

# SBA Budget Request & Performance Plan

**FY 2004**  
**Congressional Submission**

Fourth Printing  
Feb 10, 2003



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## Executive Summary

President Bush's priorities for the FY 2004 budget are to strengthen homeland security, win the war on terrorism and expand economic opportunity. The President recognizes the vital role that small businesses play in creating opportunity for millions of Americans. The President's Small Business Agenda is designed to create an environment where entrepreneurship can flourish. It includes providing small businesses with the information they need to succeed, saving taxpayer dollars by ensuring full and open competition to government contracts and tearing down regulatory barriers to job creation for small business by giving them a voice in the complex and confusing federal regulatory process.

The U.S. Small Business Administration (SBA) is leading the charge to implement the President's Small Business Agenda by focusing on three strategic programmatic goals designed to yield the outcomes of more jobs for Americans and economic stimulation:

- **Championing small business interests.** SBA will seek to minimize the regulatory burden on small business, provide easy to access information about how to comply with regulations, and work to ensure that small business are treated fairly in the regulatory process.
- **Empowering entrepreneurs.** SBA will increase the opportunities for entrepreneurs to start and grow small businesses by expanding access to capital, providing technical assistance, and increasing procurement opportunities.
- **Helping businesses and families recover from disasters.** SBA will provide speedy and customer friendly assistance in restoring homes and businesses to pre-disaster conditions.

SBA's budget request for FY 2004 of \$797.9 million will be used to implement a new vision for serving America's small businesses. That vision is to incorporate the entrepreneurial concepts of innovation, simplification and dedication throughout all of SBA.

In the 21st Century, SBA must become more innovative in its approach to small business products, its outreach and responsiveness. SBA must simplify its processes by streamlining and expediting delivery of products and services. The SBA will strive to match the dedication of small business men and women in all aspects of daily operations. Innovation, simplification and dedication will be tightly woven into all of SBA's products, processes, and operations.

This new way of doing business will create an SBA that delivers better value to small businesses by focusing on the programs and services that they want. Small business people will readily gravitate to SBA because it embodies the core values of innovation, simplification, and dedication that the businessmen and women throughout America hold.

By rethinking the way SBA serves its customers, the Agency will improve its ability to provide regulatory, advocacy and compliance assistance; access to capital; contracting opportunities; business education; and financial assistance to help people rebuild in the aftermath of a disaster.

SBA measures its success by the success of its customers—small businesses. The SBA transformation effort that this request funds will create a culture of innovation and entrepreneurship that will reaffirm relationships with customers, resulting in more timely, cost effective, and responsive assistance to small business.

### **SBA's Strategic Management Goals**

Beginning in FY 2003, SBA's management team is focusing on three strategic management goals that cut across all SBA programs and operations. Each of the strategic management goals will incorporate a new way of doing business into SBA's organization and culture, resulting in improved performance in SBA's programmatic goals.

SBA's strategic management goals are:

- **Transforming SBA to meet the changing needs of small business.** SBA will reengineer its business processes, service delivery methods and workforce to meet the needs of small business in an Internet-driven global marketplace. SBA will be more responsive and provide more value to small businesses and will become a more efficient and cost effective organization.
- **Marketing SBA to all 23 million small businesses in America.** SBA will incorporate best marketing practices into all programs to create awareness of the newly designed innovative, dedicated and simplified SBA culture, programs and services. More businesses will benefit from the new SBA as it will be more in line with how entrepreneurs think and conduct business.
- **eSBA: Creating a powerful, customer-centric, virtual SBA.** The eSBA will change the agency's current Internet focus from an organizational and programmatic presentation to a customer-centered, functional delivery approach by creating a seamless integration of information and services to our customers across federal and state levels, as well as to SBA's resource partners. The eSBA will be a premiere customer-centric portal; a virtual one-stop Internet site providing information, service and transactions as well as an integrated connection to hands-on assistance and referrals to appropriate resources.

These goals were created through a disciplined planning process. During the summer of 2002 SBA's Deputy Administrator worked with each program and support office to identify their top-three goals for transforming SBA. The office goals were presented to the SBA's senior leadership

team at a management conference in September 2002. At this conference SBA's leadership recognized that only fundamental reform that cut across organizational boundaries could deliver the improved performance that the President demands and that small business deserves.

Based on the Administrator's vision for the SBA, the senior management team developed the three strategic management goals. The goals will lead to improved performance and support the President's Management Agenda. The Administrator approved the goals and directed that their implementation be given the highest priority. SBA's focus is now on the operational execution necessary to achieve these goals.

An "Executive Steering Committee" comprised of senior management will oversee and guide the development and implementation of the plans for the strategic management goals to ensure a cohesive relationship between the vision, performance goals, and strategic management goals. Each strategic management goal will be managed by an Implementation Team that will be held accountable by the Administrator and the Deputy Administrator for developing detailed plans and producing expected results.

Accountability for the implementation of these strategic management goals will fall to the Deputy Administrator, the chair of the Executive Steering Committee, who will lead monthly review meetings. SBA will use a new performance management system – a web-based Execution Scorecard – to track progress towards achieving strategic goals and to monitor costs. The Execution Scorecard will provide critical input to the Deputy Administrator's monthly review sessions and will serve as the vehicle for reporting progress to the Administrator.

Chapter Two, "Strategic Management Goals for Improving Performance," will provide an in-depth discussion to SBA's approach to achieving these goals.

### **SBA's Integrated Annual Performance Plan and Budget Request**

Accomplishing SBA's strategic management goals will lead to improvements in performance. SBA's programs will provide better quality products to more small businesses. The increased level of performance and efficiency is reflected in SBA's new integrated FY 2004 Budget Request and Performance Plan.

SBA's performance plan is summarized in the SBA Performance Scorecard on the following page. The SBA Scorecard summarizes how the agency measures its success in serving America's small businesses. The Performance Scorecard is based on the goal hierarchy established by the Government Performance Results Act (GPRA). In accordance with GPRA, SBA identifies its overarching strategic goals, the outcome goals associated with each general goal, and the specific performance goals and performance indicators that are used to measure how programs contribute toward outcome goals. The following terms are key to understanding the GPRA goal hierarchy.

**Strategic Programmatic Goals:** SBA's three strategic programmatic goals describe public policy objectives that SBA pursues through its program activities. SBA's Strategic Plan establishes its strategic programmatic goals.

**Strategic Management Goals:** SBA's three strategic management goals will increase performance and efficiency in all of its programs.

**Outcome Goals:** Supporting each strategic programmatic goal is one or more outcome goals. SBA's outcome goals describe the results produced by our programs that directly benefit small businesses. SBA's Strategic Plan describes the long-term strategy that will be used to achieve outcome goals. SBA's annual Budget Request and Performance Plan explains how each program works to support outcome goals.

