procurement Assistance
     - Targeted Assistance
     - Marketing and Outreach
   - **Strategic Goal 3**
     - Disaster Assistance
   - **Strategic Goal 4**
     - Administrative Management
     - Human Capital Management
     - Financial Management
     - Performance Management
     - Information Technology Management
3. Management challenges and the Agency's actions are now consolidated in one table.
4. The subsection Analysis of SBA's Controls, Stewardship Information, and Financial Statements contains the reconciliation of the allocated budgetary resources to achieve FY 2006 performance with the costs in the financial statements.

Performance Report

The performance section of the PAR presents the detailed annual program performance information required by the Government Performance and Results Act of 1993 (GPRA). This section, organized by the SBA's Strategic Goals and subdivided by functional areas and SBA programs, shows detailed performance results and budgetary resources used in FY 2006.

Changes in this section from the FY 2005 PAR include:

- Performance is presented by program instead of by the Long-Term Objective that the Agency is trying to accomplish;
- Only key performance indicators are being reported. Key performance indicators were defined as follows:
  - It measures the major contributions that a program makes to the achievement of SBA's outcomes. A program may contribute in many different ways to SBA's mission, but not all those contributions are equally important. Major contributions are vital to the achievement of the desired outcome, to the point that without them the outcome could not be achieved.

   - It should be able to be used for managing a program and justifying budget requests.
   - It may be at the level of program's outputs or intermediate outcomes.
- Strategic Goal 4, which focuses on the management of the Agency, has been reorganized to make it more consistent with the other three strategic goals and to better highlight its impact on the SBA achieving its mission.

Financial Report

This section presents a message from the Chief Financial Officer, the SBA's financial statements, the independent auditor's report, required supplementary stewardship information, as well as other information relevant to the financial management of the Agency.

Appendices

The appendices provide supplemental information on how the various regions and states benefited from the SBA's programs, including individual success stories; recommendations of the Government Accountability Office; Office of Inspector General reports on the most serious management challenges; SBA's actions in response to OMB's PART evaluations; SBA's Internet sites; a glossary of acronyms and abbreviations; descriptions of the SBA offices; discontinued performance indicators; and a data validation example.

CD-ROM

The CD included with every paper copy of the PAR contains the entire PAR document as a PDF file, along with interactive and supplemental information not presented in the paper version of the PAR. For example, clicking on the:

- Name of a performance indicator in the Performance Statements will display the Data Validation Table for that indicator.
- Name of an Entrepreneurial Development program in the Performance Statement tables will display the methodology for calculating estimates for that program.
- Footnote will display the document cited in the footnote.
- The Regional Map — when connected to the Internet — will connect to the website for that region.

SBA'S HISTORY

In the Small Business Act of July 30, 1953, Congress created the Small Business Administration, whose function was to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns." The charter also stipulated that the SBA would ensure small businesses a "fair proportion" of government contracts and sales of surplus property.

Over the past 53 years, the SBA has grown both in terms of total assistance it has provided and the array of programs tailored to encourage small enterprises in all economic sectors. The SBA's programs now include financial and federal contract procurement assistance, management assistance, and specialized outreach to women, minorities and armed forces veterans. The SBA also provides loans to victims of natural disasters and specialized advice and assistance in international trade.

By 1954, the SBA was already making direct business loans and guaranteeing bank loans to small businesses, as well as making loans to victims of natural disasters, working to get government procurement contracts for small businesses and helping business owners with management and technical assistance and business training.

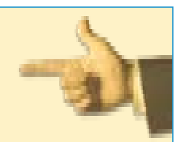
The Investment Company Act of 1958 established the Small Business Investment Company (SBIC) Program, under which the SBA licenses, regulates and helps provide funds for privately owned and operated venture capital investment firms. The SBIC program specializes in providing long-term debt and equity investments to high-risk small businesses.

The SBA continues to branch out to increase business participation by women and minorities through such avenues as the minority small business program, microloans and the publication of Spanish-language informational materials.

However, the SBA is not only about numbers. Throughout its 53 years, the SBA has been there to help many small businesses that went on to become household names. The best of the best are honored as inductees into the U.S. Small Business Administration Hall of Fame. The list of inductees is a "who's who" of some of the country's most successful companies, many of which have become international leaders in their field, including Intel, Hewlett Packard, Federal Express, Winnebago, Staples, and a host of others.

In FY 2006, nine small business owners and leaders of small business support organizations from across the country were recognized today by the U.S. Small Business Administration for their outstanding achievements on behalf of small business. SBA Champion Awards were presented at the annual observance of National Small Business Week. The award winners are recognized for their efforts and excellence in many different aspects of small business. The SBA Champions can be, but are not limited to, small business owners, supporters of small business, women, minorities, families, exporters, journalists, veterans, or young entrepreneurs. The 2006 winners can be found on the back of the section dividers of the Performance Report, the Financial Reporting and the Appendices.

DID YOU KNOW?



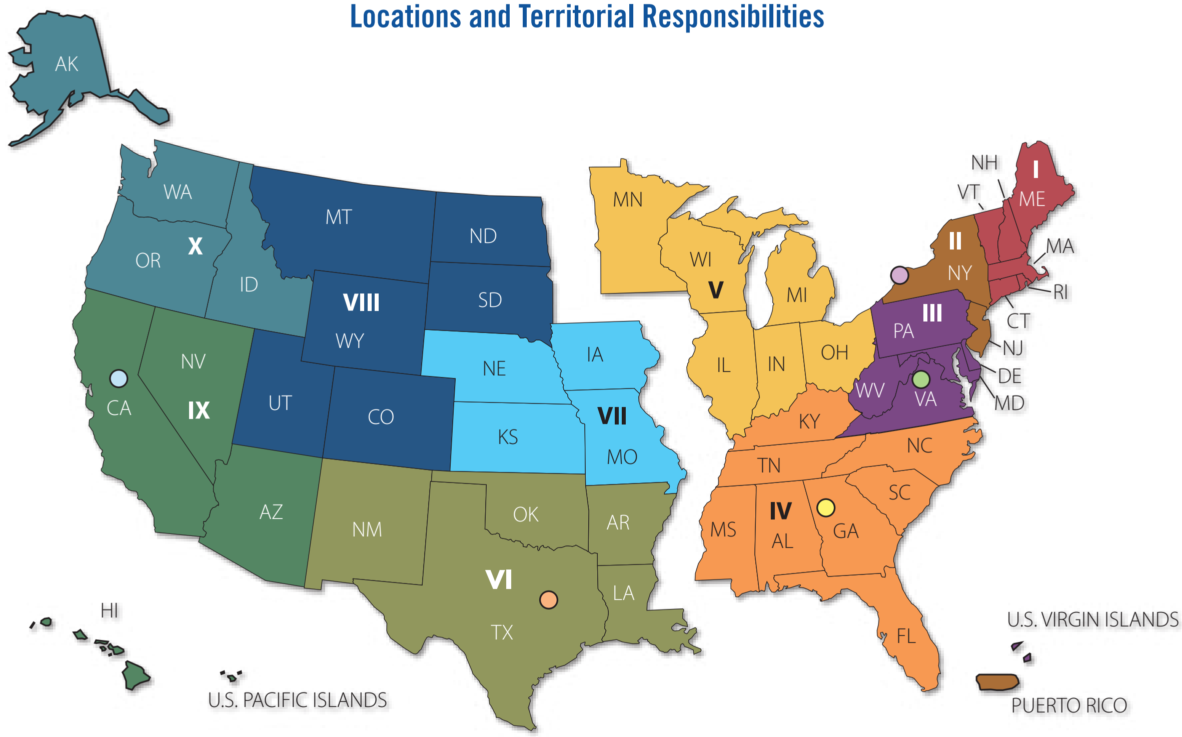
The U.S. Small Business Administration has offices in nearly every major city in the country which can be found at http://www.sba.gov/localresources/index.html

SBA operates the toll-free "Answer Desk" at 1-800-8-ASK-SBA (1- 800-827-5722), to give callers direct referral to appropriate sources of information.

THE SBA ORGANIZATION

The SBA is an organization with a nationwide presence that serves to aid, counsel, assist and protect the interests of small business concerns. The SBA's headquarters building is located in Washington, D.C., while its business products and services are delivered with the help of 10 regional offices, 68 district offices, their corresponding branch offices, and a vast network of resource partners in all 50 states, the District of Columbia, Puerto Rico, American Samoa, the U.S. Virgin Islands, and Guam.

SBA Regions & Disaster Assistance Offices Locations and Territorial Responsibilities



DISASTER ASSISTANCE OFFICES

- BUFFALO, Customer Service Center (nationwide)
- HERNDON, DCMS Operations Center and Personnel and Administrative Support Center
- ATLANTA, Field Operations Center–EAST (responsible for SBA Regions I – V)
- DALLAS/FORT WORTH, Loan Processing and Disbursement Center (nationwide)
- SACRAMENTO, Field Operations Center–WEST (responsible for SBA Regions VI – X)

The SBA is organized around key assistance areas. Below are brief descriptions of the SBA offices and programs that provide the assistance.

Financial Assistance

The Office of Capital Access (OCA) assists small businesses in obtaining capital via the 7(a), 504 and Micro Loan programs and the Small Business Investment Company program. OCA is also responsible for the Surety Bond Guarantee and the International Trade assistance programs.

Procurement Assistance

The Office of Government Contracting and Business Development (GCBD) provides assistance to small business in obtaining federal procurement opportunities through the government-wide Prime and Subcontracting programs. Additionally, the 8(a) Business Development program assist small businesses to be better prepared to take advantage of procurement opportunities. GCBD also sets size standards for small businesses which determine when a business will be considered a small business.

Management Assistance

The Office of Entrepreneurial Development provides business counseling and training through its partner's network composed of Small Business Development Centers, Women Business Centers and SCORE. In addition, District Offices provide counseling and training that complements the assistance by the SBA's partners.

Disaster Assistance

The Office of Disaster Assistance provides affordable, timely and accessible financial assistance to homeowners, renters and businesses following a disaster.

Regulatory Assistance

The Office of Advocacy provides an independent voice for small business, to advance their views, concerns, and interests before Congress, the Federal Government, federal courts, and state policy makers. The National Ombudsman receives complaints and comments from small business concerns and acts as a "trouble shooter" between small businesses and federal agencies.

Trade Assistance

The Office of International Trade helps create favorable climate for small businesses.

E-Government Assistance

The Business Gateway program improves electronic access to Federal Government information, forms, programs, and services.

Targeted Assistance

Some of the SBA's programs focus on specific small business populations, including the Native American Outreach Program, the Veteran's Business Development Program, and the Center for Faith-Based and Community Initiatives.

The following chart shows the relationships between the SBA's various program and support offices.

SBA ORGANIZATIONAL CHART

HOW THE SBA ASSESSES PERFORMANCE

The SBA uses a standardized performance system designed to emphasize the interrelationship among the various offices and to illustrate how the ultimate goal is the achievement of the mission of the Agency. Each of the components of the SBA's performance structure is defined below. Appendix 2 contains a complete list of the SBA's performance indicators. The MD&A contains the results for the outcomes for which the Agency is currently capable of measuring results. The Performance section contains the results for the intermediate outcomes and outputs for which the Agency is currently capable of measuring results. It also contains efficiency measures for all the programs at the intermediate outcome or output level.

In FY 2004, the SBA started systematic independent evaluation of the various types of assistance that the Agency provides. Currently, all four programs that provide financial assistance are undergoing evaluation to determine how well they are filling the gaps faced by small business entrepreneurs and their resulting economic impact. Procurement will be the next type of assistance to be evaluated. Please see below a description of the specific components of the SBA's performance system.

Mission	The mission of the SBA is established by the Small Business Act, and it is the overarching principle that governs all actions of the Agency.
Strategic Goals	The SBA has four Strategic Goals, as described in the Strategic Plan. The three programmatic Strategic Goals broadly define what the Agency and its programs are trying to accomplish. The first goal strives to improve the economic environment for small businesses. The second goal is achieved by programs that assist small business directly or through the SBA's partners. The third goal focuses on the assistance that the Agency lends in cases of disasters. The fourth Strategic Goal defines the responsibility of the Agency's executive leadership and support functions in helping to accomplish the programmatic goals.
Long-Term Objectives	Long-Term Objectives describe in general terms the results the SBA needs to achieve in order to attain its Strategic Goals, at the same time making the focus of the Agency more specific. For example, Strategic Goal 2 is divided by the three broad populations that the Agency serves: start-ups, existing small businesses, and those that face special competitive opportunity gaps. Their targets are defined during the creation and review of the Strategic Plan. They represent where the Agency plans to be in five years, at the end of the period covered by the Plan. Long-Term Objectives cross program areas.
Outcomes	Outcomes are defined and measured at the level of the Agency. There are two types of outcomes. For programs directly assisting small businesses, outcomes measure the effect of the outputs in comparison to a similar population of small businesses that has not received assistance from the SBA. For the rest of the programs, outcomes measure the direct effect of the outputs. More than one program may contribute to the achievement of an outcome.
Intermediate Outcomes	Intermediate outcomes are the direct quantifiable effects of the outputs. They are measured in absolute terms, without comparison to a similar population of small businesses that has not received the SBA assistance. Only one program contributes to an intermediate outcome.
Outputs	Outputs are the quantifiable targets that directly measure the results of a program. A program may have many outputs, but each output is associated with only one program.
Efficiency Measures	An efficiency measure is the cost to produce one output or intermediate unit. This allows for cost comparison among programs. Every SBA program has at least one efficiency measure.

SBA GOALS AND OBJECTIVES

SBA'S MISSION STATEMENT

The mission of the SBA is to maintain and strengthen the Nation's economy by enabling the establishment and viability of small businesses and by assisting in the economic recovery of communities after disasters.

STRATEGIC GOAL 1

Improve the economic environment for small businesses.

LONG-TERM OBJECTIVE 1.1

Minimize the regulatory burden on small businesses.

LONG-TERM OBJECTIVE 1.2

Simplify the interaction between small businesses and the Federal Government through the use of the Internet and information technology.

LONG-TERM OBJECTIVE 1.3

Increase the effectiveness of federal agencies to provide opportunities for small business.

STRATEGIC GOAL 2

Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.

LONG-TERM OBJECTIVE 2.1

Increase the positive impact of SBA assistance upon the number and success of small business start-ups.

LONG-TERM OBJECTIVE 2.2

Maximize the sustainability and growth of existing small businesses assisted by SBA.

LONG-TERM OBJECTIVE 2.3

Significantly increase successful small business ownership within segments of society facing special competitive opportunity gaps.

STRATEGIC GOAL 3

Restore homes and businesses affected by disaster.

LONG-TERM OBJECTIVE 3.1

Restore homes and businesses affected by disaster.

STRATEGIC GOAL 4

Ensure that all SBA programs operate at maximum efficiency and effectiveness.

LONG-TERM OBJECTIVE 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.

LONG-TERM OBJECTIVE 4.2

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.

LONG-TERM OBJECTIVE 4.3

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

LONG-TERM OBJECTIVE 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.

LONG-TERM OBJECTIVE 4.5

Procurement and contracting services will be planned and managed to support SBA program management and the achievement of Agency goals.

