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

TESTIMONY OF

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BEFORE THE

COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

HEARING ENTITLED:
"PLACING FEDERAL TAX DOLLARS AT RISK: HOW THE SMALL BUSINESS ADMINISTRATION MISMANAGES THE MODERNIZATION OF ITS INFORMATION TECHNOLOGY"

FEBRUARY 8, 2012

Thank you, Chairman Graves, Ranking Member Velazquez, and members of this Committee. As always, it is an honor to testify before you.

The Small Business Administration (SBA) provides access to capital for tens of thousands of small businesses and disaster victims each year. SBA's $90 billion loan portfolio plays an important role in the small business economy. Our loan programs help small businesses who have been left out of traditional credit markets gain access to the capital they need to grow and create jobs.

Today, over 80% of our flagship loan programs are processed electronically compared to none 10 years ago. Thus, upgrading our loan management and accounting systems (LMAS)—while ensuring security and without disruption to our current lending process—has been a major priority at SBA.

In 2005, out of concerns about security, cost, and flexibility, the SBA Administrator approved the project to update this 35 year-old legacy system.
In 2006, the agency requested development funding for the complete overhaul of LMAS.

Work continued in 2007, and in 2008, a contract was awarded to an integration firm to begin transferring SBA's processes to a commercial off-the-shelf program.

However, after 12 months of planning and completion of a pilot, SBA identified new concerns about cost, time, and risks associated with the transfer to a commercial, off-the-shelf system. The planning and pilot resulted in a revised development cost estimate of $156 million and time-to-completion estimate of 9 years. Due to these concerns, SBA commissioned an outside study of the LMAS project, which was delivered in December 2009.

In addition to SBA's concerns, the study showed that implementing a commercial off-the-shelf program would require retrofitting our loan making processes to match the software, which could potentially be disruptive to our loan making efforts.

Based upon all of this, the LMAS Executive Steering Council (ESC) – the council charged with overseeing the upgrade of LMAS -- decided to change course in May of 2010.

This decision coincided with the June 2010 Office of Management and Budget (OMB) memorandum M-10-26, which directed agencies to reduce the cost and scope of large system automation projects.

In September 2010, SBA requested authority from OMB's Financial Systems Advisory Board (FSAB) to re-scope LMAS with a series of more focused and cost effective improvements to the existing system, which we call LMAS Incremental Improvement Projects, or IIPs.

The IIPs were approved by FSAB in January 2011 and will address the most important issues surrounding the upgrade of LMAS in a less costly, less risky, and more efficient manner.

Instead of a complete overhaul, the IIPs involve upgrading the hardware and software of our financial systems infrastructure to support our secure web-based loan making and financial reporting.

We estimate development for this new approach will total $39 million[1], which is an overall savings of $117 million from the LMAS budget estimated in 2009.

The incremental improvement approach is better tailored to SBA's current needs and goals. It allows us to make upgrades to LMAS while continuing to make and process loans. Our lenders can still continue to make loans through our web-based process at a record pace while we upgrade the loan accounting software and hardware in the back end.

In May 2011, SBA completed the first IIP, upgrading our administrative accounting system to the latest software release. During this time, SBA also implemented changes to our loan programs brought about by the American Reinvestment and Recovery Act and the Small Business Jobs Act.

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[1] Totals referenced are development contractor only costs.

We have also phased out or converted 275 legacy programs to a web environment. This year, we anticipate completing additional improvements to enhance the functionality offered to lenders, disaster borrowers, and small businesses while moving the back office loan accounting and financial reporting processes to a standardized, non-proprietary hardware and software solution.

In its audit, the Government Accountability Office (GAO) stated that there is room for improvement. We at SBA agree – there is always room for improvement. One example of the improvement is the strengthening of executive involvement in the project. The LMAS ESC has met 17 times from May 2010 to January 2012. Additionally, SBA had improved the documentation of the project's progress. I know these improvements because I personally Chair the LMAS ESC.

While we're undertaking these improvements, I wanted to remind the Members of the committee that fiscal year 2011 was a record year for the SBA. We supported over $30.5 billion in lending to over 61,000 small businesses. We were able to implement parts of the IIP without any impact to our lending partners or our borrowers. We recognize the importance of not only continuing to meet the capital needs of small businesses while continuing to upgrade our system, but we are doing it in a way that is the most cost-effective and least disruptive to our lending partners and small business owners.

Thank you and I look forward to answering your questions.

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