**Performance Goals:** Since outcome goals are often difficult to measure, performance goals are used to estimate whether SBA achieves its outcome goals. Performance goals are quantifiable and measurable. In some cases multiple performance goals are used to estimate a single outcome goal. SBA's Budget Request and Performance Plan establishes specific performance goals for the fiscal year. It also identifies the costs required to support programs. In the Performance and Accountability Report, SBA evaluates its success in meeting the performance goals for the previous year.

**Performance Indicators:** SBA's programs use performance indicators to measure program effectiveness and quality of service. Specific and measurable performance indicators are published in the annual Budget Request and Performance Plan.

Please see *Appendix C: Explanation of SBA Performance Scorecard Goals*, p. 146

*Note:* Goal data is incomplete for prior years because SBA did not have goals for these measures. Some FY 2002 data is still being collected.

# SBA Performance Scorecard

Outcome Goals / Performance Goals	FY2001 Actual	FY2002 Goal	FY2002 Actual	FY2003 Goal	FY2004 Goal
<b>Strategic Goal 1: Champion Small Business Interest</b>					
1.1 Minimize the regulatory burden on small business					
1.1.1 Cost savings for small businesses due to Advocacy	\$4.4 B	\$3.5B	\$21.1B	\$4.0 B	\$4.5B
1.2 Provide small businesses with easy access to information about how to comply with government regulations					
1.2.1 Number of users of BusinessLaw.gov	NA	150,000/Week	170,000/Week	200,000/Week	250,000/Week
1.2.2 Reduce cost to businesses and regulatory agencies	NA	New Goal	\$20M	\$258M	\$250M
1.3 Ensure that small businesses are treated fairly in the federal regulatory enforcement process					
1.3.1 Increased compliance assistance	NA	New Goal	NA	5%	5%
1.3.2 Decreased excessive enforcement	NA	New Goal	NA	-5%	-10%
<b>Strategic Goal 2: Empower Entrepreneurs</b>					
2.1 Increase small business contribution to the nation's economy					
2.1.1 Number of jobs created and retained due to SBA assistance (sum of the performance indicators listed below)	679,616	New Goal	574,258	579,714	669,692
2.1.1.1 Number of jobs created and retained by Capital Access programs	547,846	New Goal	574,258	447,714	573,692
2.1.1.2 Number of jobs created and retained by Entrepreneurial Development programs	131,770	New Goal	NA	132,000	132,000
2.1.1.3 Number of jobs created and retained by GC/BD programs	NA	New Goal	NA	TBD	TBD
2.2 Increase the opportunities for entrepreneurs to start a small business					
2.2.1 Start up clients counseled and trained by Entrepreneurial Development partners	NA	New Goal	NA	983,869	1,045,567
2.2.2 Number of small business start-ups that receive 7(a) Loans	12,396	15,650	13,427	12,000	14,400
2.2.3 Number of small business start-ups that receive 504 loans	973	980	989	1,000	1,000
2.2.4 Number of micro-loans awarded	2,107	2,200	2,345	2,250	2,000
2.2.5 SBIC Financing to start-up companies	1,719	1,800	1,210	1,500	1,700
2.3 Increase the opportunities for small businesses to grow					
2.3.1 Gap lending and investment	\$17.6 B	New Goal	\$16.3B	\$12B	\$15B
2.3.2 Established firms counseled and trained by ED resource partners	NA	New Goal	NA	352,200	364,460
2.3.3 Number of established small businesses that receive 7(a) loans	30,562	New Goal	38,239	48,000	57,600
2.3.4 Number of established small businesses that receive 504 loans	4,240	5,500	4,491	5,000	5,000
2.3.5 SBIC Financing to established firms	2,558	NA	2,794	2,900	2,800
2.3.6 Number of surety bonds guaranteed	6,320	6,300	7,372	8,000	8,000
2.3.7 Export sales assisted by SBA loans	\$608M	\$537M	\$616.5M	\$700M	\$700M
2.4 Increase the opportunities for small businesses to compete for federal contracts					
2.4.1 Percent of federal contracts that go to small businesses	22.8%	23.0%	NA	23.0%	23.0%
2.4.2 Small business appointments conducted with government and private-sector procurement officials	NA	New Goal	NA	16,000	16,000
2.5 Small businesses receive assistance in overcoming longstanding barriers to economic opportunity					
2.5.1 Number of veterans assisted by SBA (all programs)	101,824	New goal	107,190	112,000	118,000
2.5.2 8(a) client success rate after graduation	64%	70%	NA	67%	70%
2.5.3 Federal prime contract dollars awarded to HUBZone firms	0.7%	2.5%	0.6%	3.0%	3.0%
2.5.4 Federal prime contract dollars to small disadvantaged businesses (including 8(a) firms)	7.1%	5.0%	6.0%	5.0%	5.0%
2.5.5 Federal prime contracting dollars awarded to service disabled veteran-owned small businesses	0.3%	3.0%	0.1%	3.0%	3.0%
2.5.6 Federal prime contracting dollars awarded to women-owned small businesses	2.5%	5.0%	2.6%	5.0%	5.0%
2.5.7 Loans emerging market firms (7(a) and 504)	NA	New Goal	NA	34,700	40,946
2.5.8 Loans to veteran owned-businesses (7(a) and 504)	5,099	5,875	5,500	6,042	7,230
<b>Strategic Goal 3: Help Families and Businesses Recover from Disasters</b>					
3.1 disaster victims receive speedy and customer friendly assistance in restoring businesses and homes to pre-disaster conditions					
3.1.1 Percentage of applications processed within 21 days	94%	80%	96%	85%	90%
3.1.2 Percentage of initial disbursements made within 5 days of loan closing	NA	95%	95%	95%	95%