PERFORMANCE INFORMATION COLLECTION AND VALIDATION

Managing for results and producing an Annual Performance Plan and Performance and Accountability Report requires valid, reliable and high-quality performance measures and data. The SBA is committed to the continuous improvement of its performance and financial management data. To this end the Agency has established a multifaceted strategy to achieve this goal; some of the main points of this strategy are:

- Electronic collection of data
- Independent program evaluations
- Data validation systems
- Source documentation
- Documentation of estimates of calculation methodology
- Standardization of client definitions

The SBA has implemented or started the implementation of data collection systems to replace anachronistic legacy systems. For example, in FY 2006 the Agency implemented the second generation of the Entrepreneurial Development Management Information System (EDMIS). This allows the SBA management assistance programs to collect standardized counseling and training data. For the 7(a) program, the SBA continued expansion of E-Tran to more lending partners. E-Tran is the SBA loan guaranty origination solution that leverages best-practice Internet technology to reduce the turnaround time on loan guaranty requests and provide the Agency with high-quality, timely data to support the management and oversight of its loan portfolio. It combines sophisticated Internet technology with robust data validation criteria to enhance the quality of loan origination data, and specifically mandates the entry of unambiguous data on startups, job creation, and demographics.

Besides the technological challenges represented by data collection from a multitude of sources, themselves with varied system capabilities, the modernization of data systems must also deal with the legacy of business processes and transition periods to new systems. For example, not all lenders have been incorporated into E-Tran. At the beginning of FY 2006, 48% were using E-Tran for the origination of their loan guaranties; by year end, this percentage increased to 70%. Data submitted by lenders not using E-Tran is not subject to the same constraints, which may reduce the quality and consistency of the information. The SBA still relies upon its relatively inflexible legacy mainframe processing system which gives rise to opportunities for data inconsistencies and therefore requires extensive compensating controls to ensure reporting reliability. In FY 2006, the SBA initiated a long-term project to modernize its loan accounting and management system, which will improve the ease and effectiveness of data management at SBA significantly.

Data validation is defined as determining if the performance indicator actually measures the goal or objective and is therefore a useful guide to policy making. The SBA performs systematic independent program evaluations of its functional areas. It evaluates entire areas instead of individual programs because, within an area, programs are expected to bridge the same types of gaps as is appropriate for the needs of different populations. At the end FY 2004, the SBA started an independent external evaluation of its financial assistance programs. The final report of the evaluation will provide answers to questions such as: are these programs duplicative, what market gaps do they bridge, and what is their impact on the population that they are serving? The answers will allow the Agency to set targets for the outcomes established in the Strategic Plan and to measure the impact of the SBA on the success of the assisted small businesses. The complete list of all of SBA's outcomes can be found in Appendix 2. Procurement assistance will be evaluated in FY 2007, conditional on funding, followed by management and technical assistance.

Although worthwhile, independent performance evaluations are costly and lengthy. Data validation tables are an alternative, systematic way of assessing the quality and integrity of the performance indicators published in the PAR. They also provide the public with an opportunity to understand how the performance indicators – measured in terms of outputs, intermediate outcomes, and outcomes – are connected to the Agency's strategic goals.

In providing this data validation, the SBA program offices must reference limitations in the data and their plans to address these limitations. They should also identify other factors affecting data quality, such as the frequency with which the data is reported, the data source of the indicators, and the policy implications of the performance indicators. Data validation tables were identified as a best practice by the GAO. The data validation table example in Appendix 11 illustrates the information gathered by these tables. Data validation for each indicator can be accessed by clicking on the indicator of interest in either the Internet or the CD version of the FY 2006 PAR.

There are different levels of quality of the information included in the tables. The most significant data quality issues are discussed below. The Agency provides training for program offices on the data validation process. Additionally, tables' samples are selected for further evaluation by the SBA Office of Analysis, Planning and Accountability.

One of the factors addressed in the data validation tables is the timeliness of the data. The data presented in the FY 2006 PAR is either actual or estimated. Actual data is compared against source documentation provided by program offices. Estimates are calculated based on methodology with variance calculated with respect to historical values and supported by backup documentation.

The definition of the performance indicators is also addressed in the data validation tables. This is very important because, unless the definitions are consistent, performance comparison across programs is not possible. Most of the standardization of the definitions was accomplished by programs providing management assistance: Small Business Development Centers, SCORE and Women's Business Centers. There are still internal discrepancies among financial assistance programs and procurement programs, as well as across functional areas. For example, there is not a cross-program agreement on what constitutes a start-up small business. The SBA expects that, with the information provided by the program evaluations and the revision next year of the Strategic Plan, standardization of definitions will be greatly advanced.

Most Significant Data Issues

1. The management assistance programs — Small Business Development Centers, SCORE and Women's Business Centers — are not able to report on assistance to small businesses owned by people of ethnic, national origin and gender categories. The collection of the information has not been standardized, resulting in inconsistencies about the number of small businesses assisted in these categories. The SBA will evaluate all the factors in FY 2007 and expects to be able to include performance indicators for these populations in the FY 2007 PAR.

2. Studies by the SBA's Office of the Inspector General, Office of Advocacy, and the GAO have found that agencies are counting awards to large firms toward their small business procurement goals. This inflates the results reported for the contracting programs. There are two basic problems. The first is that when a contract is awarded to a small business, it doesn't necessarily stay small. If the firm expands beyond the small business criteria, they should no longer get the preferential treatment. The agencies must be more proactive in tracking growth. Towards that goal, the SBA is publishing a final rule that requires a small business to recertify its size status each time a contract option is exercised, but at least every five years for contracts that were competed in full and open competition and competition restricted to small business set-asides, including 8(a). The second problem is that when a business is entered into the database, some are miscoded as small business when they should not be.
3. The source for capital investment and jobs created/retained by HUBZone-certified firms is being reconsidered. The original source was the electronic survey conducted by the program. One possible solution is for the FY 2007 planned independent performance evaluation of SBA procurement assistance to determine the appropriate sources for this information.
4. The Agency is considering discontinuing the survey that produces the information for 8(a) certified small business longevity, revenues and jobs created/retained. It is reviewing other sources that will allow evaluation of the performance of the entire portfolio, not just the businesses that answer the survey. By the end of FY 2007 an alternative methodology should be identified.
5. The FY 2006 results for 7(a) loans do not include loans in "special target zones," which were included in the goal. These are locally designated economically distressed areas. The validity of the data concerning these loans is being evaluated.

Description of additional data issues, if any, can be found under the individual programs in the Performance Report section of the PAR.

DID YOU KNOW?

According to a National Federation of Independent Business membership survey, the number one small business issue is the cost and availability of insurance. Aspects of insurance that may drive small business concern are premium increases and administrative costs. SBA research shows that insurers of small health plans have higher administrative expenses than those that insure larger group plans.

Sources: National Federation of Independent Business; Kaiser Family Foundation; Advocacy-funded research by Rose C. Chu and Gordon R. Trapnell, Jan. 2003 (Research Summary #224) **http://www.sba.gov/advo/research/rs224tot.pdf**

STRATEGIC GOAL 1

Improve the economic environment for small businesses

As a champion for small businesses, the SBA works to ensure that all enterprising Americans can maximize their opportunities for success.

The Long-Term Objectives (LTO) under this goal are as follows:

- **Long-Term Objective 1.1** – Minimize the regulatory burden on small businesses
- **Long-Term Objective 1.2 –** Simplify the interaction between small businesses and the Federal Government through the use of the internet and information technology
- **Long-Term Objective 1.3 –** Increase the effectiveness of federal agencies to provide opportunities for small business

These LTOs focus primarily on:

- Reducing federal regulatory burden by providing small business with automated tools and information on how to find, understand and comply with laws and regulations;
- Ensuring regulatory fairness;
- Promoting the interests of small businesses in the international marketplace;
- Ensuring full and open competition for government contracts.

Agency-Level Highlights

Table 1 shows SBA's results in improving the economic environment for small business based on two key outcome measures.

Table 1.

Performance Statement
Agency-Level Performance Measures
Strategic Goal 1. Improve the economic environment for small businesses.

LTO	SBA Outcome Measures	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
1.1	1.1.1. Increase Regulatory Cost Savings to Small Businesses [a]	Outcome	$6.35	$17.05	$6.60	$5.60	$7.25	29.5% B
1.2	1.2.1 Small Business Federal Compliance Hours Saved (Number)	Outcome	N/A	N/A	N/A	200,000	4,652,376	2,226% B

SBA Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Regulatory Assistance Cost ($000)	$9,880	$10,829	$10,787	$9,790	$10,475
Total Management Assistance Cost ($000)	$0	$2,603	$10,780	$13,599	$16,180
Total Procurement Assistance Cost ($000)	$27,795	$36,296	$25,731	$23,832	$29,862
Total Strategic Goal ($000)	$37,675	$49,727	$47,298	$47,221	$56,517

[a] Over a base amount of $3.8 billion set in FY 2002 by FY 2008

Assistance-Level Highlights

Although at the aggregate level the Agency exceeded its goals, not all programs performed equally. The following chart summarizes how successful the SBA was in achieving its goals by listing how many targets were met, exceeded, or not met [6]:

Summary of Results by Type of Assistance			
Type of Assistance	**Number of Targets:**		
	Exceeded >10%	**Met >10%<**	**Not Met <10%**
Regulatory Assistance	3	2	1
E-Government Assistance	2	2	0
Procurement Assistance	1	0	1
Trade Assistance	2	0	0

In FY 2006, the SBA helped make small businesses more competitive by reducing the resources they had to spend on complying with regulations as measured by dollars and time saved. In addition, small businesses were able to take advantage of more federal contracting opportunities.

Regulatory Assistance Highlights

During the year, the SBA worked to reduce the regulatory burdens that federal policies imposed on small firms. The result was a savings of over $7.2 billion. The Agency also assisted small businesses when they experienced excessive federal regulatory enforcement actions, such as repetitive audits or investigations, excessive fines, penalties, threats, retaliation or other unfair enforcement action by a federal agency; and provided a means for small businesses to contest government actions without fear of retaliation. The SBA's outreach to other agencies resulted in a greatly improved response to queries received from small businesses. For FY 2006, the response within 90 business days was 26%. This is compared to 12% in 2005 and 17% in 2004.

E-Gov Assistance Highlights

The SBA, as the managing partner of the Business Gateway Initiative, works with 22 partner agencies to provide the Nation's business owners with a single access point to assist them in complying with federal requirements. Accomplishments in FY 2006 included:

- Re-launching Business.gov. Launched in 2004, Business.gov initially provided information on starting, growing and managing a small business. The new version has a compliance focus, providing business owners with a one-stop resource that searches federal government agencies that regulate or serve businesses for compliance information or resources.

DID YOU KNOW?

The SBA's National Ombudsman forwards small business comments regarding excessive federal regulatory enforcement actions, such as repetitive audits or investigations, excessive fines, penalties, threats, retaliation or other unfair enforcement action, and asks federal agencies to review and consider the fairness of their enforcement action.

In some cases, fines have been lowered or eliminated and decisions changed in favor of the small business owner.

Transcripts of all Regulatory Fairness Hearings are placed at the website of the National Ombudsman http://www.sba.gov/ombudsman/

6 "Met" is defined as actual performance that is within +/-10% of the target. For these indicators 10% deviation is considered slight and there was no effect on overall program or activity performance. "Exceeded" and "Not Met" are defined as actual performance that was greater than +/-10% of the target. Explanations, including action plans, are included in the Performance Section for indicators that exceeded or did not meet the target.

- Providing unique "vertical search" capabilities allowing businesses to quickly find key resources.
- Enhancing the federal forms catalog allowing businesses to easily locate the most sought after forms.

The number of distinct visitors to the Business.gov site has increased significantly to a monthly average of nearly 233,000 per month by the end of the fiscal year.

Procurement Assistance Highlights

The SBA administers a small business goal-setting program across all other federal agencies to assist in the achievement of this Strategic Goal. With annual purchases topping $300 billion, the Federal Government's statutory goal is to award at least 23% of all federal commodity and service purchases to small businesses. The SBA is tasked with negotiating and establishing goals with the individual agencies so that, on aggregate, the federal-wide goal of 23% is met.

There is a one year lag in the reporting of federal contract awards. For FY 2005, the latest year for which data is available, federal agencies reported that small businesses received $80 billion in federal prime contracts, a $10 billion increase from the year before. These contracts represented over 25% of federal prime contracting dollars in FY 2005, exceeding the 23% goal for the third consecutive year.

The validity of the reported data has been questioned, specifically as it relates to flaws in the procurement process that allows large firms to receive small business awards and agencies to receive small firm credit for large firm contracts. The SBA is working to address these concerns. As a first step, it is promulgating requirements for a firm's size recertification. Recertification will be mandated each time the firm exercises its contract option and every five years for awards that were won through both open competition and set-asides.

Business Matchmaking facilitates the responsibility of federal agencies to meet their mandates for providing procurement opportunities to small businesses. Similar assistance is provided to state, county and city governments, as well as major corporations.

Trade Assistance Highlights

By the end of FY 2006, the SBA, through its Office of International Trade, made significant progress in improving the economic environment for small business by contributing to the Administration's international economic, trade and commercial policy objectives. The SBA activities helped sustain Presidential and Administration priorities and improve the international economic and commercial environment for small business participation in trade. While many Administration priorities are often set without direct consideration for small business, the SBA strives to highlight small business concerns within the Administration's international trade priorities.

For example, in FY 2006, the SBA participated on two Cabinet-level trade groups: the interagency Trade Promotion Coordinating Committee and the President's Export Council. The SBA contributed to the 2006 National Export Strategy for the Coordinating Committee and succeeded in having small business issues included in the action plan of the Summit of the Americas which was attended by President Bush. In addition, the SBA played a leading role in improving the U.S.-Africa economic and trade environment by contributing to U.S. planning for the Africa Growth and Opportunity Act trade ministers' forum.

SUCCESS STORY

The World is Her Oyster—SBA is Her Ticket

In 2003, Lisa Phillip started Hybas International LLC, a small export company. Lisa's a smart lady! Before proceeding with her first export order, she utilized various resources for exporting offered by the SBA.

One of the SBA programs that helped was the Export Working Capital Program (EWCP), in which Lisa received export counseling from Najla Tanous, District Counsel. To prepare for back-to-back export orders, Lisa next met with Alfreda Crawford, SBA's Business Development Specialist to explore various financing options. Lisa states, "Both of the SBA employees were a source of encouragement during the preparation of our first export order."

Hybas International was then able to begin exporting food, general merchandise, and the comforts of home to expatriates on international assignment in the Middle East. In 2004, Stephen Phillip joined Lisa, bringing a diverse professional background to the business. They decided to expand the operation to include Customized One-Stop Import/Export Supply Chain Solutions and Professional Services. With this expansion, Hybas International increased its sales and was forced to increase their staff from two to eight employees who are located globally in Houston, Trinidad and Tobago, Washington, D.C., Dubai, and New York.

The company experienced its share of set-backs during the first year of its operation, but with Stephen and Lisa's combined skills and experience, and the assistance of the SBA, Hybas will have a hard time continuing as anything but successful!