**FY 2004 BUDGET SUMMARY**

*(Dollars in Thousands)*

	FY 2002 Actual	FY 2003 Request	FY 2004 Request
<b>Salaries and Expenses</b>	\$ 490,191	\$ 508,721	\$ 503,789
<b>Disaster Assistance</b>			
Disaster Loan Making	\$ 94,369	\$ 81,089	\$ 80,203
Disaster Loan Servicing	26,495	30,694	27,797
Disaster Loan Subsidy-Regular	123,871	76,140	89,109
Disaster Loan Subsidy-Economic Losses	86,825	39,241	0
Disaster Loan Subsidy-Physical Losses	6,358	2,575	0
Subtotal	\$ 337,919	\$ 229,743	\$ 197,109
<b>Business Loans:</b>			
Microloan Direct	\$ 1,116	\$ 3,465	\$ 1,630
Section 7(a) Guaranty	99,367	85,360	94,860
Section 7(a) Guaranty-STAR	29,701	45,290	0
Section 7(a) Guaranty-DELTA	17	480	0
Section 504 CDC Guaranty-DELTA	0	26	0
Microloan-Guaranty	37	168	0
New Market Venture Capital Program	2,713	9,894	0
Subtotal	\$ 132,906	\$ 144,683	\$ 96,490
<b>Office of the Inspector General</b>	\$ 12,427	\$ 15,536	\$ 15,000
<b>Surety Bond Guaranty Program</b>	\$ 0	\$ 0	\$ 0
<b>Total Funds Available</b>	<b>\$ 973,497</b>	<b>\$ 898,683</b>	<b>\$ 812,388</b>
<i>Less:</i>			
<i>Carryover from Prior Year</i>	(223,120)	(111,188)	0
<i>Fee Income, Gainsharing, Reimbursables</i>	(6,005)	(7,500)	(4,500)
<i>Recoveries</i>	(32,617)	0	(10,000)
<i>Plus:</i>			
<i>Carryover into Next Year</i>	197,003	13,489	0
<i>Lapsed Funds</i>	9,271	0	0
<i>Rescinded Funds</i>	485	0	0
<b>Total New Budget Authority</b>	<b>\$ 918,029</b>	<b>\$ 793,484</b>	<b>\$ 797,888</b>
<b>Loan Programs:</b>			
Microloan Direct Program	\$ 16,460	\$ 26,553	\$ 17,068
Section 7(a) Guaranty	9,286,636	4,850,000	9,300,000
Section 7(a) Guaranty -STAR	1,779,057	2,544,382	0
Section 7(a) Guaranty-DELTA	983	20,000	0
Section 504 CDC Guaranty	2,466,993	4,500,000	4,500,000
Section 504 CDC Guaranty-DELTA	0	2,955	0
Microloan-Guaranty	453	2,000	2,000
New Market Venture Capital Program	18,749	63,997	0
SBIC-Participating Securities	1,300,145	4,000,000	4,000,000
SBIC-Debentures	411,150	3,000,000	3,000,000
Disaster Assistance-Regular	844,383	544,635	760,316
Disaster Assistance-9/11 Economic	374,892	169,142	0
Disaster Assistance-9/11 Physical	43,347	18,420	0
<b>Total Loan Program</b>	<b>\$ 16,543,248</b>	<b>\$ 19,742,084</b>	<b>\$ 21,579,384</b>
<b>Surety Bond Guarantees</b>	<b>\$ 1,672,000</b>	<b>\$ 1,672,000</b>	<b>\$ 1,672,000</b>

## NON-CREDIT PROGRAMS AND INITIATIVES<sup>1</sup>

*(Dollars in Thousands)*

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) FY 2003 Request
<b>Executive Direction</b>				
Advocacy Database and Analysis	\$ 1,095	\$ 1,100	\$ 1,100	\$ 0
National Ombudsman	362	500	500	0
National Women's Business Council	729	750	750	0
Veterans Outreach	617	750	750	0
White House Conference	0	1,500	0	(1,500)
<b>Gov. Contracting/Business Development</b>				
7(j) Technical Assistance Program	3,189	3,600	3,600	0
BusinessLINC	1,800	0	0	0
Pro-Net	160	500	500	0
SBIR Technical Assistance	450	500	500	0
SBIR - FAST	2,700	3,000	3,000	0
Small Disadvantaged Businesses	1,127	1,500	1,500	0
HUBZones Program	1,618	2,000	2,000	0
<b>Entrepreneurial Development</b>				
SBDC Grants	90,100	88,000	88,000	0
Drug-Free Workplace	2,718	3,000	3,000	0
SCORE Program	5,010	5,000	5,000	0
Business Information Centers	462	475	475	0
One Stop Capital Shops	11	0	0	0
Native American Outreach	0	1,000	0	(1,000)
Women's Business Centers	12,000	12,000	12,000	0
Women's Business Census	694	0	0	0
<b>Capital Access</b>				
US Export Assistance Centers	2,691	3,100	3,100	0
Microloan Technical Assistance	17,742	17,500	15,000	(2,500)
PRIME Technical Assistance	4,500	0	0	0
New Market Venture Cap. Tech. Asst.	3,756	0	0	0
Microloan Training	0	261	280	19
Gainsharing	0	3,000	0	(3,000)
Congressional Initiatives	30,000	0	0	0
<b>Total</b>	<b>\$ 183,531</b>	<b>\$ 149,036</b>	<b>\$ 141,055</b>	<b>\$ (7,981)</b>

<sup>1</sup> This table details the funding for counseling, training, and developmental programs that support full access to and utilization of the business loan programs

The SBA Performance Scorecard shows that programs often support more than one of SBA's outcome goals. For example the 7(a) loan guarantee program helps start small businesses (outcome goal 2.2), increases the opportunities for others to grow (outcome goal 2.3), and increases employment (outcome goal 2.1). SBA's annual performance plan therefore uses programs as its fundamental unit of analysis.

Chapter Three, "Results for Our Customers," will present SBA's strategy for using programs to achieve outcome goals and an integrated performance plan and budget request for each of SBA's programs. Performance goals and the full cost of operations will be specified for each program. SBA uses an activity based costing (ABC) model to estimate the full cost of programs. The program cost estimates generated by the ABC model include direct program costs, the cost of field office support to programs, and the cost of overhead and executive direction.

Chapter Five, "The Budget to Program Crosswalk," provides the link between the traditional organization-based budget request and the estimated cost of programs generated by SBA's activity based costing model.

SBA's presentation of program performance goals with the full cost of program operations achieves the President's goal of a transparent budget request. The Congress and the American people are informed of exactly what results will be produced for the requested funding level.

### **FY 2004 Budget Request Overview**

SBA's FY 2004 requested budget is \$797.9 million. This request will enable SBA to fund its minimum operating expenses, maintain its current staff level, and make carefully targeted investments. The requested increase in the loan program subsidy is set to respond to increasing demand for credit program levels.

SBA requests \$504 million for Salaries and Expenses in FY 2004. The Non-Credit Programs and Special Investments component of this request amounts to \$141 million, leaving \$363 million for SBA's operating budget. SBA's operating budget is discussed in more detail below. Included in the requested funds for salaries and expenses is \$21 million for investment in initiatives that will improve operational efficiency and service to customers. This investment will fund key projects that will lower costs over the long term, such as the implementation of electronic applications, information technology security, and space restructuring. SBA needs to invest in transformation to realign its organization and operations to better serve customers. SBA must also invest in program evaluations to determine the effectiveness of its products and services. Like any business, SBA will not be able to serve its customers without making strategic investments in infrastructure and human capital.

### **Operating Budget**

One of the most critical issues facing SBA is the continued decline of the Agency's operating budget. SBA's operating budget is the annual amount of the salaries and expense appropriation that remains after non-credit programs and special initiative line items are funded. Over the last five years, from FY 1997 to FY 2002, SBA's operating budget has increased 17 percent, from \$262 million to \$307 million. However, this overall increase is substantially less than the 31 percent increase in compensation and benefits costs, from \$175 million to \$229 million, over that same period. SBA has incurred increased compensation and benefits costs despite the fact that the agency reduced its staff level by approximately 200 employees in the same period. SBA's operating budget, taking into account the increased costs of compensation and benefits, has thus decreased from \$87 million in FY 1997 to \$78 million in FY 2002. This is a \$9 million, or 11 percent, decrease over the five year period.

Increases in fixed costs have further reduced SBA's operating flexibility. Rent expenses increased by 15 percent, from \$27 million in FY 1997 to \$31 million in FY 2002. The transit subsidy which did not exist in FY 1997 comprised nearly \$800,000 of the operating budget in FY 2002.

SBA has offset a portion of these cost increases by saving in areas such as telecommunications and postage. Since FY 1998, telecommunications decreased by approximately \$1.6 million and postage by \$2.1 million. Nevertheless, the net effect of a reduced operating budget has been a dramatic reduction in the Agency's spending for program and employee support. For example, the centralized training budget, which is a critical investment in SBA's human capital, was reduced from \$1.7 million in FY 1997 to \$700,000 in FY 2002, a decrease of 59 percent. The FY 2004 request includes \$2.675 million for centralized training. SBA also reduced travel expenses from \$5.9 million in FY 2000 to \$3.9 million in FY 2002 and projects an additional reduction to \$3.8 million in FY 2004. Further reductions in its operating budget would severely reduce SBA's ability to accomplish its mission. The FY 2004 Budget Request and Performance Plan reflects a reasonable level of funding needed to accomplish SBA's mission and strategic management goals.

### **Investment Initiatives**

To better serve customers, improve efficiency, and fully implement the President's Management Agenda, SBA requires funding dedicated to new investments in infrastructure, technology, and human resources. SBA requests \$21,075,000 in FY 2004 for new initiatives that will allow the Agency to accomplish its strategic goals. A description of the requested investment initiatives follows.

### **Human Capital Planning Initiatives**

SBA's transformation plan defines the strategic management actions that are needed over the next five years to align our human capital, operations, and organization with the needs of small businesses. This effort responds to the President's Management Agenda call to strategically manage the Agency's human capital.

SBA requests \$1,325,000 to invest in the training and development of, and succession planning for, its workforce to ensure it has trained staff with the right skills located at the right places to serve its small business customers.

SBA is changing how its field offices serve small businesses. It is planning to shift district office efforts from "back office" functions such as loan purchases and liquidation functions to establish more direct relationships with customers and resource partners. Districts will use outreach, marketing, and customer and resource partner relationship management to ensure they know and meet small business needs. The new approach will empower SBA to serve more small businesses.

SBA will test these new concepts through pilot projects in selected district offices to ensure the new methods achieve the intended results. Upon evaluation, SBA will incrementally expand the successful practices to more offices until all of SBA has been transformed. SBA has carefully negotiated the components and the implementation of the pilots with our union, and anticipates the pilots will begin in FY 2003 and continue through FY 2005. SBA requests \$600,000 to continue implementation of pilot programs in FY 2004.

### **Improving Business Processes**

SBA requests \$2.3 million to modernize and streamline business processes to reduce costs and to improve customer service. SBA will analyze critical business processes of districts and loan servicing centers and will identify improvements which may involve systems efforts, business process changes, or privatization.

To improve basic infrastructure support for these new processes and the pilot efforts discussed above, SBA requests \$1,720,000 for necessary communications, software licenses, and related information technology (IT) support.

### **Space Restructuring**

Without a significant investment in space restructuring, SBA will continue to be located in office space that in many places is overly expensive and underutilized. Too many SBA offices are in high rent districts that are far from our customers. Restructuring SBA's office space requires an investment in facilities redesign and moving costs. SBA requests \$2,750,000 for this initiative. Over the next several years, this investment will be recovered through reductions in rent payments.

### **Program Evaluations**

SBA requests \$850,000 to conduct evaluations of key programs, which will enable SBA to determine how successful its programs are in meeting the needs of small business. SBA will use program evaluations to assess the impacts of Agency programs on small businesses and the economy. Without this funding, SBA will have difficulty meeting the standards of the Government Performance and Results Act (GPRA) and Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART).

### **Assisting Business Compliance with Government Regulations**

SBA will invest \$5 million to make it easier for small businesses to comply with state and Federal laws and regulations, which are too burdensome for American businesses. Research contracted by SBA's Office of Advocacy demonstrates that the total annual cost of complying with federal regulations is \$843 billion. Of that total, \$497 billion falls directly on businesses and \$346 billion falls on consumers or other governments. Moreover, for small firms with fewer than 20 employees, the annual regulatory burden is nearly \$7,000 per employee—approximately 60 percent more than large firms with more than 500 employees.<sup>1</sup>

SBA will create and implement a Business Compliance Assistance One-Stop website with assistance from its agency resource partners. This website will save businesses time and money by making it easier to comply with laws and regulations. SBA and its resource partners will use the funds to build compliance assistance expert tools and to establish on-line processes and business registrations/transactions with government. This initiative is a crucial part of the President's E-Government initiative and has cross-agency support.

### **Information Technology Security**

SBA requests \$4.3 million for the operation and enhancement of its IT security program. SBA is a systems-intensive organization with demanding IT security requirements. SBA will continue implementing the Agency's public key infrastructure (PKI) architecture required by the E-Government/E-Authentication initiative and will expand the effort to include SBA lending resource partners. Planned IT security infrastructure improvements will increase the Agency's security monitoring, detection, and reporting capabilities, thereby assuring information integrity and security.

### **Electronic Grants System**

SBA requests \$600,000 to create an electronic grant system. Public Law 106-107 requires the SBA to implement a plan by October 31, 2003 that would simplify the application, administration and reporting process for the financial assistance programs that the Agency administers. By creat-

<sup>1</sup> W. Mark Crain and Thomas D. Hopkins, *The Impact of Regulatory Costs on Small Firms*, (2001).

ing and implementing an electronic grant program, SBA will enable grant applicants to electronically apply for, and report on the use of grant funds. By using electronic and Internet tools as a means of service delivery, SBA will reduce the time and expense that the public spends doing grant business with the Agency. In order to move this project forward, SBA has created an eGrants team. The SBA eGrants team members will seek input from the Agency's grantees to identify and establish goals and objectives that will lead to a more efficient method and less burdensome process for receiving and processing grant applications utilizing technology. The SBA eGrants project will transform the entire "grant life cycle" from announcement to completion and closure of the grant process. As required by P.L. 106-107, the eGrants team will cooperate and coordinate with other agencies' efforts in the e-grants cross-agency initiative.