STRATEGIC GOAL 2

Increase small business success by bridging competitive opportunity gaps facing entrepreneurs

The SBA empowers individual entrepreneurs by providing financial assistance (access to loans and equity), management assistance (knowledge and skills development through counseling and training), and procurement opportunities, either directly or through SBA's partners. The Agency focuses its resources on those challenges faced by small businesses that are typically not being addressed by the private market.

The Long-Term Objectives (LTO) under this goal are as follows:

- **Long-Term Objective 2.1 –** Increase the positive impact of SBA assistance upon the number and success of small business start-ups
- **Long-Term Objective 2.2 –** Maximize the sustainability and growth of existing small business assisted by the SBA
- **Long-Term Objective 2.3 –** Significantly increase successful small business ownership within segments of society facing Special Competitive Opportunity Gaps (SCOG)

The first LTO focuses on prospective, nascent, and start-up businesses. The second LTO focuses on existing businesses. In this way, the SBA contributes to small business through all of the stages of the business life cycle. The third LTO places particular emphasis on groups facing special opportunity gaps; i.e., that own and control little productive capital because they have historically had limited opportunities for entrepreneurship and small business ownership.

Agency-Level Highlights

Table 2.

Performance Statement
Agency-Level Performance Measures
Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.

LTO	SBA Outcome Measures	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
2.1	2.1.1 Prospective and Start-up Small Businesses Assisted.[a,b]	Outcome	915,066	948,332	911,642	559,541	875,171	56.4% B
2.1	2.1.2 Percentage of Prospective and Start-ups from Among Those Small Businesses Assisted.[c]	Outcome	68%	67%	67%	59%	66%	11.3% B
2.2	2.2.1 Increase the Number of Existing Small Businesses Receiving SBA assistance.[d]	Outcome	430,816	466,685	454,648	382,010	448,482	17.4% B
2.3	2.3.1 Increase the Number of Start-ups and Existing Small Businesses Facing Special Competitive Opportunity Gaps (SCOGs) Receiving SBA Assistance.[e]	Outcome	335,727	585,242	565,837	261,988	366,289	39.8% B

(Table and footnotes continued on next page)

SBA Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Financial Assistance Cost ($000)	$314,617	$271,191	$140,044	$129,029	$136,287
Total Management Assistance Cost ($000)	$125,441	$148,071	$183,923	$176,851	$161,632
Total Procurement Assistance Cost ($000)	$39,023	$41,769	$39,156	$36,357	$37,078
Total Targeted Assistance ($000)	$9,740	$15,044	$12,752	$10,709	$10,354
Total Strategic Goal ($000)	$488,821	$476,076	$375,874	$352,946	$345,351

[a] Includes start-ups assisted in the form of financial and technical assistance. FY 2005 Goal for Technical Assistance was revised, as the base year Entrepreneurial Development program goals has changed to FY 2006.

[b] Start-up small businesses represent those assisted through the 7(a) , 504,Microloan, SBIC, NMVC. SCORE, SBDC, WBC., BIC, and SBTN.

[c] Currently, only ED Technical Assistance programs for SCORE, SBDC, and WBC programs track this indicator. A study with an outside contractor is currently being conducted to evaluate satisfaction rates for Financial Assistance programs.

[d] Calculation is based on number of unique small businesses assisted through financial assistance from programs 7(a), 504, Microloan, SBIC, and NMVC; technical assistance from programs SCORE, SBDC, WBC, BIC, Microloan, International Trade, and 7(j); and procurement assistance from programs HUBZone, 8(a) , and Surety Bonds Guarrantees.

[e] This total represents the number of SCOGs assisted through financial asssistance programs 7(a), 504, SBIC, Microloan, NMVC; technical assistance programs SCORE, SBDC,WBC,Microloans, and 7(j); and procurement assistance programs Surety Bonds, HUBZone, and 8(a).

As shown in Table 2, in FY 2006 the SBA assisted over 875,000 start-ups and 448,000 existing small businesses through its financial, management, and procurement assistance programs. Of these businesses, over 366,000 start-up and existing small businesses facing special competitive opportunity gaps received SBA assistance.

The Agency exceeded all the Agency-wide goals that had been set for assisting small businesses during FY 2006. In Financial Assistance the SBA met or exceeded 79% of the targets set for its performance indicators. The 7(a) loan program did not meet the targets set for the number of existing small businesses assisted by the program or the number of loans approved to them, although as a whole the program made more loans to small businesses than at anytime in its history. The SBIC program did not meet the goal that it had set for assisting businesses facing special competitive opportunity gaps. In Management Assistance and District Offices, the SBA met or exceeded 75% of the targets. Procurement Assistance met all of its targets.

Assistance-Level Highlights

Although at the aggregate level the Agency exceeded its goals, not all programs performed equally. The following chart summarizes how successful the SBA was in achieving its goals by listing how many targets were met, exceeded, or not met by the programs providing each type of assistance:

Summary of Results by Type of Assistance

Type of Assistance	Number of Targets:		
	Exceeded >10%	Met >10%<	Not Met <10%
Financial Assistance	5	21	7
Management Assistance	0	6	2
Procurement Assistance	0	4	0
District Offices	2	1	1

The following sections address the performance and management of the programs with the largest contributions to this Strategic Goal.

Financial Assistance Highlights

The SBA, through the Office of Capital Access, helps small businesses receive the funds they need to begin or grow by providing guarantees on loans made by lenders to small businesses that do not qualify for conventional financing. The SBA administers five programs to address different market gaps:

- The 7(a) loan guaranty program is the Agency's primary financial assistance program, providing guaranteed financing through lenders to small businesses for a variety of general business purposes.
- The 504 guaranty program fills another lending gap by providing guaranteed long-term, generally fixed-rate financing through non-profit organizations to small businesses for major assets such as real estate and heavy equipment.
- The Small Business Investment Company (SBIC) program provides guaranteed debentures for businesses seeking venture capital-type investments.
- The Microloan program provides loans up to $35,000 through intermediaries to small businesses. The intermediaries also provide technical assistance.
- The International Trade program assists small businesses to enter and grow in international markets through guaranteed loans, technical assistance and trade promotion.

In FY 2006, the 7(a) loan guaranty program, the SBA's flagship financial assistance program, made more small business loan guaranties than ever before - 90,483. This represents the seventh year in a row that the Agency has increased the number of new loans funded.

The SBA funded 8,162 loans to existing small businesses under the 504 program in FY 2006, slightly exceeding its goal, while exceeding the FY 2005 total by nearly 6%. One of the main factors for this success is the expansion in the number of Certified Development Companies. This significantly increased their potential market and generated competition among them, which expanded their respective marketing and servicing efforts. In addition, the SBA assisted 1,488 existing small businesses through SBIC financings, slightly exceeding its set goal.

In FY 2006, pursuant to its objective to reduce barriers to groups facing special competitive opportunity gaps, the SBA funded 66,300 loans through its 7(a) loan program and 6,812 loans under the 504 program to these groups. The goal for 7(a) loans funded under this LTO is considered to be met since the number funded fell only 3% below the target. However, the FY 2006 results do not include loans in "Special Target Zones" which were included in the goal. These are locally designated economically distressed areas and the validity of the data concerning these loans is being evaluated.

During FY 2006, the Agency continued the streamlining and modernization of its financial assistance operations to make them more efficient by:

- Continuing the centralization from district offices to existing loan centers of the loan making, servicing, liquidation and guaranty purchase functions for both 7(a) and 504 loans; initiating the modernization of the systems that support loan origination, servicing, purchasing, liquidation and financial management for the Agency's loan and loan guarantee programs; and by reducing the backlog of loans in liquidation which reduces holding costs and increases recoveries.
- Expanding the National Preferred Lender Program allowing any preferred lender to make loans anywhere in the nation without seeking special authorization from district offices.
- Combining credit scores of borrowers with current and historical performance of the loan portfolio of lenders, allowing the SBA to assign risk ratings to lenders.
- Implementing a plan for the reduction of receivables backlog from SBICs resulting in $1.7 billion in leverage under management. The receivables backlog resulted from the downturn in the stock market in 2001 and the corresponding necessary actions taken by the Investment Division to minimize the cost to taxpayers.

SUCCESS STORY

With the SBA, This Fish Did Not Get Away

In 2003, Sam Joyner and his wife opened Georgia Sweetwater Catfish Inc., Georgia's only major catfish processing plant, with the use of a $1.2 million SBA 7(a) loan. The loan helped them acquire and rebuild a vacant, mobile home plant in Willacoochee that is now equipped to process up to 50,000 pounds of catfish a day.

"We started full production in early 2004 with about 25 employees," recalls Joyner. During the summer months the plant now employs about 70 people.

Sweetwater catfish opening in Willacoochee At the grand opening ceremony are, from left, Lace Futch, Southeast Georgia Regional Development Center executive director; Sam Joyner, Georgia Sweetwater Catfish president, and his wife, Louise; and Frank Jackson, Coffee County Commission chairman.

"Our goal was to create a new industry in Georgia and to work with and assist farmers in establishing catfish ponds that will generate new revenue on small portions of land." Farm-raised catfish is delivered live to the plant in truck loads of 25,000 to 30,000 pounds from catfish ponds in Georgia, Mississippi and Arkansas. The fish are placed in holding tanks when they arrive and are processed within 24 hours, packed and then quick frozen in the 50,000 square-foot plant. Customers for Joyner's .catfish plant include various restaurants and wholesale distributors and suppliers both in Georgia and out of state.

Joyner notes that his SBA guaranteed loan played a major role in opening his catfish processing plant. "Banks are tough on loaning money to new businesses," he explains. "With the security of the SBA guarantee to the bank, it made it easier to obtain the financing we needed for our plant."

Joyner is no stranger to SBA. He used another SBA 7(a) Loan to finance the purchase of one of his Taco Bell Restaurants in 1993.

Management Assistance Highlights [7]

During FY 2006 over 1.2 million small businesses and entrepreneurs utilized the expertise of the SBA's resource partners, the Small Business Development Centers (SBDCs), the Women's Business Centers (WBCs) and SCORE to establish or grow a small business. Assistance included support for business plan development, planning and conducting market studies, implementing new technologies, accessing capital and many other undertakings vital to the success of a typical small business.

7 FY 2006 results for Management Assistance are based on estimates.

In 2006, the SBA produced the second year report of a three-year longitudinal study of small businesses that have received SBA's management assistance. This study is an external, unbiased evaluation of the impact of the programs lending management assistance. Highlights of the study's results include the following conclusions about the respondents, who:

- Gave high ratings to the usefulness of assistance they received.
- Have a higher survival rate than those analyzed in the PSED Kauffman Study. [8]
- Had revenue growth of approximately 9% and an average increase in number of employees of 19%. By comparison, real gross domestic product – the output of goods and services produced by labor and property located in the US – increased at an annual rate of 3.8% during this period, according to the Bureau of Economic Analysis.

Data has shown that long-term counseling and training result in the greatest economic impact (in terms of jobs and revenue). However, the counseling and training trends for the SBDC program over the past five years reflect an accelerated growth in the number of clients trained or counseled, and conversely a sharp decline in counseling activity. The trend is a result of the Agency's historic output focus which constantly sought to reach more small businesses. Recognizing this trend and its conflict with the desired economic impact, for FY 2006 the Agency decided to allocate more resources to long-term technical assistance. Consequently, the FY 2006 goal for number of clients the SBDC counseled or trained was maintained at the same level as FY 2005, while the number of counseling and training hours was increased.

FY 2006 was a transition year for this new strategy, which still resulted in an increase of clients served and a decrease in the number of counseling hours. In FY 2007, SBDCs will continue the implementation of this strategy by establishing the number of long-term counseling clients as a new key performance indicator.[9] By changing the focus of the SBDC program from one that was trending heavily towards quantity and refocusing it on quality, the SBA anticipates SBDC clients will be able to create more jobs, establish more businesses and operate healthier companies.

With FY 2006 funding, the Women's Business Center Program awarded grants to 99 centers, including 19 new ones. Thirteen centers graduated from their initial 5-year grants to sustainability grants, while six centers graduated from the program after 10 years of funding. Because three centers closed after performance-based funding levels had been determined, the SBA was able to make additional awards of approximately $45,000 each to three centers in areas affected by last year's hurricanes. Performance-based funding has also helped stimulate new innovations and creativity in reaching clients, including virtual conferencing/training and mobile computer labs. The WBC Program met its training and counseling goal for the year, despite changes in client definitions and the fact that about 25% of the WBCs are in their first two years of operations.

As of the third quarter of FY 2006, SCORE had counseled and trained over 197,957 nascent/start-up clients, which translates into a projected 263,943 prospective and nascent small business owners receiving assistance by the end of the fiscal year. Also as of the third quarter, SCORE had counseled and trained over 40,546 existing small business owners, projected to be more than 54,061 existing small business clients by the end of the year.

Of particular note is SCORE's increasing outreach using its web-based counseling tools. The organization plans to increase "cyber" counseling in 2007 by expanding the database of expertise and types of business skill sets.

8 8 - http://research.kauffman.org/cwp/appmanager/research/researchDesktop?_nfpb=true&_pageLabel=research_dataDetail&awebcurl=Research/DataSet_01.htm
Panel Survey of Entrepreneurial Dynamics (PSED) Kauffman Study. Ewing Marion Kauffman Foundation. All rights reserved. Kansas City, MO, 64110

9 Long-term clients will receive a minimum of 5 hours of counseling.

SUCCESS STORY

The SBA is the Fertilizer of Choice

A proud Gulf War veteran and graduate in Landscape Architecture, Christopher Bacala was recruited directly out of college to become a designer and project manager, taking advantage of the opportunity to gain experience and draft hundreds of designs. Finally, in November 2003, Chris was able to start his very own company. Bare Roots Landscape Solutions, Inc. is a landscape design/build firm that specializes in horticulture, landscape design, construction and maintenance.

Chris soon found he needed help, so he contacted the Dallas Small Business Development Center (SBDC). "Operating business out of a small apartment and a rented lot in East Dallas soon became an operation and scheduling nightmare, so I began to look for assistance. I discovered the SBDC and the Business Incubation Center in the Bill J. Priest Institute." Chris worked with his SBDC counselor to finalize a business plan and was admitted to the incubator where he continues to receive regular assistance.

One of many good pieces of SBDC advice came when Chris's counselor encouraged him to attend one of the SBDC's "Meet the Banker" events. The result was a $5,000 microloan from Innovative Bank. The loan may seem small but it, and the technical assistance from the SBDC, has made all the difference.

Chris started his business in 2003 with first year sales of $125,000. Sales are currently $250,000, and the company maintains seven employees! "I appreciate the resources and advice on how to effectively and successfully grow my company to its full potential. With the help of my SBDC adviser, we increased the growth of our operation by about 25% in our second year in business. [And] we have already exceeded this amount of growth in the first quarter of our third year…"

Procurement Assistance Highlights

The SBA provides small businesses procurement assistance through the following programs:

- The 8(a) Business Development program's primary objective is to increase small business ownership among individuals who own and control little capital.
- The HUBZone program's primary objective is job creation and increasing capital investment in distressed communities.
- The 7(j) program enters into grants, cooperative agreements or contracts with public or private organizations that can deliver management or technical assistance to individuals and enterprises eligible for assistance.
- The Surety Bond Guaranty program assists small businesses in obtaining the bonds necessary to take advantage of contracting opportunities.