### **Competitive Sourcing**

SBA requests \$500,000 to examine all of its activities to determine whether private-sector entities could better perform any of its commercial functions. This effort will involve a detailed analysis of human capital, position descriptions, operations, and processes which must be thorough, objective, and fully compliant with OMB Circular A-76. Since SBA lacks the in-house expertise to perform this task, SBA will use the requested funds to secure consulting services from firms with expertise in the conduct of competitive sourcing.

### **E-Tran Gateway for Loan Applications**

SBA requests \$330,000 to implement a system in which SBA lending resource partners electronically submit SBAExpress (and eventually all) loan guaranty requests. Volunteer lenders have already tested this system. Using the web application, SBA accepted and approved over 100 SBAExpress and Preferred Lender Program (PLP) applications. SBA lending resource partners will customize their own internal software to extract SBA's required data from their systems. They will send the data to SBA via E-Tran. This initiative will expedite and simplify the SBA loan guaranty approval process.

### **Surety Bond Guarantee Web Application**

SBA requests \$340,000 to create a system that will enable surety agents to submit surety bond guarantee applications on behalf of small businesses and to file claims through the Internet. Facilitating electronic applications and claims processing will improve productivity and greatly reduce the paperwork burden for small businesses. Through improved customer service, SBA expects an increase in the participation of surety agents and small businesses.

### **The E-Business Institute (EBI)**

SBA requests \$260,000 to develop an Internet-learning portal, operating like a virtual university, which offers online courses, workshops, seminars, information resources,

learning tools and direct access to electronic counseling, community learning environments and other forms of technical assistance. It will support small business customers, Agency resources, district offices, other agencies and SBA employees. EBI is designed to reach a broader base of small business clients more efficiently and more effectively. SBA will additionally develop an electronic student counseling program, as well as business content publications and information.

### **8(a) Business Development Program Internet Application**

SBA requests \$200,000 to implement and maintain an Internet 8(a) application system. Applicants find the current 8(a)/Small Disadvantaged Business application process to be cumbersome and time consuming. The goal of the electronic 8(a)/SDB application is to significantly reduce application processing time without sacrificing review quality or program integrity. The application will be Internet/Intranet based. The new process will provide basic application analysis capability and a tracking tool. It will create a simple, customer friendly format that can be completed by the applicant without the need for professional assistance. Decision logic, similar to the HUBZone program application, will reduce the time required for staff analysis and processing. SBA will use the \$200,000 for ongoing maintenance and continued development of the system, which will be implemented in FY 2003.

### **FY 2002 Accomplishments**

The funds requested in the FY 2004 Budget Request and Annual Performance Plan will allow SBA to build upon its record of achievements. SBA's FY 2002 accomplishments included:

**Responding to the 9-11 Tragedy.** SBA played a major role in helping Americans recover from the effects of terrorist attacks. As of September 1, 2002, SBA had made over \$885 million in disaster loans to 9,300 businesses with more than 148,000 employees. SBA initiated the Supplemental Terrorist Activity Relief (STAR) program which helped 3,196 small businesses with \$1.1 billion in loans. The SBA's Entrepreneurial Development resource partners, particularly the Small Business Development Centers (SBDC) and Service Corp of Retired Executives (SCORE), also supported the recovery effort.

**Expanding SBAExpress Program.** SBA implemented changes to the SBAExpress pilot program to significantly expand the number of lenders participating in the program. The expansion allowed an estimated 2,400 experienced lenders to participate in a streamlined program expanding the availability of small business credit nationally. In addition, many new small and rural lenders will be able to make loans to serve small businesses in remote areas.

**Conducting First Ever SBA Procurement Matchmaking Event.** In partnership with the U.S. Chamber of Commerce and as part of the Annual Industry/SBA Procurement Conference, SBA organized its first Matchmaking Event to allow small businesses to market their services directly to agencies and private industry firms. Approximately 400 small businesses attended the event and met with 20 Federal agencies and 17 large corporate prime contractors. As a result, buyers and small businesses conducted over 1,000 meetings.

**Adjusting Revenue Based Size Standards.** SBA increased the revenue-based size standards to account for inflation for the first time since 1994. Over 8,500 small businesses employing almost one million Americans had previously been unable to access SBA programs, not because of their growth, but because Federal size standards had not kept in step with the changing market.

**Expanding the Office of Advocacy's Efforts on Behalf of Small Businesses.** In FY 2002, the Office of Advocacy saved small businesses \$21.1 billion in forgone regulatory costs through intervention in the legislative, rulemaking and policymaking processes of the federal government.<sup>2</sup>

**Reinvigorating the Office of the National Ombudsman.** SBA increased the number of RegFair hearings from four in 2001 to 22 in 2002 and held more than 10 emerging markets meetings to introduce the services of the Office of the National Ombudsman to women, minority and veteran small business owners. The number of small business comments has increased over tenfold from 22 in FY 2001 to 262 in the first 10 months of FY 2002. The newly-designed and interactive Ombudsman web site received over a million hits during FY 2002.

**Creating the award winning Business.gov and BusinessLaw.gov web portals.** During FY 2002, SBA's efforts with the Business.gov and BusinessLaw.gov portals received the following awards:

- On January 30, 2002, the Businesslaw.gov site was named one of the top 25 cross agency Internet Services for business at the Excellence in Government Procurement Conference held at the Reagan International Trade Center in Washington, DC.
- On March 20, 2002, the CIO Council awarded the BusinessLaw.gov team the Showcase of Excellence award as the best of the Government-to-Business (G2B) Internet web services among 16 finalists at the FOSE Convention.
- On June 25, 2002, at the E-Gov National Conference, SBA was given the Pioneer Award for BusinessLaw.gov, reflecting belief that the Internet can be used as a tool to improve our delivery of customer service and change the way SBA works.
- In its spring issue, Forbes magazine named the U.S. Business Advisor (<http://www.business.gov>) "Best of the Web" services for entrepreneurs (one of 3 web sites), an award given in part for the legal and regulatory information provided via BusinessLaw.gov. The U.S. Business Advisor site is the parent platform, database, and administrative architecture for BusinessLaw.gov.

<sup>2</sup> In FY 2002, revisions made by EPA to its Cross Media Electronic Reporting and Record-Keeping Rule (CROMERRR) resulted in an estimated savings of \$18 billion. This is an extremely unusual and unpredictable event. Although a valid cost savings, by its magnitude, CROMERRR is an aberration. Excluding CROMERRR, Advocacy's interventions in FY 2002 resulted in over \$3.8 billion in first-year cost savings.



## **Part I**

### **FY 2004 PERFORMANCE PLAN**

# Chapter Two

## Strategic Management Goals for Improving Performance

The current economic environment has created an increased need for SBA's current services, delivered in a more effective and efficient manner. As big businesses lay off employees and downsize a tremendous cadre of entrepreneurial potential has been released. Employees with innovative ideas will form new companies and join existing companies, developing important new products both for our economy, and our national security. This is the competitive environment where the next Intel will be created.

This entrepreneurial potential is important not only for our national security, but for our economic security. Already, small businesses create two-thirds of the net new jobs in our economy and employ half the private sector workers. SBA has a tremendous, unique opportunity to make a significant impact immediately on new and existing small businesses. Millions of Americans want to know how to get started, how to expand their business, how to access capital, venture capital and government contracts. The net of it is: new businesses equals new jobs which leads to a stronger economy.

Small businesses want information and access from SBA now, 24/7, fast and simple. They deserve a customer-based, market-driven, results-oriented agency. It is SBA's responsibility to not only meet these expectations, but also to leverage its position as the "go to" for America's small business to anticipate the developing needs of entrepreneurs.

SBA's three strategic goals cut across organizational boundaries. Achieving these goals will leverage resources, improve the efficiency of service delivery, and dramatically improve performance across the agency.

- Transforming SBA to meet the changing needs of small business.
- Marketing SBA to all 23 million small businesses in America.
- E-SBA: Creating a powerful, customer-centric, virtual SBA.

SBA's strategic management goals will achieve increased performance across SBA's entire range of programs by integrating cross-agency initiatives to maximize leverage of current relationships and resources.

### The Process

SBA will use the agency-wide integrated strategic management goals to focus on program innovation, simplification, and employee dedication, while holding programs and employees accountable for delivering and improving measurable results.

The Administrator of the SBA believes in managing the Agency like a business, with clearly defined goals and objectives and timelines that hold people accountable. To define those goals the SBA embarked on a strategic planning process led by the Deputy Administrator. The Deputy Administrator held in depth meetings with every program office to identify their key strategic goals. The results of the program strategic reviews were presented to the Administrator during a management retreat. Based on the needs of small business and program priorities, SBA's senior leadership identified the three strategic management goals mentioned above. The Administrator approved the initiatives as the capstone of SBA's reform effort.

In FY 2003 SBA's focus will be on execution. Our approach to execution is based on the principle that what gets measured gets done. Therefore SBA created the Execution Scorecard. The Execution Scorecard is an intranet based system that tracks performance data and progress on key initiatives. It is the internal management tool that provides data for monthly progress reviews with the Deputy Administrator. This tool will enable senior management to take decisive action to ensure initiatives are completed on time and within budget.

### Transform SBA

The Transform SBA initiative will be implemented through a strategic and incremental process involving pilot locations and projects—expanded to the full organization in a deliberate and thoughtful manner after thorough evaluation and adjustment—starting at the beginning of FY 2003. Major components of the plan include:

- Competitively sourcing commercial activities leading to most efficient and effective operations—whether performed by the SBA or private-sector contractors.
- Consolidating credit administration and management activities and 8(a) review activities that are considered "backroom" activities into centralized locations using a high degree of automation to increase efficiencies of process, improve customer service, and make additional front-line resources available for direct customer support and delivery of programs.
- Enhancing SBA's management and support of small business customers and partners through implementation of customer and partner relationship models and concepts leading to more comprehensive and effective small business support. This includes eliminating traditional program "stove-pipes" and better integration of all programs and delivery systems through 1-stop shops and/or supply chain management techniques.

- Increasing the authorities, responsibilities, decision-making, and management of field offices through better integration of regional offices into field program delivery and management; through realignment of surety bond and GC/BD activities with the field organizational structure; through designation of senior career management officials in each regional office to assist with program and operational management; and through delegation of program oversight and administration of ED programs to field offices. Responsibility for lender oversight and risk management of the loan portfolio will be further centralized at Headquarters.
- Realigning, over time, SBA's staff nationwide to expand their reach into local communities and to provide closer coordination with SBA's resource partners through the use of storefronts, 1-stop centers, consolidation with partners, and various telecommuting arrangements.
- Completing comprehensive assessments of the skills required of SBA staff to be successful in implementing the necessary small business programs and services in the 21st Century. Completing an inventory of current employee skills. Developing the training curriculums necessary to address identified "gaps." Delivering the training in a cost effective and efficient manner, including the use of video training, internet training, and on-site training.

### **Marketing SBA**

The mission of SBA's strategic marketing initiative is to develop a consistent and comprehensive marketing strategy that increases awareness and utilization of SBA programs and services.

The initiative is split into three major objectives:

- Fully leverage existing resource partners to maximize service delivery and brand development.
- Improve and expand the strategic use of co-sponsorships and a coordinated master calendar to improve program delivery.
- Use the best practices of the private sector to complete research on the needs of today's 23 millions small business, and their future needs.

The results of this initiative will inform the SBA's transformation plan.

### **E-SBA**

The goal of SBA's e-SBA initiative is to innovate the delivery of SBA products and services by maximizing E-government potential resulting in a virtual SBA delivering products and services when small businesses need them: 24/7.

SBA will implement technology solutions to reengineer business processes resulting in the transition to virtual workloads that can be managed and administered centrally, allowing for the full use of available technical and expert staff at any location and at any time nationwide.

Redesigned business processes will include expert tools that guide customers through processes interactively, and provide for immediate and on-going follow-up and status reporting. Per unit costs of transactions will decrease; customer and partner response times will decrease; and customer and partner satisfaction will increase. These activities, coupled with further delegations to partners and continued asset sales, will result in a more efficient and effective administration of backroom activities and better utilization of limited staff and resources to serve small business customers.

### **Specific Outcomes**

SBA anticipates that the full implementation of these strategic changes will yield long-term results. Some examples include:

- "24/7" service to small business.
- Customer and data driven program and strategy development.
- Expanded in-person and Internet outreach to the more than 20 million small businesses not currently utilizing SBA services.
- Uniform rules for loan approval, purchase reviews, partner and lender oversight.
- Internet-accessible common applications for 8(a), HUBZone, and other SBA programs.
- Reduced district personnel involved in "backroom" operations, releasing more employees for service delivery, marketing and outreach.
- Enhanced impact at the local level, as SBA is able to integrate and coordinate the efforts of its resource partners for SBA clients and on state specific issues.
- Improved oversight of SBA lenders through centralization.
- Improved oversight of technical assistance resource partners by district offices.
- Decreased per unit cost for delivering SBA services, such as SBA's 7(a), 504, 8(a) and HUBZone programs, as measured through SBA's cost allocation survey.

### **Relationship to President's Management Agenda**

SBA's strategic management goals were developed to innovate the delivery of Agency services and to respond to

the evolving needs of the Nation's small business community. The President's Management Agenda (PMA) is specifically addressed as follows:

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

**Competitive Sourcing** — SBA's Transformation Plan supports all elements of this PMA through: identifying commercial activities; conducting business process reviews; and identifying and implementing more efficient and effective business practices, including using the private-sector in more areas, as appropriate.