During FY 2006, the SBA's 8(a) program provided assistance to 9,600 existing small businesses, slightly exceeding both its goal for FY 2006 as well as the number of businesses assisted in FY 2005. During FY 2006 the SBA has been working to correct operational problems in the E-application module of its Business Development Management Information System. The re-engineered module will be released in FY 2007. Despite the problems, applications are being processed well within the statutory deadline of 90 days.

The Agency is statutorily mandated to review 100% of its 8(a) portfolio annually. During FY 2006, 56% of the reviews were completed, down from 77% in FY 2005. This continued a downward trend that began in FY 2003. A significant contributing factor was the distribution of staff resources at the district office level. The Agency, as part of its transformation, will consider re-allocating resources from 8(a) Marketing and Outreach to Program Reviews to comply with the statutory mandate of 100% portfolio review. Based on cost, this would be a more effective and efficient use of resources, since the marketing cost per newly certified firm has increased from $7,000 in FY 2005 to $14,000 in FY 2006. Meanwhile, the per-review cost has remained essentially flat between the two years: $182 per review in FY 2005, and $188 in FY 2006.

The HUBZone procurement program focuses on distressed urban and rural areas. In FY 2006, the HUBZone program slightly exceeded its FY 2006 target and provided assistance to 5,044 small businesses, an increase of 70% over the number of businesses assisted in FY 2005. Encouraging federal contract officials to comply with PL 105-135 remains a major challenge, as is the lack of contracts set aside for HUBZone competition. The SBA will address this challenge with the launch of "HUBZone Procurement Query Reporting System (HPQRS)" that is discussed in further detail in the Performance Section.

The SBA had a goal of ensuring that 668 HubZone reviews were completed during FY 2006. By the end of FY 2006, 703 reviews had been conducted by the district offices, representing an 18% increase over the FY 2005 accomplishment. Furthermore, the cost per review fell slightly from $2,462 in FY 2005 to $2,155 in FY 2006 – representing a 14% reduction in per-review cost.

The availability of surety bonds to small businesses engaged in the construction, supply and service sectors is critical to their viability and growth. The Surety Bond Guarantee program fosters a three-way partnership among the small business, the Surety Company, and the SBA through an SBA guarantee of between 70% and 90% of the bond amount. As these small businesses grow and prosper, they are then better equipped to obtain bonding through standard commercial channels.

The SBA did not meet its FY 2006 surety bond goals, which were aggressively established at 35% over FY 2005 actual program activity. Factors that negatively affected the achievement of surety bond goals were: a 30% surety fee increase; a decrease in Preferred Surety Bond (PSB) Program activity that resulted from an earlier program shutdown and an obsolete rate cap on PSB sureties; a backlog in claims payments early in the fiscal year; and limited marketing and outreach. The SBA is undertaking corrective actions to remedy these issues as well as developing an electronic application processing system.

DID YOU KNOW?

You can quickly determine if you qualify as a "small" business by using our **NAICS (North American Industry Classification Codes)** or **SIC (Standard Industry Classification) Code Lookup Table**. http://www.sba.gov/services/contractingopportunities/sizestandardstopics/naics/index.html

Simply enter your business description or NAICS/SIC code (if known). Then use the resulting table to locate your products/services and see the size standards for your business type.

Targeted Assistance Highlights

Some of the SBA's programs focus on specific small business populations facing special competitive opportunity challenges. These programs are the Native American Outreach Program, the Veterans Business Development Program and the National Women's Business Council. In addition, Center for Faith-Based and Community Initiatives and the Small Business Training Network use targeted delivery methods. The following is a brief description of these programs:

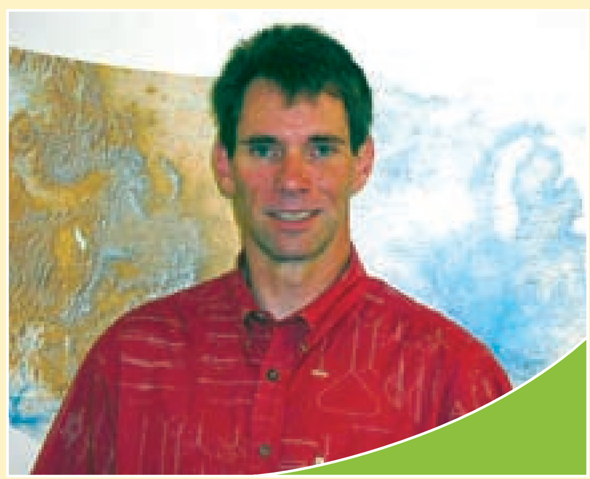
SUCCESS STORY

Walking Tall With the SBA

Wade K. Johnston had over 10 years of experience in the environmental industry. A chemical engineer, he had managed more than 4,000 environmental projects. Then, in 1986 he suffered a diving accident that left him paralyzed from the neck down. Extensive physical therapy for two years enabled Wade to gradually build up his strength to the point where he could transfer himself to and from a wheelchair and function with a moderate degree of independence. However, the injury affected all of his motor and sensory functions below the shoulders, especially in his hands.

Wade was not able to return to his prior job and instead went back to school where he earned a degree in Small Business Management in 1989. That was when he started MCS Environmental, Inc., Mountain Laboratories, an environmental consulting and contracting firm that provides a wide variety of services to business, industry, government agencies, and others searching for answers to today's complex environmental concerns.

Johnson is an EPA-accredited asbestos abatement designer, inspector, management planner, contractor/supervisor, and is a certified lead paint inspector who has served as a leader in his industry. However, his physical disability sometimes resulted in unfair stereotypes and unavoidably long project turn-around times. Ultimately, because of inadequate cash flow, MCS was not able to keep up with industry wages.



It was because of these obstacles that Wade turned to the SBA. In June 1999, MCS was accepted into the SBA's 8(a) program. In the beginning, MCS had five employees. It now has 20 and has annual revenues in excess of $1,000,000! Recently, MCS received an SBA CapLine of Credit in the amount of $100,000 and a term loan in the amount of $362,000 to perform a large contract in California.

Native American Outreach — Through the Office of Native American Affairs, the SBA provides assistance to American Indians, Alaska Natives, Native Hawaiians, and the indigenous people of Guam and American Samoa, offering services and products including loan guarantees and management assistance.

Veterans Business Development — Statutes direct the SBA to conduct comprehensive outreach and to be responsible for the formulation, execution, and promotion of policies and programs regarding small business development for veterans. The Office of Veterans Business Development operates a National Outreach Initiative through direct service delivery, through utilization of funding agreements with resource partners, through coordination of outreach and service delivery with other federal agency partners, and through development of Agency program initiatives.

National Women's Business Council — Established by statute, the Council undertakes a variety of programs and initiatives in support of women-owned businesses. The Council holds public meetings and roundtable events, publishes research study reports, Issue in Brief reports, and fact sheets on the numbers and growth of categories of women-owned firms. The Council manages two web sites: nwbc.gov and womenbiz.gov, and has established a bimonthly e-newsletter, Engage.

Faith-Based and Community Initiatives — The SBA Center for Faith-Based and Community Initiatives works to help these groups access SBA and Federal Government services and products. As part of its outreach effort to faith-based and community organizations, in FY 2006 the SBA held over 2,300 workshops and meetings attended by more than 200,000 people.

Small Business Training Network (SBTN) — To reach targeted groups anywhere, anyplace, the SBA established a virtual campus that provides quality and targeted online training for prospective and existing small business owners. SBTN is an e-government initiative, powering a comprehensive menu of business courses designed to serve more customers more efficiently. It operates like an electronic umbrella under which many SBA and agency resource training programs are captured, aggregated, sorted by content and made available in multiple formats.

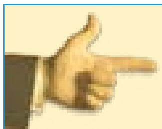
Groups Facing Special Competitive Opportunity Gaps

The broadening of small business ownership among groups that presently own and control little productive capital is essential to provide for the well-being of this diverse Nation. A significant part of SBA's mandate is to identify and formulate strategies to assist groups facing special competitive opportunity gaps. Lack of access to capital is one of the main gaps faced by firms whose ownership is African American, American Indian or Alaska Native, Hispanic, female, low income, or rural[10].

The SBA fills these gaps by:

- Making capital available to applicants short on net worth but otherwise qualified.
- Helping decrease the higher loan denial rates to disadvantaged groups by enabling lenders that may not have made these loans otherwise.
- Providing procurement assistance through the 8(a), HUBZone, and 7(j) programs.

In FY 2006 the SBA funded over 66,300 7(a) loans to people who face special opportunity gaps – fully 73% of all 7(a) loans funded this past year. This is an 80% increase over FY 2006. Similarly, 70% of the 504 loans funded this year were made to women and minorities, an increase of 94% above FY 2003. In both programs, the Agency's accomplishments were only 3% and 1% below targeted goals. In addition, the Agency assisted 9,600 businesses through the 8(a) program, 4,900 through HUBZone, and 2,300 through 7j.



DID YOU KNOW?

In FY 2006 small businesses received more than 100,000 SBA-backed loans totaling over $19 billion.

10 Cavalluzzo, Ken S., Cavalluzzo, Linda C. and Wolken, John D., "Competition, Small Business Financing, and Discrimination: Evidence from a New Survey" (October 31, 2000). FEDS Working Paper No. 99-25
http://www.federalreserve.gov/pubs/feds/1999/199925/199925pap.pdf

SUCCESS STORY

They Like Their Chocolate Lickity Split!

Lickity Split Chocolate is a new Native-owned and operated business that is thriving. Although it may not be surprising that it is thriving – after all who doesn't like chocolate? But, consider the fact that 35 Ute and Navajo youth between the ages of 9 and 15 manage Lickity Split, and it's easy to see this business as extraordinary.

San Juan County, Utah is one of the poorest counties in the U.S. It is isolated from all the major commerce, business, educational, and cultural centers of the region. The county is also home to the largest Native American population in the country.

The business began when several children came to the home of Elaine Bland, a VISTA volunteer who works with the College of Eastern Utah San Juan Center SBDC. The kids were looking for a way to make money to go to the movies. Elaine suggested they start a business so they could afford to go to the movies, buy bicycles, computers, printers, phones and internet service. The kids liked the idea and decided they would start a chocolate business where they would make Native design chocolates. Several parents were asked to be company owners and Lickity Split, a profit-making Limited Liability Company, was born.

The children manage the business on Saturdays. They hold managerial and board positions, make key decisions and develop policy. A Lickity Split retail store is being built, and General Manager Elaine Bland has directed all profits to recognize the youth interns for their growth and pay the LLC parent members for their contributions.

To top it all off, Elaine and Lickity Split were recognized as the SBA's 2006 Minority Small Business Champion of the Year!

STRATEGIC GOAL 3

Restore Homes and Businesses Affected by Disaster

In the summer and fall of 2005, Hurricanes Katrina, Rita and Wilma destroyed portions of Alabama, Florida, Louisiana, Mississippi and Texas. These storms wreaked devastation on home and business owners and collectively represent the worst natural disaster in American history.

Hurricane Katrina was the first of the three hurricanes and hit U.S. shores on August 29, 2005. New Orleans was destroyed. Towns and cities, small and large, were destroyed or heavily damaged up and down the Gulf Coast and miles inland. From Morgan City, Louisiana, to Biloxi, Mississippi, to Mobile, Alabama, Hurricane Katrina's wind, rain, and storm surge demolished homes and businesses. Photo courtesy of FEMA.

The entire population of New Orleans, around 485,000 people, was displaced as a result of Hurricane Katrina and the breaks in the levees which flooded most of the city. Photo courtesy of FEMA.

The SBA disaster assistance loan program provides a critical source of economic stimulation in disaster-ravaged communities and helps generate employment and stabilize tax bases by protecting jobs. Individuals who are homeowners and renters register first with the Federal Emergency Management Agency (FEMA), which connects them to the SBA. Businesses may apply directly for the assistance. The loans have low interest rates and longer terms than conventional lending offers.

DID YOU KNOW?

- 635,000 businesses were in areas affected by Katrina and Rita
- $40 billion in receivables were outstanding when Katrina hit
- More than 50% of businesses were in business for less than 5 years
- 48% of receivables were outstanding to businesses of 10 employees or less

Agency-Level Highlights

The SBA measures the success of its disaster assistance according to the performance indicators in Table 3:

Table 3.

Performance Statement Agency-Level Performance Measures Strategic Goal 3. Restore homes and businesses affected by disaster								
LTO	SBA Outcome Measures	Type of Measure	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Goal	FY 2006 Actual	FY 2006 % Goal Variance
3.1	3.1.1 Percentage of Businesses Sustaining Economic Injury That Remain Operational 6 Months After Final Disbursement.	Outcome	N/A	95%	93%	77%	86%	12% B
3.1	3.1.2 Percentage of Businesses Sustaining Physical Damage Restored Within 6 Months After Final Disbursement.	Outcome	N/A	74%	72%	60%	74%	23% B
3.1	3.1.3 Percentage of Homeowners Restoring Their Homes Within 6 Months of Final Disbursement	Outcome	N/A	77%	75%	77%	61%	-21% R
3.1	3.1.4 Percentage of Renters Restored Within 6 Months After Final Disbursement.	Outcome	N/A	85%	70%	84%	65%	-23% R
3.1	3.1.5 Customer Satisfaction Rate	Outcome	N/A	67%	66%	71%	57%	-20% R

SBA Budgetary Resources	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2006 Budget	FY 2006 Actual
Total Financial Assistance Cost ($000)	$270,377	$208,401	$424,748	$1,163,367	$1,793,166
Total Strategic Goal ($000)	$270,377	$208,401	$424,748	$1,163,367	$1,793,166

The FY 2006 outcomes reflect the effect of the SBA's assistance to victims of FY 2004 disasters. Those victims received assistance during FY 2005, and the survey that measured the SBA's impact was conducted in FY 2006. Consequently, the FY 2006 results should be interpreted together with the outputs for FY 2005.

The complete survey results will be published toward the end of calendar year 2006 by the American Customer Satisfaction Index organization.

Program-Level Highlights

The achievement of the Agency-level outcomes is the responsibility of the Office of Disaster Assistance (ODA). The following chart summarizes how successful the ODA was in achieving the contributing outputs.