**E-Government** — SBA's Transformation Plan supports all elements of this PMA through: testing e-tran, an electronic loan application, as part of its initial pilot effort; and identifying and implementing additional electronic and technology improvements to enhance services.

**Budget and Performance Integration** — SBA's Transformation Plan supports all elements of this PMA through: identifying and implementing performance-based agreements between employees and management to focus attention on results; through providing resources based on anticipated results; and through developing appropriate measures and conducting regular monitoring of results against resources in pilot locations.

**Improve Financial Performance** — SBA will meet the President's objectives in this item by increasing the timeliness of its reporting, improved accuracy of financial information, and implementation of a robust loan monitoring system.

# Chapter Three

## Results for Our Customers

### Introduction

SBA accomplishes its mission by focusing on three strategic programmatic goals — being the champion of small business interests; empowering entrepreneurs; and helping families and businesses recover from disasters. In accordance with the Government Performance and Results Act (GPRA), this chapter is SBA's FY 2004 Performance Plan. The chapter details the results each of these goals will produce for small businesses by demonstrating how SBA's programs support the Agency's general goals and identifying specific performance targets for each program. The chapter covers the following topics for each goal:

- Outcome Goals
- Strategy (including Resource Partnerships and Cross Cutting Issues, and External Factors)
- Program Analysis (Resource and Results Analysis for each program)
- Inspector General (IG) and Government Accounting Office (GAO) Management Challenges

### STRATEGIC GOAL ONE:

#### Champion Small Business Interests

Small businesses support the Nation's production capacity, stimulate innovation, and create jobs. SBA's success rests upon its ability to help small businesses stimulate economic growth and break down barriers to free competition. In short, small businesses need a champion to ensure that the burden of government regulation does not stifle their ability to succeed in the marketplace, to provide easy-to-access information about how to comply with government regulations, and to ensure that the regulatory process treats small businesses fairly.

The following table shows how SBA's programs champion on small business interests. It illustrates the connection between the outcome goals that reflect the positive results, effects, or consequences of SBA programs on small business and the more specific performance goals of relevant SBA programs.

### Strategy

The Office of Advocacy, the Office of the National Ombudsman and SBA's E-government initiative, BusinessLaw.gov, each have a role in championing the interests of small business.

The Office of Advocacy works to ensure that Federal government policies and regulations do not impose an unnecessary or disproportionate burden on small entities. It also produces research that informs public policy debate on the effect of laws and regulations on small businesses.

SBA provides small businesses with information about how to comply with laws and regulations through its website BusinessLaw.gov, an on-line resource guide designed to provide relevant legal and regulatory information to America's small businesses.

The Office of the National Ombudsman (ONO) relieves small businesses of excessive Federal regulatory enforcement actions. Such enforcement actions include repetitive audits or investigations; abusive fines, penalties, threats, retaliation; or other unfair enforcement action taken by a Federal agency.

The Office of Advocacy and ONO share a similar goal of reducing the overall regulatory burden for small businesses but have distinct roles in achieving such reductions. The Office of Advocacy represents small business in the rule-making and legislative process, while ONO works to ensure small businesses are treated fairly during the Federal regulatory enforcement process.

### Championing Small Business Interests Goals and Programs

Outcome Goals	Performance Goals	Programs
1.1 Minimize the regulatory burden on small business	1.1.1 Cost savings for small businesses due to the efforts of the Office of Advocacy	Advocacy
1.2 Provide small businesses with easy access to information about how to comply with regulations	1.2.1 Number of users of BusinessLaw.gov	BusinessLaw.gov
	1.2.2 Reduced cost to businesses and regulatory agencies	
	1.2.3 Increased rate of compliance	
1.3 Ensure that small businesses are treated fairly in the regulatory enforcement process	1.3.1 Increased compliance assistance	National Ombudsman
	1.3.2 Decreased excessive enforcement	

## Resource Partnerships and Cross Cutting Issues

Serving as a champion for small business, reviewing agency regulatory proposals for small business impact, and serving as the guardian for regulatory and procurement fairness requires close collaboration with major Federal agencies. The Office of Advocacy monitors and comments on the regulatory proposals from all Federal agencies that affect small business, as well as Administration policies and Congressional initiatives. ONO, by statute, works with all Federal regulatory agencies covered under the Small Business Regulatory Enforcement Act (SBREFA) to effect changes in Federal regulatory compliance and enforcement processes in order to reduce the negative impact on small businesses.

### External Factors

A critical success factor for ONO is developing productive public-private sector resource partnerships and establishing collaborative relationships with trade associations. Success for the Office of Advocacy depends upon increasing interaction and responsiveness by Federal agencies to Advocacy requests for fair consideration of small entities during the regulatory rulemaking process.

### Program Analysis

The following is an analysis of the results that SBA programs achieve and the resources required to provide these benefits.

### Advocacy

The Office of Advocacy serves as an independent voice for the interests of small business through statutorily mandated involvement in the regulatory process and through producing research products that articulate the role of small business in the economy. The Office of Advocacy advances the views, concerns and interests of small business

before Congress, the White House, Federal regulatory agencies, Federal appellate courts (as an amicus curiae) and state policy makers.

### Advocacy Results Analysis

In 2003, the Office of Advocacy will launch its education and training program for Federal agency personnel with regard to their compliance with Executive Order 13272.<sup>3</sup> This action will facilitate greater communication between Advocacy and Federal agencies continue to bring about substantial cost savings to small businesses, and assist the fair treatment of small businesses during the regulatory rulemaking process. Moreover, Advocacy expects its research studies on behalf of small business will continue to help create a more small business-friendly entrepreneurial environment.

In FY 2002 the Office of Advocacy saved small businesses an unprecedented \$21.1 billion in potential costs of regulation. The bulk of the cost savings were due to revisions made to the Cross Media Electronic Reporting and Record-Keeping Rule (CROMERRR) by the Environmental Protection Agency which resulted in an estimated savings of \$18 billion. This is an extremely unusual and unpredictable event and, although a valid cost savings, its sheer magnitude makes it an aberration and therefore it should not be used in any performance or target calculation. Excluding CROMERRR, the Office of Advocacy's FY 2002 cost savings were \$3.1 billion, excluding ongoing annual cost savings.

### Advocacy Resource Analysis

SBA plans to continue its commitment to the program's of the Office of Advocacy. Over the last few years the Office of Advocacy has lost staff through attrition. Due to the demonstrated success and potential of this program, SBA plans to fund the Office of Advocacy at approximately 50 employees, the staff level prior attrition losses. The increased program cost estimates for FY 2003 and FY 2004 reflect the costs of the additional staff.