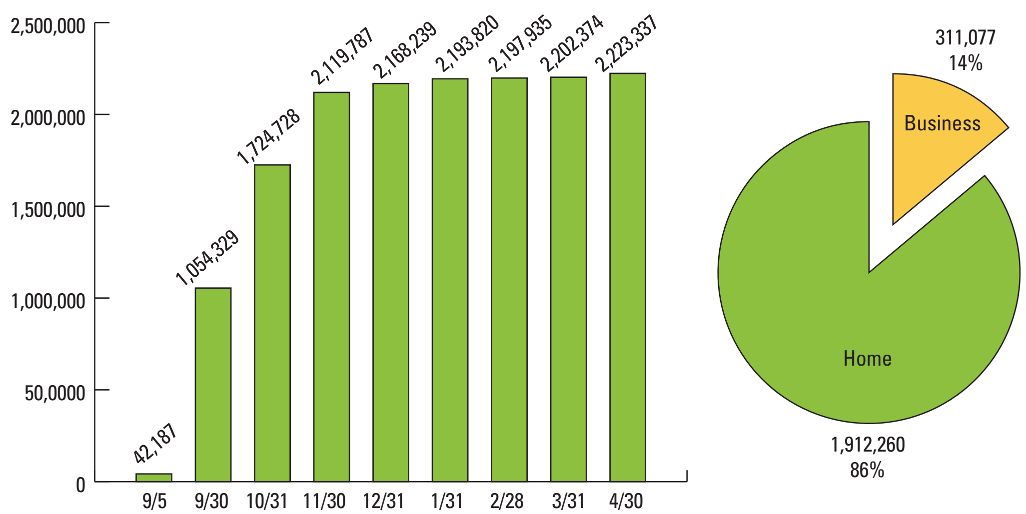
Summary of Results by Type of Assistance			
Type of Assistance	Number of Targets:		
	Exceeded >10%	Met >10%<	Not Met <10%
Disaster Assistance	1	1	4

The outcomes set by the SBA to measure the effect of its disaster assistance focus on the restoration of homes or small businesses or the replacement of personal property within six months of final disbursement of the disaster loan. However, in FY 2006, the outputs that support these outcomes fell short of their target for businesses and homes that sustained physical damage. This shortfall can be attributed to several factors, the greatest of which is the widespread and unprecedented damage over a massive area.

The magnitude of the Gulf Coast hurricanes caused over 420,000 people to apply for assistance. The SBA responded by approving $10.6 billion in loans to those affected by the hurricanes. By comparison, in all of FY 2005, a total of 153,072 applications were processed and $2.3 billion in loans were approved. Put into context, more than 20% of all disaster loan dollars approved in the 53-year history of the SBA were approved in FY 2006.

Damage from the hurricanes was not only extraordinary, its extent became evident almost instantaneously. These two conditions resulted in an unprecedented rate of applications being filed in a short period of time. The following chart shows the number of applications mailed by the victims of the disaster — over two million in three months — and gives a measure of the size of the response that was required.

Hurricanes Katrina, Rita & Wilma
Applications Mailed
September 2005 to April 2006



The SBA responded quickly and was at the disaster site within three days. However, the Agency did not have sufficient personnel, space or capacity to process the overwhelming number of applications within its achieved FY 2004 timeframe, i.e., 85% applications processed in 11 days for homes with physical damage, and 13 or 14 days for businesses with economic or physical damage, respectively. It took the SBA 74 days to process 85% of the home applications or two months more than the goal, and only 55% of the closed loans had an initial disbursement within five days of closing instead of the goal of 95%.

On August 1, 2005, the disaster program had 880 employees on board; by December, the number of active personnel had grown to almost 4,000. The new personnel had to be trained and more than 400,000 sq. ft. of work space had to be acquired. Another factor that affected the timeliness of loan processing and disbursement had to do with the SBA's newly-implemented Disaster Credit Management System (DCMS), which is used to process loan applications. DCMS did not have sufficient capacity to handle the unprecedented number of concurrent users, resulting in system outages and slow response times. Over the year, the SBA took steps to address this issue. DCMS was upgraded, tested and verified to support a maximum of 8,000 concurrent users. This is a fourfold increase in capacity over peak usage during the response to the 2005 hurricanes.

The method SBA used to forecast activity expected from declared disasters did not anticipate a disaster of the magnitude that the Nation experienced in 2005. The prior benchmark for natural disasters was the Northridge, California, earthquake of 1994, which accounted for $4.0 billion in loans. The 2005 hurricanes resulted in $10.6 billion in approved loans, nearly three times higher. To better forecast disaster loan demand, the Agency has developed a new model that enhances its capability to immediately forecast loan volume. This new model provides a more robust methodology for predicting loan volume based on assets at risk and disaster characteristics. It will be tested for accuracy during FY 2007 and will enable the SBA to better predict its resource needs. SBA has also developed a model to forecast the staffing requirements, related logistics and administrative costs based on loan application volume. These two tools put SBA in a much better position to respond to future catastrophic natural disasters.

Other SBA resources were used to support the disaster effort. For example, 296 field office employees in 64 district offices processed 7,015 disaster applications. Field staff demonstrated that they are flexible enough to respond to emergencies.

In addition, the SBA capitalized on the expertise of its resource partners in its response to Hurricane Katrina. The Agency worked with the Small Business Development Centers to enable 45 of their counselors from 16 states to travel to the Gulf Coast to assist small businesses in their recovery efforts.

In the closing months of FY 2006, the SBA's disaster team embarked on a variety of special efforts to improve disbursement processes to ensure funds reached the hands of disaster victims as quickly as possible. As a result, the weekly number of loans disbursed more than doubled by late October.

CUSTOMER SERVICE CENTER BUFFALO, NEW YORK

- Initially, it was designed to take 10,000 calls per day.
- In order to answer additional incoming calls, more staff, space, seating, computer equipment, telephone lines and phones were needed.
- Highest number of daily calls taken: 15,924
- Each workstation was utilized twice for two shifts: 6:00 a.m. to 2:30 p.m. and 2:30 p.m. to 11:00 p.m.

SUCCESS STORY

The SBA Helped this Family Find its Way Home

Like most survivors of Hurricane Katrina, John and Claudette Luther of Waveland, Mississippi had to face some tough choices. It began with the difficult decision to evacuate their home as the storm approached. Then just figuring out how to meet basic needs, like a safe and dry place to sleep, was a challenge. But, after months of separation and temporary housing this family now has a place to call home, thanks to their determination and help from the SBA's Disaster Assistance Loan program.

On August 28, 2005, Claudette and their 10-year-old daughter Sara were among the last people to evacuate their neighborhood. Unlike past evacuations, they traveled light, expecting to be back right away. While mother and daughter headed inland, John was on the job with the Hancock County Sheriff's Office. Initially, with all communications down, neither knew how the other had fared and they had no way to check on each other or the condition of their home.

Like almost every house on the street, the Luther's home was flooded. "We had water and mud in the attic," Claudette said. By the time they were finally able to get back in the house to begin assessing the damage, they found very little that was salvageable.

In the middle of all the chaos the Luther's made application for an SBA Disaster Assistance Loan. They got permission to use the proceeds of the loan to relocate instead of rebuilding. Claudette was happy with their decision. "I definitely would not be where I am today had it not been for SBA," she says. "On the day of closing, my primary contact person had the flu, yet he went to great lengths to help, even giving me his personal cell phone number."

Homeowner Claudette Luther stands within the hollowed-out walls of her home under repair with SBA disaster funds

STRATEGIC GOAL 4

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

In order to excel, the SBA's program offices need strong executive leadership and efficient and effective support services. It is the SBA's objective to:

- Maintain and execute a comprehensive performance management system
- Deploy a skilled, knowledgeable, diverse workforce
- Execute financial management systems that provide relevant, timely and accurate information
- Manage information and related technology effectively and securely

The Long-Term Objectives (LTO) under this goal are as follows:

- **Long-Term Objective 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
- **Long-Term Objective 4.2 –** SBA will recruit, sustain and effectively deploy a skilled, knowledgeable, diverse workforce and executive cadre capable of executing high quality programs and meet the current and emerging needs of its customers
- **Long-Term Objective 4.3 –** Financial management systems will support both SBA strategic management and financial accountability by providing financial information that is useful, relevant, timely and accurate and which assists SBA in maximizing program performance and accountability
- **Long-Term Objective 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
- **Long-Term Objective 4.5 –** Procurement and contracting services will be planned and managed to support SBA program management and the achievement of the Agency's goals

Administrative Management

Effective administration is critical to using taxpayers' funds responsibly. Any resources that can be preserved – any penny not spent – are resources that can be spent on assisting small businesses to become successful. In FY 2006 the SBA succeeded in saving almost $2 million in annual costs by using office space more efficiently and releasing over 73,000 square feet of space.

For the SBA, small businesses are the first choice when it comes to contracting for goods or services. During FY 2006, the SBA awarded 66% of its contracts to small businesses.

Transparency is key to good management. In FY 2006, the Agency implemented a survey to determine how long it took to respond to requests for information under the Federal Freedom of Information Act (FOIA) and to measure the quality of the responses the SBA provided. The review revealed that the Agency does not have a backlog of FOIA cases, and that the median response time is seven days.

SUCCESS STORY

A Diet of SBA Makes For A Fat Business

When you think of Jenny Craig, what comes to mind? Losing weight? A really successful company? Kirstie Alley? All of these would be correct, but what most people do not think of is the SBA, the organization that, way back when, got little Jenny on her feet. In May 2002, an investor group led by ACI Capital Co., Inc. and MidOcean Partners, and including Sid and Jenny Craig, acquired Jenny Craig, Inc. in a take-private transaction. Part of the ACI Capital investment in Jenny Craig came from their SBA Small Business Investment Company (SBIC).

Today, Jenny Craig is one of the largest weight management firms worldwide, employing more than 3,000 people in 600 centers across the U.S., Canada, Australia and New Zealand. With well over half of all Americans considered to be overweight or obese, the company makes a significant positive impact on the health of our nation; and, it creates jobs in communities across the U.S. Jenny is also recipient of the SBA's Fiftieth Anniversary Hall of Fame Award for exceptional business achievements.

Jenny Craig offers a comprehensive program that helps clients lose and maintain their weight by creating a healthy relationship with food, building an active lifestyle and developing a balanced approach to living. Recently, the firm was sold to Nestle in a $600 million transaction.

So, you see? Go with the SBA, and one morning you might be making $600 million deals for breakfast! Don't even think about saying, "It can't happen!"

In a continuing effort to provide better access for small businesses, the Agency's Office of Hearings and Appeals 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.

Human Capital Management

To serve small businesses effectively, the SBA must select, develop and manage a high-quality, productive workforce. In FY 2005, the Agency was ranked last on the Office of Personnel Management's Federal Human Capital Survey of job satisfaction. So, during FY 2006, the SBA focused on becoming a place where employees are proud to work and are satisfied with their jobs. It pursued a proactive strategy based on communications, training, and leadership initiatives. For example, the Agency conducted an online training needs assessment for all managers, supervisors and employees that focused on improving leadership and management skills and determining employee needs for skills improvement. The SBA also administered a survey to obtain feedback from employees regarding their needs for tools and resources to perform their assigned tasks.

Financial Management

The SBA is committed to strong financial management and proper stewardship of taxpayer dollars. Timely, accurate and relevant financial information is also critical to ensuring that SBA's programs are as effective and efficient as possible for the Nation's small businesses. The Agency has made great improvements over the last few years to improve the quality and timeliness of its financial information.

In FY 2006, the SBA maintained an unqualified opinion on the FY 2006 financial statement audit, but, 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 the financial reporting process. Also, as part of the FY 2006 financial statement audit, the SBA's independent auditor found that the Agency is in compliance with the Federal Financial Management Improvement Act (FFMIA) requirements for accounting standards and the Standard General Ledger, while still failing to comply with financial systems standards due to an internal control deficiency in the area of information system security.

Key initiatives supporting these results included:

- The SBA addressed all of its FY 2005 audit findings, including financial data quality assurance, footnote disclosures and internal control over financial transactions during FY 2006. The Agency met all of its reporting deadlines and provided data and documents to the new independent auditor as scheduled and requested.
- The Agency completed a review of its financial management under the new A-123 requirement. The SBA's key budget and financial operations were reviewed, including 7(a) guaranty lender reporting and the financial management in Agency credit programs.
- The SBA's Quality Assurance Review program determined that the disaster loan improper payment rate during FY 2006 was only 0.8 percent. This result was remarkable considering the record volume of disaster loans processed as a result of the Gulf Coast hurricanes. The new disaster computer system ensures that the SBA can address issues in a timely manner and correct potential improper payments early in the process.

While the SBA has made significant progress in financial management over the last few years, improving from a disclaimed audit opinion in FY 2003, the Agency recognizes that it must do more to eliminate the remaining material weakness in financial reporting and come into full compliance with FFMIA, both of which are required for achieving Green for status on the PMA for financial management. During the coming year, the SBA plans to improve the documentation of its existing quality assurance processes and conduct a thorough review of its reporting and quality assurance procedures to identify opportunities for improving accuracy and quality in the financial statements. The Agency will also look carefully at its year-end schedule and process to reduce the need for and risk associated with year-end accounting entries. This will include further automating year-end entries to minimize manual accounting activity and to make the reporting process more efficient and reliable. The SBA believes it can eliminate this material weakness in FY 2007.

Performance Management

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

This year the SBA faced a new challenge in using the results of its activity-based costing model. The methodology measures the full cost of the SBA's programs, including direct, indirect, and overhead costs. In the past, total Agency overhead has 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 – 2004, the direct and indirect costs of that program averaged $122 million, in FY 2005 and 2006 such costs were $219 and $451 million. 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, when comparing non-Disaster programs in FY 2004 with those in FY 2006, the total of direct plus indirect costs (excluding grants) decreased by 2%; once overhead is added, the decrease is 9%. 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. SBA has engaged an independent entity to evaluate its financial assistance programs. During FY 2006 the Agency completed detailed planning for this evaluation, and results are expected in FY 2007. These results will be used to help revise and improve the strategic plan in FY 2007. In FY 2005, the SBA developed an analysis to determine the marginal cost of its programs. In FY 2006 this analysis was expanded to include the SBDC and HUBZone programs. The results of this analysis 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.

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. Key accomplishments in FY 2006 include:

- Continued progress in addressing the mitigation of weaknesses and vulnerabilities in information systems security identified by the Office of Inspector General as a major management challenge.
- The establishment of an Agency Enterprise Change Control Board to ensure technological standardization across the Agency resulting in reduced maintenance costs and increased system reliability.
- Increasing 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.

Ongoing challenges that the SBA continues to work on in the IT arena include rising software costs as the Agency comes to rely on web-based delivery systems for its critical applications, and successfully resolving outstanding audit and system certification and accreditation review findings from prior examinations.

The MD&A, in addition to presenting a basic overview of the SBA and a discussion of performance information, must also contain information relating to the financial condition of the SBA as well as the SBA's compliance with Federal Government rules and regulations. The following pages will present highlights and analysis of financial results as well as reconciling the financial statements with the budgetary resources used by the performance section. The section will finish with a discussion of the SBA's internal controls, its compliance with the Federal Managers Federal Integrity Act and the Federal Financial Management Improvement Act, and Improper Payments.

ANALYSIS OF FINANCIAL RESULTS

The U.S. Small Business Administration prepares its financial statements as a critical aspect of ensuring the accountability and stewardship for the public resources entrusted to the SBA. These financial statements have been prepared to report the financial position and results of operations of the SBA, pursuant to the requirements of 31 U.S.C. 3515(b). While the statements have been prepared from the SBA's books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by the OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U. S. Government, a sovereign entity.

Background

The SBA is the smallest of the major federal credit agencies, behind the Department of Agriculture, Department of Education, the Department of Housing and Urban Development and the Department of Veterans Affairs. However, unlike the other major federal credit agencies, almost all of the SBA's available budgetary resources, $4.0 billion budgetary and $18.6 billion non-budgetary loan financing funds, is devoted to its credit programs.

At September 30, 2006, the SBA had guarantied loan principal outstanding of $54.6 billion, up 7% from $51.1 billion guarantied loan principal outstanding at September 30, 2005, as restated, see below. The SBA's portfolio of direct and purchased guarantied loans receivable also continued to grow, valued at $6.4 billion this year, an increase of 52% over last fiscal year. This is due primarily to the disbursement of an unprecedented volume of disaster loans to the victims of Hurricanes Katrina, Rita and Wilma. The loan portfolio includes defaulted guarantied loans as well as loans made directly to the victims of natural disasters and in the Agency's business MicroLoan program.

The SBA's assets and liabilities are primarily the result of its credit program activities, and primarily consist of fund balances with Treasury, credit program receivables, liabilities for loan guaranties, and Treasury debt. The SBA's loans and guaranties are financed by a combination of subsidy appropriations, fees charged lenders and borrowers, and borrowings from Treasury. Congress provides appropriations to cover the estimated long term costs of SBA loans, which are defined as the net present value of the estimated cash outflows and inflows associated with the loans. The remaining portion of each direct loan disbursed is financed under permanent indefinite authority to borrow funds from the U.S. Department of the Treasury's Bureau of Public Debt. Borrowings are repaid to Treasury as loans are repaid to the SBA.

Credit program receivables for SBA are comprised of business and disaster direct loans and defaulted business loans purchased per the terms of the SBA's loan guaranty programs.

Restatement

During 2006, the SBA discovered an error in the presentation of guarantied loans outstanding. The amounts shown in FY2005 financial statements, Footnote 6K, as Guarantied Loans Outstanding, and in this Financial Analysis were overstated by $10 billion due to a data error in SBA's loan accounting system. The correction of the error has lowered each of the two FY2005 figures in Footnote 6C of the FY 2006 financial statements by $10 billion. There is no further impact of this correction in the SBA's financial statements or footnotes. Subsequent to the discovery of this error, the SBA implemented an internal control procedure to monitor general ledger and subsidiary account balances, as well as journal voucher activity, to assure that this type of error cannot occur in the future.

	FY2005	
	Reported	**Restated**
Total Principal Outstanding at Face Value	$73.3 billion	$63.3 billion
Total Principal Outstanding Guarantied by the SBA	61.1 billion	51.1 billion

Financial Position

Assets

The SBA had total assets of $13.2 billion at the end of 2006, up 11% over 2005. Assets increased primarily due to an increase in the net book value of credit program receivables that comprised 49% and 36% of total assets as of September 30, 2006 and 2005. Most credit program receivables are valued at the present value of expected future cash flows, per the provisions of the Federal Credit Reform Act of 1990. The 49% increase in credit program receivables over 2005 reflects the Agency's increased disbursements of disaster loans to the victims of Hurricanes Katrina, Rita and Wilma.

Liabilities

The SBA had total liabilities of $12.0 billion at the end of 2006, up 7% over 2005. Liabilities consist primarily of the Liability for Loan Guaranties, an estimate of the future amount the SBA will pay, net of fee collections, to liquidate expected purchases of guarantied loans under its guaranty loan programs, and Debt with Treasury, borrowed primarily to disburse loans under direct loan programs. The guaranty liability decreased 24.0% because the subsidy costs of the SBA's guarantied loan programs, broadly, are decreasing. Debt with Treasury increased 21% because of the increase in disaster loans disbursed.

Net Position

Net position, the sum of Unexpended Appropriations and Cumulative Results of Operations, increased in 2006 to $1.1 billion. Unexpended Appropriations increased due to emergency appropriations for hurricane relief received in 2006 and still available. The loss shown as Cumulative Results of Operations increased due to increased unfunded upward subsidy reestimates, from $492.5 million at September 30, 2005 to $773.8 million at September 30, 2006. This was due primarily to the upward portion of the disaster loan programs' reestimates increasing by $231.5 million.

Results of Operations

Each year, the estimated long term costs of the SBA's loans are reestimated for each major loan program. Reestimates update original loan program cost estimates, which are primarily due to expected defaults, to reflect actual experience and changes in forecasts of future cash flows. Increased reestimated costs are funded in the following year by permanent indefinite authority, while decreased costs are forwarded by the SBA to a Treasury general fund.

The 504 Certified Development Companies Program had the largest net reestimates among the guarantied business loan programs, $145.6 million downward. This was due to a change in economic assumption data distributed by the Department of Commerce and to better than previously projected program performance.

The Disaster Loan program delivered an increased amount of disaster loans to individuals and businesses in 2006 compared to 2005. The SBA disbursed $1.0 billion of disaster loans in 2005 and $3.7 billion in 2006. Because of the unprecedented volume of FY 2006 disaster disbursed loans, with another $5.4 billion of loans approved but not yet disbursed, a reestimate was done for the 2006 loans. The 2005 and 2006 cohorts of disaster loans accounted for most of the net $311.7 million upward reestimate in disaster loan programs.

Budgetary Resources

Total Budgetary Resources increased $7.9 billion from FY2005 to FY2006. This increase is due to an increase in borrowing authority in the nonbudgetary loan financing funds, although there were other offsetting changes of $1.1 billion (see below). Borrowing authority (see Background, above) increased by $7.9 billion from FY2005 to FY2006 in order to finance the approval and disbursement of disaster loans to Katrina and Rita hurricane victims. A record level in excess of $11 billion of Disaster loans was approved by SBA in FY2006 due primarily to Gulf Coast hurricane victims.

The other significant changes in the Budgetary Resources were decreases of $1.1 billion in appropriations received, offset by increases in the unobligated balance carry forward as well as other budgetary resources. Appropriations received consist primarily of funding for loan subsidies, upward subsidy re-estimates, and administrative expenses including salaries and expenses. The primary component of the $1.1 billion decrease was a decrease in the Business Loan Investment Fund of $1.5 billion for the funding of the upward portion of subsidy re-estimates. The SBA receives permanent indefinite appropriations for increases in the projected subsidy costs of loan programs as calculated by the annual reestimation process required by the Federal Credit Reform Act of 1990.

Status of Budgetary Resources

Total Status of Budgetary Resources increased $7.9 billion from FY2005 to FY2006. This increase is primarily due to an increase in obligations incurred in the nonbudgetary loan financing funds. $7.7 billion of the increase is related to additional obligations in the nonbudgetary loan financing funds due to the approvals for Gulf Coast hurricane victim disaster loans.

The other significant change in the Status of Budgetary Resources was an increase of $1 billion in ending unobligated balance, primarily in the nonbudgetary loan financing funds. Unobligated balances accumulate in these financing funds from program collections that are used primarily to repay the Treasury borrowings in the following year. The difference between the total budgetary resources (borrowing authority, appropriations received, etc.) and the obligations incurred during the year is the resulting ending unobligated balance, a function of all the other activity. The remainder of the change in Status of Budgetary Resources was attributable to a decrease of $.7 billion in the obligations incurred in the budgetary funds because the subsidy costs of the SBA's loan programs, broadly, are decreasing.

Credit Management

The SBA has extensive debt servicing and collection practices to ensure maximum recovery. Borrowers must disclose delinquent government debt. Credit reports identify delinquent debtors as well, and they are barred from obtaining SBA guaranteed loans unless the delinquency is resolved. The Agency actively uses Federal salary offset through Treasury and intends to implement administrative wage garnishment as soon as a technical amendment to SBA's regulations is published. All loan applicants must disclose their taxpayer identification numbers.

Debt servicing and collection procedures include the rapid disposition of loan collateral through the liquidation process. Procedures are used to maximize recovery and avoid acquiring title to collateral whenever possible.

Additionally, the SBA submits information about delinquent debt to the Treasury Cross-servicing Program, a centralized debt collection program administered by the Financial Management Service. Federal tax refunds, salary and retirement pay, social security benefits and other disbursements that would otherwise be paid to a delinquent borrower may be offset and remitted to the SBA for application to loan amounts outstanding and debts are referred to collection agencies for follow-up.

Finally, through the Office of Lender Oversight, the Agency rates and ranks lenders disbursing SBA-guarantied loans according to risk. Larger lenders are subject to on-site reviews. The risk analysis of lenders allows the SBA to focus resources on those lenders representing the most risk in terms of exposure and credit quality.

Certain cumulative information about loan disbursements, charge offs, and recoveries by specific loan program, both direct and guarantied, as well as a schedule summarized for all business loans is available at **www.sba.gov/cfo/reports.html.**

HIGHLIGHTS OF FINANCIAL RESULTS

(Dollars in Thousands)

	Unaudited		% change
AT END OF YEAR	**FY2006**	**FY2005**	**2005 to 2006**
Condensed Balance Sheet Data			
Fund Balance with Treasury	$ 6,653,612	$ 7,558,096	-11.97%
Credit Program Receivables	6,382,126	4,276,972	49.22%
All Other Assets	62,935	70,944	-11.29%
Total Assets	$ 13,098,673	11,906,012	10.02%
Liability for Loan Guaranties	1,630,821	2,145,462	-23.99%
Debt with Treasury	9,330,382	7,735,907	20.61%
Downward Reestimate Payable to Treasury	704,506	950,645	-25.89%
All Other Liabilities	367,463	456,349	-19.48%
Total Liabilities	12,033,172	11,288,363	6.60%
Unexpended Appropriations	1,839,288	1,110,131	65.68%
Cumulative Results of Operations	(773,787)	(492,482)	57.12%
Total Net Position	1,065,501	617,649	72.51%
Total Liabilities and Net Position	$ 13,098,673	$ 11,906,012	10.02%
FOR THE YEAR			
Statement of Net Cost by Strategic Goal			
Goal 1: Improve Small Business Environment	$ 42,874	$ 36,748	16.67%
Goal 2: Increase Small Business Success			
Loan Subsidy Cost including Reestimates*	(309,633)	(92,408)	235.07%
All Other Cost Net of Revenue	280,003	329,551	-15.04%
Goal 3: Restore Homes and Businesses after Disasters			
Loan Subsidy Cost including Reestimates	848,135	179,090	373.58%
All Other Cost Net of Revenue	541,415	283,093	91.25%
Costs Not Assigned	68,925	71,735	-3.92%
Total Net Cost of Operations	$ 1,471,719	$ 807,809	82.19%

**Negative Cost due to downward subsidy reestimates that reduce prior loan subsidy costs*

	FY2006	FY2005	% change 2005 to 2006
Statement of Net Cost by Expense Type			
Loan Subsidy Cost and Required Annual Reestimates	$ 538,502	$ 86,682	521.24%
Goal 1 Costs	42,874	36,748	16.67%
Goal 2 Costs not Subsidy or Reestimates	280,003	180,001	55.56%
Goal 3 Costs not Subsidy or Reestimates	541,415	283,093	91.25%
Congressional Initiative Grants	44,697	36,965	20.92%
Other Costs Not Assigned	24,228	34,770	-30.32%
Total Net Cost of Operations	$ 1,471,719	$ 658,259	123.58%
Condensed Statement of Budgetary Resources			
Appropriations & Budget Authority Received, Budgetary	$ 2,774,768	$ 3,894,521	-28.75%
Nonbudgetary Borrowing Authority	12,089,779	4,201,785	187.73%
Unobligated Balances Forward	6,721,314	6,376,273	5.41%
Other Budgetary Resources, net	965,521	179,053	439.24%
Total Budgetary Resources	$ 22,551,382	$ 14,651,632	53.92%
Obligations Incurred, Budgetary	3,130,065	3,853,667	-18.78%
Obligations Incurred, Nonbudgetary	11,750,289	4,076,651	188.23%
Balances, Available and Unavailable	7,671,028	6,721,314	14.13%
Total Status of Budgetary Resources	$ 22,551,382	$ 14,651,632	53.92%
Condensed Statement of Financing			
Obligations Incurred	$ 3,130,065	$ 3,853,667	-18.78%
Collections, Receipts, Other Financing Sources	5,151,264	(2,653,167)	-294.16%
Total Resources Used to Finance Activities	8,281,329	1,200,500	589.82%
Resources that Do Not Finance Net Cost of Operations	(7,535,941)	(862,229)	774.01%
Components of Net Cost not Requiring Resources	726,331	469,538	54.69%
Net Cost of Operations	$ 1,471,719	$ 807,809	82.19%

RECONCILIATION OF PERFORMANCE BUDGETARY RESOURCES WITH COSTS IN THE FINANCIAL STATEMENTS

The SBA reports its budgetary obligations incurred to accomplish the Agency's strategic objectives along with the performance results for these objectives. These strategic resources include credit subsidy obligations for loan approvals made in the SBA's Business and Disaster programs during FY 2006. In assessing performance results, the SBA does not include credit subsidy obligations determined during FY 2006 to be applicable to prior year loan approvals. The Combined Statement of Budgetary Resources includes administrative expenses in both SBA's program and salaries and expense funds because interagency transactions are not eliminated. The interagency transactions have been eliminated in the reconciliation below to allocate net resources obligated to performance objectives. Additionally, certain program expenses and non- strategic resources, primarily those of the Congressional Initiative Grants that do not relate to the Agency's operations, are not included in resources reported for SBA strategic goals.

As a result of the adjustments detailed above, Resources Reported for Strategic Goals include administrative expenses, primarily employee salaries and benefits and grant programs to assist small businesses, and obligations for the credit subsidy cost relating to loans approved during FY 2006.

A reconciliation of the resources reported for strategic goals in this report with obligations incurred per the Statement of Budgetary Resources follows:

(Dollars in thousands)

		FY 2006
Total Budgetary Obligations Reported	$	14,880,354
Less:		
Obligations incurred in nonbudgetary loan financing funds		(11,750,289)
Credit subsidy reestimates for prior year approvals - Business		(404,177)
Credit subsidy reestimates for prior year approvals - Disaster		(80,194)
Intra-Agency transfers of Administration funds		(320,134)
Other program obligations (SBG, loan liquidating funds)		(22,671)
Obligations not related to strategic goals (Congressional Grants, other)		(107,855)
Equals Resources Reported for Strategic Goals	$	2,195,034

Per the above table, $2.2 billion in budgetary resources was used by the SBA during FY 2006. The following table shows how those resources are allocated by Strategic Goal and Long-Term Objective. Also shown, are the SBA's overhead costs as related to Strategic Goal 4 which deals with the administration of the SBA and other collateral support services.

BUDGETARY RESOURCES ALLOCATED TO ACHIEVE RESULTS

FY 2006 Budgetary Resources		
Strategic Goal/Long-Term Objective		**($ in 000)**
Strategic Goal 1. Improve the economic environment for small businesses.		
Long-Term Objective 1.1: Minimize the regulatory burden on small businesses.		$10,475
Long-Term Objective 1.2: Simplify the interaction between small businesses and the Federal government through the use of the Internet and information technology.		$16,180
Long-Term Objective 1.3: Increase the effectiveness of Federal Agencies to provice opportunities for small businesses.		$29,862
Total Strategic Goal 1		**$56,517**

Strategic Goal 2. Increase small business success by bridging competitive opportunity gaps facing entrepreneurs.		
Long-Term Objective 2.1: Increase the positive impact of SBA assistance upon the number and success of small business startups.		$125,190
Long-Term Objective 2.2: Maximize the sustainability and growth of existing small businesses assisted by SBA.		$203,953
Long-Term Objective 2.3: Significantly increase successful small business ownership within segments of society facing competitive opportunity gaps. (These budgetary resources are already accounted for in LTOs 2.1 & 2.2)	$166,830	—
District Offices Counseling & Training		$16,208
Total Strategic Goal 2		**$345,351**

Strategic Goal 3: Restore Homes and Businesses Affected by Disaster	
Long-Term Objective 3.1 :Help restore homes and businesses affected by disaster	$1,793,166
Total Strategic Goal 3	**$1,793,166**
Total Resources Allocated by Strategic Goals	**$2,195,034**

Strategic Goal 4: Ensure that all SBA programs operate at maximum efficiency and effectiveness. *(These budgetary resources are treated as Overhead and have been allocated to Strategic Goals 1 thru 3 above.)*		
LTO 4.1 General Planning and Management		$30,005
LTO 4.2 Human Capital Mgmt and Policy		$2,806
LTO 4.3 Improved Financial Performance	$10,765	
LTO 4.3 Budget and Performance Integration	$2,873	
Total LTO 4.3		$13,638
LTO 4.4 Information Technology Management	$23,761	
LTO 4.4 E-Government	$4,047	
Total LTO 4.4		$27,808
LTO 4.5 Procurement and Administration	$13,870	
LTO 4.5 Competitive Sourcing	$524	
Total LTO 4.5		$14,394
Total Resources Allocated Above		**$88,651**

INTERNAL CONTROLS STATEMENT

Internal Controls are procedures and processes put into place by management to reasonably ensure the accuracy of financial reporting, the compliance with laws and regulations and the safeguarding of federal assets. The Small Business Administration's internal controls give both internal and external parties assurance that programs and activities are administered soundly and taxpayer funds are used responsibly. Strong internal controls foster stewardship and more effective working relationships with the SBA's resource partners. The SBA's internal controls serve to mitigate the risk of material misstatements in financial reporting, to avoid improper payments, and to prevent the unauthorized disclosure of sensitive information.

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires federal agencies to conduct an annual assessment of internal control, and report the results to the President. The Office of the Chief Financial Officer (OCFO) manages the annual FMFIA assertion process for the Agency. Annual letters of assertion by office heads are supported by a number of management and internal control activities. The OCFO provides an Annual Assertion Checklist to department heads that must be used in the drafting of office-level annual letters of assertion.

The Administrator's assertion in FY 2006 is also supported by internal testing of the controls over key financial operations and reporting. As a result of the Sarbanes-Oxley Act, the Office of Management and Budget issued Appendix A to Circular A-123 on internal control that requires federal agency heads to provide an additional annual assurance on the internal control over financial reporting. To implement this new additional assurance, the SBA's OCFO led an effort to increase internal control awareness, and to document and test Agency internal controls over program activities impacting financial operations and reporting. A Senior Assessment Team comprised of SBA executives from the major program and support offices managed this effort.

The internal testing of controls under A-123 included all the key business processes impacting financial operations. Through the testing process, SBA identified about two dozen deficiencies including several in most of the key business areas. However, SBA and its supporting contractor determined that most of the items were relatively minor, although seven items rose to the reportable condition level. These included the controls over SBA information system security, centralized loan liquidation activity, Congressional grants processing, as well as the accuracy of 7(a) guaranty reporting and the reconciliation of Disaster staffing reports, and the controls over checks received and at the Agency's Denver Finance Center. SBA's A-123 contractor completed a thorough assessment of the quality of the monthly loan performance and status data reported by lenders for SBA's Section 7(a) guarantied loan program. The review found that although operational improvements could be made, the weaknesses in the loan guarantee reporting process were not material to the financial statements. In accordance with Circular A-123, SBA has developed an audit finding and remediation process for addressing the findings in the coming year.

Analysis of SBA's Financial Statements, Controls, and Stewardship Information

As primarily an oversight organization, SBA has a variety of monitoring and review activities that collectively represent a critical component of the Agency's internal control framework. These include lender oversight, Preferred Lender, Certified Development Company and other lender reviews, SBIC examinations, and guaranty purchase and improper payment reviews over business and disaster loans. The SBA's Office of the Inspector General (OIG) conducts audits and reviews of the Agency's operations and the OCFO works closely with SBA management and the OIG to complete actions necessary to respond to OIG audits. The OCFO tracks the completion of these audit recommendations and posts the status of all open OIG recommendations on the SBA's Intranet for managers' information. The remediation of audit recommendations made by the Agency's independent auditor in the annual financial statement audit is a top priority in current year financial management activity. The Agency's financial and program internal control has been substantially improved over the years through the audit remediation process.

The SBA also considers and responds to recommendations from audits and reviews conducted by the Government Accountability Office (GAO). Some of the reports contain specific recommendations for improving Agency program delivery and operations. All GAO audits are scheduled through the Office of Congressional and Legislative Affairs, which tracks replies to the GAO and Congress.

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

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT (FMFIA) ASSURANCE FOR FY 2006

November 15, 2006

The Small Business Administration continued to strengthen the internal control over its programs and operations during FY 2006. Accountability to our stakeholders and U.S. taxpayers is one of the four pillars of my management philosophy, and I am pleased to report that the SBA is on course to achieve its internal control objectives in the coming year.

The internal controls for SBA's program operations have continued to show improvement this year, and the system in place is basically sound. Agency managers have issued assertions as to the status of their FY 2006 internal controls, and these assertions are supported by internal testing, checklists, and other management reviews. Although Agency managers reported some operating deficiencies, these were not of a material nature.

The SBA's internal control over financial reporting was strengthened this year through the Agency's implementation of the Office of Management and Budget's Appendix A to Circular A-123, Internal Control over Financial Reporting. The SBA's Senior Assessment Team managed this process to document and test controls over SBA's key business processes including budget, financial reporting, Business and Disaster program activity and 7(a) program guaranty lender reporting. Our findings from this internal control process included minor operational discrepancies that were consistent with previous audit reports.

SBA's independent auditor issued an "unqualified" opinion on the SBA's FY 2006 financial statements for the second year in a row, but our auditor did report a material weakness in SBA's financial reporting process. This material finding, however, resulted from a restatement this year of a footnote to our prior year financials on the size of the SBA's guaranty portfolio. SBA financial analysts identified and corrected this prior year error using improved internal control procedures. However, in its review of the issue, our auditor concluded that the controls were not being employed consistently and in the normal course of business, and, therefore, a material weakness still existed.

During FY 2006, SBA financial management staff continued to strengthen the internal control over financial reporting and credit subsidy cost modeling through additional quality assurance procedures to validate loan program data at key points during these processes. We conducted more quality assurance testing to identify and correct data anomalies earlier in the reporting process. The SBA also implemented a more formal change control process over accounting and reporting methods to better document and control changes made. In addition, we continued to strengthen our financial management team through continued communication on emerging issues, training activities and a few strategic additions to the staff. Nevertheless, we recognize that additional work needs to be completed to resolve the outstanding problems.

During FY 2007, the SBA plans to complete remediation activities to address all the audit findings associated with the material weakness in financial reporting. We plan to have all audit remediation activities completed prior to reporting the June 30, 2007, quarterly financials. We will strengthen the documentation of our existing quality assurance procedures. We will also conduct a review of our financial reporting and quality assurance processes and implement identified solutions for improving accuracy and quality in the financial statements. We will also look carefully at our year-end schedule and process to reduce the need for and risk associated with year-end accounting entries. This will include further automating yearend entries to minimize manual accounting activity and to make the reporting process more efficient and reliable.

Analysis of SBA's Financial Statements, Controls, and Stewardship Information

SBA's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objective of the FMFIA. The SBA conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, and considering the independent auditor's finding on the internal control over, and compliance with laws and regulations on information system security, I am providing a qualified statement of assurance on the SBA's compliance with FMFIA requirements.

In addition, the SBA conducted its assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. Based on the results of this evaluation, and considering our auditor's finding of a material weakness on SBA's financial reporting as well as audit findings on the internal control over information security and travel processing, I am providing a qualified assurance that Agency internal controls over financial reporting are operating effectively.

As reported in this Performance and Accountability Report, the SBA implemented improvements to address compliance with Federal Financial Management Improvement Act (FFMIA) accounting and systems standards. Although substantial improvement was made, because the SBA's independent auditor reported several instances of non-compliance with information system control standards, I cannot certify that the SBA is in full compliance with FFMIA.

The SBA substantially improved its internal control over financial reporting and information security this year, and we will make more progress in these areas in FY 2007. I am confident that these improvements will be reflected in improved SBA audit results in FY 2007. I will continue to take corrective action until all of the audit issues are resolved.

Steven C. Preston
Administrator

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)

The FFMIA of 1996 requires that federal agencies prepare remediation plans to rectify deficiencies in agency financial systems and agency compliance with accounting standards that are identified by management and auditors in the annual financial reporting and audit processes. The SBA's FY 2006 financial management plan addressed deficiencies that were identified in FY 2005. As part of the FY 2006 financial statement audit, the SBA's independent auditor found that SBA is 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 weakness in information system security. This is an improvement from last year when the SBA's auditor found the Agency in non compliance with FFMIA accounting as well as financial systems requirements.

The SBA's systems are still subject to lingering information technology constraints and limited resources. The FY 2006 independent auditor found several weaknesses in the Agency's information system controls of a non material nature. The SBA did, however, make a number of improvements this year in financial system access control, segregation-of-duty and other general-control weaknesses. SBA improved the efficiency of transactional processing in the Agency's administrative accounting system (JAAMS). Internal controls over JAAMS processing was enhanced through general ledger edits and improved controls over general ledger posting and the posting of intra-governmental transactions.

The SBA's partial FFMIA compliance in FY 2006 indicates the Agency's financial management meets federal accounting standards including Standard General Ledger requirements. During FY 2006, SBA addressed the previous year's audit finding through improvement to its accounting and reporting processes. SBA's financial data was subjected to comprehensive, thorough quality assurance processes in its interim and yearend reports, especially budgetary data. Reports and footnotes were thoroughly reviewed to assure proper disclosure of pertinent information. FFMIA compliance was also improved through automated cancellation routines for invalid undelivered orders, and through the use of accruals for unneeded disaster loan approvals. A change control process was implemented this year for accounting and reporting changes to strengthen SBA's internal control. Financial management resources were enhanced through training, reassignment of staff to key initiatives and limited hires. SBA financial management was also improved through the implementation of the new OMB Circular A-123 Appendix A internal control requirements for financial reporting. These improvements were evident in the results of the FY 2006 audit of FFMIA accounting requirements, and continuing improvement to SBA's internal control over financial management and systems is planned in FY 2007.

IMPROPER PAYMENTS

The Improper Payment Information Act of 2002 (IPIA) formalized and updated the requirements previously included in the former Section 57 of Circular A-11 issued by the Office of Management and Budget (OMB.) OMB issued Appendix C to Circular A-123 on August 10, 2006, that provides definitive guidance on agency compliance with IPIA requirements. In addition, OMB Circular A-136 provides guidance on the form and content of IPIA reporting. The SBA's improper payment program and reporting is in accordance with this guidance. As a result, the OMB has rated SBA "green" for progress and status on this Presidential initiative.

The SBA's four major credit programs are currently included under IPIA reporting. They are the 7(a) Business Loan Program, the Section 504 Certified Development Company (504) Loan Program, the Small Business Investment Company (SBIC) Program and the Disaster Assistance Loan Program. The SBA's risk assessment of the 504, SBIC and Disaster programs for improper payment indicate a low level of risk, due to the Agency's extensive internal control over these programs, and the FY 2006 results confirmed this assessment. For FY 2006, the SBIC program improper payment rate was zero, and the Disaster program improper payment rate was only .8 percent in a record year including Hurricane Katrina processing. Both the SBIC and Disaster program results were obtained using a testing procedure consistent with OMB guidance. As previously reported to OMB, the 504 program testing was not completed due to the extensive internal controls and the extremely low likelihood of improper payments in this program.

The SBA considers the 7(a) guaranty program to have a medium risk of improper payments due to the delegation of program authority to SBA's lending partners in this nationwide program. For FY 2006, however, the 7(a) guaranty improper payment rate (determined using the OMB testing procedure) was only 1.56 percent after a 1.44 percent result in FY 2005. This low improper payment rate demonstrates the success of SBA's Quality Assurance Program over 7(a) guaranty purchases. The 7(a) purchase operation includes SBA purchase centers in Herndon, VA, Fresno, CA, and Little Rock, AR that are centrally managed by staff in Washington DC. The SBA tracks the reasons for any improper payments and makes appropriate changes in the purchase operation and QA procedures to reduce the purchase error rate.

The OMB modified its guidance in August 2006 to include potential future payments required as a result of improperly made loan guaranties. This change has caused the SBA to modify its improper payment program for 7(a) guaranties and 504 debentures, and these results will be provided in the FY 2007 improper payment report. The SBIC program already included improperly made guaranties, and the Disaster program is a direct lending program, so these programs were not affected by the change in OMB's guidance.

Previously the SBA and OMB have discussed the exemption of its low risk programs (504, SBIC and Disaster) from IPIA reporting requirements. The SBA would, of course, continue its internal control procedures over improper payments, but would get relief from the extensive IPIA reporting requirement for these low risk programs. However, the new 504 guaranty reporting requirement, a change in SBIC testing, as well as record Disaster volume for Hurricane Katrina have deferred SBA's request to OMB for this exemption. The SBA will monitor these developments in its improper payment program, and we may apply for an exemption from IPIA reporting requirements during FY 2007.

OTHER MANAGEMENT INFORMATION, INITIATIVES, AND ISSUES

The following five sections are summary tables of information required by the SBA's Office of Inspector General (OIG), the Government Accountability Office (GAO), or the Office of Management and Budget (OMB). More information on each section is available in either the Appendix or the attached CD under Supplementary Information.

SUMMARY OF THE PRESIDENT'S MANAGEMENT AGENDA

The President's Management Agenda (PMA) contains five government-wide goals, augmented by agency-specific program goals, to improvefederal management and deliver results that matter to the American people. The SBA has three agency-specific goals — Faith-based and Community Initiatives; Eliminating Improper Payments; and, added in FY 2006, Improved Credit Management.

The chart below displays the ratings and describes significant achievements for each PMA goal.

Key to Status and Progress Ratings	
Green	Success/ Meets Established Standards
Yellow	Mixed Result/ Some Standards Not Met
Red	Unsatisfactory/ Serious Flaws Present
⇧	Improved During FY 2006
⇩	Declined During FY 2006
New	Established in FY 2006

	Status	Progress
Human Capital		
In FY 2006 the SBA continued work towards achieving a "Green" rating for Status as well as Progress. The Agency met all of its 2006 milestones and deliverables on this initiative.	Yellow	Green
Competitive Sourcing		
The SBA maintained a "double" green rating during FY 2006 for this initiative, meeting all milestones and deliverables.	Green	Green
Improved Financial Performance		
In FY 2006, for the second year in a row, the SBA received an unqualified opinion on its financial statement audit. However, 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 the Agency's financial reporting process. The SBA is committed to eliminate 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.	Red	Green
Enhancing E-Government		
The SBA met all of its initiatives, maintaining a solid "Green" rating. It was one of only a few agencies to begin implementing E-authentication, allowing secure, single sign-on to a number of agency-specific applications.	Green	Green
Budget and Performance Integration		
In FY 2006, the SBA maintained a solid "Green" for this initiative. All SBA programs have at least one efficiency measure; marginal costs were calculated for three major programs and used for setting goals for the FY 2008 OMB budget submission.	Green	Green
Faith-Based and Community Initiatives		
Working towards improving its Status on this initiative, the SBA completed 15 of the 16 FY 2006 milestones. In order to complete the 16th milestone the Agency is redesigning its survey tool for determining the value of its workshop training.	Red	Green
Eliminating Improper Payments		
The SBA attained a solid "Green" this year, improving from "Yellow" on Status last year. The Agency met its improper payment reduction targets and all of its FY 2006 milestones.	Green ⇧	Green
Improved Credit Management		
Improved Credit Management was established as a new initiative in FY 2006. This initiative is focused on improving the management and oversight of the guaranteed loan portfolio, and the disaster loan portfolio, from a credit management perspective. SBA met 12 of 15 milestones established for this initiative and is working to improve both Status and Progress ratings.	Red New	Yellow New

SUMMARY OF THE PROGRAM ASSESSMENT RATING TOOL (PART) STATUS

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. PART results are then used to inform the budget process and improve program management to ensure the most effective and efficient use of taxpayer dollars. Rating results are classified into one of five categories: Effective, Moderately Effective, Adequate, Ineffective, and Results Not Demonstrated.

To date, the SBA, in conjunction with OMB, has initiated ten formal PART assessments for SBA's programs:

Program	Current Assessment
Disaster Loan Program	Effective
HUBZone Program	Moderately Effective
SCORE	Moderately Effective
Section 504 Loan Program	Adequate
Section 7(a) Guaranteed Loan Program	Adequate
Section 8(a) Program	Adequate
Small Business Development Centers	Moderately Effective
Surety Guaranty Bond Program	Adequate
Business Information Centers	Program has been discontinued
Participating Securities Program (SBIC)	Program has been discontinued

The table above includes the three programs that were assessed in FY 2005: Surety Guaranty Bond Program, Section 8(a) Program, and the HUBZone Program. No programs were reassessed in FY 2005. Detailed information on the PART reviews is presented in Appendix 6.

SUMMARY OF FY 2006 MAJOR MANAGEMENT CHALLENGES IDENTIFIED BY THE OIG AND GAO

The SBA Office of Inspector General (OIG), and in some instances, the Government Accountability Office (GAO), identified through audits, reviews, and investigations major management challenges that impede the successful implementation and efficiency of SBA's operations, stewardship, and/or program delivery. During FY 2006, the SBA improved in 24 of the 65 recommended actions and worsened in five of the recommended actions. While the SBA continues to make progress in eliminating these challenges, many of the actions require investments and/or substantial changes in operations and/or regulations that span more than a single fiscal year. Additional details regarding the management challenges identified by the OIG and the SBA's response are included in Appendices 4 and 5.

The 10 major challenges identified by the SBA OIG fall into two categories of importance:

- Challenges that pose **risk of losing taxpayers' money** (i.e., guarantee purchase process, lender oversight, loan agent fraud, SBIC management and liquidation); and
- Challenges that pose **risk of reducing program delivery and sustaining inefficient processes** (i.e., human capital planning, financial management and reporting, IT security, directives system, 8 (a) program; contracting flaws).

To the extent that eliminating the Major Management Challenges in the Agency contributes to improving SBA's effectiveness and operational efficiency, each challenge can be aligned with Strategic Goal 4. Functionally, this goal's outcome is improved management integrity; reduced waste, fraud and abuse; and improved program effectiveness and operational efficiency. Organizationally, however, the challenge "owners" are responsible for SBA program implementation and therefore a number of the challenges may be aligned directly with Strategic Objective 2, i.e., helping small businesses succeed, as well as indirectly supporting Goal 4. Finally, two of the Challenges are also aligned with Goal 1 in helping to create the environment for small business success. The table below aligns the challenges identified by the OIG by the strategic goals that they impact.

Management Challenge #1 Strategic Goals 1 & 2	
OIG	Flaws in the procurement process allow large firms to receive small business awards and agencies to receive small firm credit for large firm contracts
GAO	Business Development and Contracting Program
SBA Actions	SBA is taking a number of steps to improve the quality, validity, and reliability of contract information, most notably (1) publishing a re-certification rule, (2) circulating a joint SBA-Office of Federal Procurement Policy memo to all departments and agencies emphasizing the importance of accurate reporting, and (3) initiating with OMB a monitoring scorecard to monitor, assess, and report on the quality of agency contract reporting.

Management Challenge #2 Strategic Goal 4	
OIG	SBA faces significant challenges in financial management and reporting, which affect its ability to provide reliable, timely, and accurate information
GAO	Financial Management
SBA Actions	SBA improved its status in four of the six recommended actions in this Challenge. SBA continued to improve its financial management and reporting, most notably by improving its quality review and oversight of financial reporting, strengthening internal controls, and complying with reporting deadlines. The FY 2006 KPMG financial statement audit resulted in an unqualified opinion with three reportable weaknesses, one of which was rated a material weakness.

Management Challenge #3 Strategic Goal 4	
GAO	Information Technology
OIG	Information systems security needs improvement
SBA Actions	SBA achieved significant improvements in its information technology security, most notably improving its entity-wide program, access, and service continuity controls; timely mitigation of audit and system risk assessment weaknesses; and FISMA certification and accreditation compliance.

Management Challenge #4 Strategic Goal 4	
OIG	Maximizing program performance requires that SBA fully develop, communicate and implement a human capital management/transformation strategy
GAO	Human Capital Management
SBA Actions	SBA developed and communicated a human capital plan that incorporates expanded training, performance evaluation metrics, and a succession plan to meet future needs. In addition, a contractor is finalizing competency modeling for key skill gaps and the Agency is incorporating an updated transformation strategy into a series of "rapid results" initiatives endorsed by the new Administrator after consultation with his senior leadership.

Management Challenge #5 Strategic Goal 2	
OIG	SBA's National Guarantee Purchase Center needs better controls over the business loan purchase process
SBA Actions	In FY 2006, SBA improved on one of five needed actions, effectively increasing the level of resources required to improve the purchase process. In addition, using a specified purchase sample of 246 cases, SBA's improper payment rate for 7(a) business loan purchases for the year ended June 30, 2006 (FY2005 Q4 and FY2006 Q1-Q3) was calculated at 1.56 percent. In addition to increasing training, SBA also improved its quality assurance review program to determine risk of improper payments and to achieve established goals for reducing the improper payments. As needed, SBA will also provide increased training or implement policy/procedural changes, as appropriate.

Management Challenge #6 Strategic Goal 2	
OIG	SBA needs to effectively implement its program to continue improving lender/participant oversight plan
GAO	Oversight of Lenders
SBA Actions	SBA improved on six of 14 lender oversight actions during FY 2006, focusing on 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. To further improve the oversight program, this Challenge states that the Agency needs to issue regulations and a Standard Operating Procedure governing the Office of Lender Oversight, commence on-site reviews of section 504 entities, develop performance standards for lender ratings, expand the number of lenders with unsatisfactory ratings, and ensure that deficiencies identified during on-site reviews are corrected.

Management Challenge #7 Strategic Goal 2	
OIG	The Section 8(a) Business Development (BD) program needs to be modified so more firms receive access to business development, standards for determining economic disadvantage are clear and objective, and more eligible firms receive contracts
GAO	Business Development and Contracting Program
SBA Actions	SBA improved its status on one of the six recommended actions, focusing on defining "success" for 8(a) firms and creating the framework for graduation once the criteria for success have been achieved. To improve the program management further, SBA will establish and monitor individual development plans for 8(a) firms, define more clearly "economic disadvantage" to ensure that appropriate firms are certified into the program, expand training for federal agencies, improve its electronic management information system, and improve the monitoring of the program.

Management Challenge #8 Strategic Goal 2	
OIG	The current practices of the SBIC program place too much risk on taxpayer money
SBA Actions	SBA improved its status on two of the seven actions, focusing on improving liquidation of SBICs in receivership—achieving a record 17.2 percent collection compared to a 9 percent collection in FY 2005. To address this challenge, SBA developed a new estimation methodology, analyzed the capital impairment percentages required in program implementation, drafted a revised SOP for SBIC operations, and filled personnel vacancies. The Agency has developed performance metrics for more timely SBIC liquidations and is planning to revise its SOP further to provide a systematic approach for estimating the level of financial risk, implementing restrictive operations, and liquidating even more effectively participating security SBICs.

Management Challenge #9 Strategic Goal 2	
OIG	Preventing loan agent fraud requires additional measures
SBA Actions	SBA improved its status on two of the six recommended actions and is committed to mitigating this Challenge, by collecting agent or loan broker information on paper-based loans through three principal means: (1) collecting the information during on-site safety and soundness reviews of enders, (2) collecting the information through the forthcoming 7(a) centralization process that mirrors the electronic collection now done by E-TRAN lenders, and (3) ensuring that as a result of the re-engineered loan Management and Accounting System project, the remaining 30 percent of SBA loans now originated in paper format will be handled electronically where the loan agent information will be collected into a database and linked to an individual loan.

Management Challenge #10 Strategic Goal 4	
OIG	SBA needs to update its system of directives to provide proper guidance and control over its operations
SBA Actions	SBA has made progress on this Challenge, improving the status on three of the four needed actions, most notably through publication of an SOP on Agency directives, updating all SOPs and incorporating temporary directives, implementing a regular annual review process to ensure that the directives are up-to-date, and publishing the directives electronically on the Agency's web site. SBA will continue to monitor its directives system, updating those SOPs that are central to the loan making policies of the Agency.

SUMMARY OF SELECTED OIG AUDITS AND REPORTS PUBLISHED IN FY 2006

Selected OIG Reports Published in FY 2006			
Number	**Issue Date**	**Title**	**Crosswalk to SBA Long Term Objectives**
6-04	15-Nov-05	Audit of SBA's FY 2005 Financial Statements	4.3
6-08	22-Dec-05	Audit of SBA's Information System Controls for FY 2005	4.4
6-09	22-Dec-05	Audit of SBA Supplemental Terrorist Activity Relief (STAR) Loan Program	2.1, 2.2 & 2.3
6-11	2-Feb-06	Advisory Memorandum Report- Disaster Loan Application Declines within DCMS	3.1
6-12	17-Feb-06	Advisory Memorandum Report- Disaster Application Referrals with '$0 Income' from FEMA Online Registration have Increased Costs and Demand for SBA Resources	3.1
6-13	2-Mar-06	Human Capital Planning in SBA's Office of Financial Assistance	2.1, 2.2 & 4.2
6-15	16-Mar-06	Audit of Monitoring Compliance with 8(a) Business Development Regulations During 8(a) Business Development Contract Performance	2.2, 2.3 & 4.4
6-18	21-Mar-06	The Central Contractor Registration Needs Large Business and Small Business Designation Improvements	1.3
6-20	31-Mar-06	Audit of Interface Error Correction between SBA's DCMS and FEMA's NEMIS	3.1
6-21	27-Apr-06	The Disaster Credit Management System Upgrade Project Needs a Certification & Accreditation Prior to Production	3.1
6-23	23-May-06	HUBZone Program Examination and Re-certification Processes	2.2, 2.3
6-24	8-Jun-06	Advisory Memorandum Report- Review of the Disaster Credit Management System Performance Test Plan	3.1
6-25	21-Jun-06	Audit of SBA's Implementation of the Improper Payments Information Act	4.3
6-26	12-Jul-06	Advisory Memorandum Report- Survey of the Quality Assurance Review Process	4.3
6-28	25-Sep-06	Preliminary Assessment of Controls over the Coordination of Disaster Assistance Benefits Distributed by Mississippi Development Authority's Grant Assistance Program	3.1
6-29	19-Sep-06	Audit of Loan Disbursements Following the 2005 Gulf Coast Hurricanes Katrina, Rita, and Wilma	3.1
6-30	25-Sep-06	Office of the Chief Information Officer Contract Awards for Agency Mission-Critical Service	4.4
6-31	25-Sep-06	Flexible Staffing of SBA Personnel During Times of Emergencies or Catastrophes to Aid Disaster Loan Processing	3.1, 4.2
6-34	29-Sep-06	Management Advisory Report- Policies and Procedures for the SBAExpress and Community Express Loan Programs	2.1, 2.2
6-35	29-Sep-06	Audit of Deficiencies in OFA's Purchase Review Process for Backlogged Loans	2.1, 2.2

SUMMARY OF OIG AUDIT FOLLOW-UP

Throughout the year, the OIG conducts audits of the SBA's processes, procedures and programs, and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on the SBA's financial and administrative operation, but are very beneficial to the SBA's management. Program management has the option to agree or disagree with OIG recommendations. If agreement cannot be reached, the issue can be raised to a higher level by the OIG. Once both management and the OIG agree with a recommendation, it becomes a "management decision." The program manager also develops a specific action plan and provides a target date for completion as part of the "management decision.' The corrective action is referred to as a "final action."

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

The OCFO continues to take aggressive steps to improve management's attention to these issues, resulting in 126 final actions during FY 2006.

The following two tables depict the SBA's monetary final action activity: audit recommendations with disallowed or questioned costs, and audit recommendations with funds put to better use. The status of all audit recommendations is reconciled with the OIG to ensure actions are posted promptly and accomplished in accordance with the agreed-upon target dates. Additional information on these recommendations can be found on the attached CD under Supplementary Information (SI 2 – Office of the Inspector General Audit Follow-up.)

Table I

Final Action On Audit Recommendations With Disallowed / Questioned Costs
October 1, 2005 – September 30, 2006

	Number of Recommendations	Disallowed Costs (in thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	22	$5,261
B. Recommendations on which management decisions were made during the period.	5	$2,516
C. Total recommendations pending final action during period.	27	$7,777
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	11	$1,199
(b) Property	0	$0
(c) Other	0	$0
2. Write-Offs	6	$3,343
3. Total	17	$4,542
E. Recommendations needing final action at the end of the period.	10	$3,235

Table II

Final Action On Audit Recommendations With Funds Put To Better Use
October 1, 2005 – September 30, 2006

	Number of Recommendations	Funds to be Put to Better Use (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	2	$208
B. Recommendations on which management decisions were made during the period.	1	$25
C. Total recommendations pending final action during period.	3	$233
D. Recommendations on which final action was taken during the period.		
1. Value of recommendations implemented (completed).	2	$90
2. Value of recommendations that management concluded should not or could not be implemented or completed.	0	$0
3. Total	2	$90
E. Recommendations needing final action at the end of the period.	1	$143