## Advocacy Results and Resources

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Target	FY 2004 Target
<b>Performance Indicators</b>						
Regulatory Cost Savings to Small Business <sup>1</sup>	\$5.3B	\$3.6B	\$4.4B	\$21.1B <sup>2</sup>	\$4.0B	\$4.5B
Research Publications	10	25	17	18	15-20	15-20
Program Cost Estimate (\$000)	\$6,168	\$7,126	\$7,175	\$7,780	\$9,709	\$11,239
Cost per \$1 million in Savings	\$1,169	\$1,979	\$1,632	\$368	\$2,427	\$2,497

<sup>1</sup> The Office of Advocacy has revised its estimates of FY 1999 costs to \$5.3 billion, up from the \$4.3 billion that was reported in SBA's FY 2002 Performance and Accountability Report.

<sup>2</sup> The \$21.1B total is an anomaly as explained in the results analysis section.

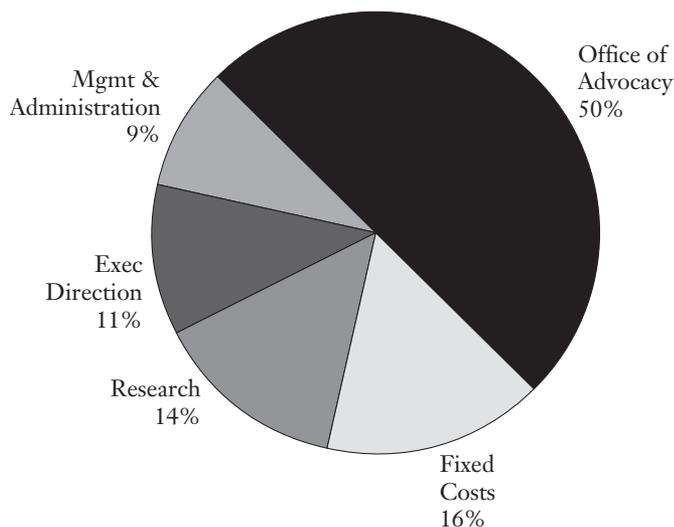
<sup>3</sup> Executive Order 13272. "Proper Consideration of Small Entities in Agency Rulemaking," requires agencies to establish policies and procedures for complying with the Regulatory Flexibility Act, and requires the Office of Advocacy to issue periodic guidance on how to comply and to provide agency training.

The costs of the Office of Advocacy accounted for 50 percent or \$3.9 million of the program cost in FY 2002. This represents the costs to maintain the small business database, provide information to the public, identify and reduce capital access barriers, improve agency compliance with the Regulatory Flexibility Act, ensure small business participation in the regulatory and legislative process, and improve coordination between Federal and state regulatory agencies. Funding for economic research amounted to \$1.1 million, or 14 percent, of the total cost. This level of funding for economic research is mandated by Congress and may not be used for other purposes. SBA's executive direction support, for the Office of Advocacy was 11 percent of the cost, or \$0.8 million. Fixed costs which include rent, telecommunications, and other costs were 16 percent of the cost, or \$1.2 million. Human resource, information technology and procurement support by Management and Administration accounted for 9 percent of the cost, or \$0.7 million.

of complying with laws and regulations is nearly \$500 billion and approximately 7 billion hours of otherwise productive time each year. The volume of existing laws (i.e., over 140,000 pages in the Code of Federal Regulations), expense of finding nearly inaccessible information (i.e., roughly \$7,000 per employee in firms with less than 20 employees), multi-jurisdictional systems, and lack of smart online tools contribute to this overwhelming cost. Small businesses say that paying taxes, hiring and managing employees, and licensing/permitting are most problematic.

As the general manager for one of the Administration's 24 cross-agency E-government initiatives, SBA is transforming BusinessLaw.gov into a business compliance one stop (BCOS). This portal will reduce the burden on business owners by making it easy to find, understand, and comply with the governmental laws and regulations that impact their daily operations.

**Advocacy  
FY 2002 Cost Components**



**BusinessLaw.gov/BCOS Results Analysis**

Currently, there are 170,000 accesses to BusinessLaw.gov website each week. The introduction of the BCOS will improve the services offered to small businesses. By providing quick access to information about laws and regulations, compliance assessment tools, and selected online transactions, BCOS will permit business owners to save an estimated \$400 million annually. BCOS will offer a single point of access – a "single face of government" – to the applicable laws and regulations that affect small businesses.

Using Businesslaw.gov as its platform and starting point, SBA is building BCOS through a team of 9 federal agencies, 6 states, and private sector contractors. BCOS is incorporating best practices from the private sector to build functioning prototypes that can be created once and shared many times throughout the country – e.g., navigation aids, search engines, profilers, expert tools, and transaction engines (e.g., National business registration, credential, licensing, and permitting.) In FY 2002, the BCOS team piloted a navigation tool, completed several digital compliance assistance guides, and prototyped a state ID and Federal Employee Identification Number FEIN application.

**BusinessLaw.gov/Business Compliance  
One Stop**

To comply with regulations, Americans spent approximately \$843 billion on 2000. The cost to business owners

<b>BusinessLaw.gov/ BCOS</b>	<b>FY 2002 Actual</b>	<b>FY 2003 Goal</b>	<b>FY 2004 Goal</b>
<b>Performance Indicators</b>			
Number of Users	170,000/week	200,000/week	250,000/week
Reduced costs to businesses and regulatory agencies	\$20M	\$275M	\$275M
SBA Administrative Cost Estimate (\$000)	\$402	\$431	\$431
Investment Initiative (\$000)		\$5,000	\$5,000
SBA Cost per User	\$0.04	\$0.52	\$0.38

BCOS focus is on four functional areas (i.e., environment, workplace health and safety, employment, and taxes) and several industries (e.g., truckers, miners, and food). BCOS functions will include registering a business, getting a tax ID number, receiving electronically an employer identification number, applying for credentials and licenses, and filing for permits.

In completing an online FEIN application for businesses, the BCOS team has saved an hour of time for each one of the approximately 4 million businesses seeking Employer Identification Numbers. This equates to a cost savings for small businesses of at least \$180 million.

### **BusinessLaw.gov/BCOS Resource Analysis**

In FY 2004, SBA plans to continue to develop and deploy the third year of the Compliance One Stop, requesting \$5 million of the \$11 million total project requirement. The money will be used in five categories: General Project Management (\$700,000), Portal Development and Maintenance (\$350,000), Legal and Regulatory Information (\$550,000), Compliance Assistance Digital Guides (\$1,300,000), and creating Business Transactions for the licensing and permitting in the food and chemical industries (\$2,100,000). SBA plans to fund the administrative costs at approximately the same level as in FY 2002.

In FY 2002, SBA received \$840,000 from OMB and General Services Administration to augment the \$200,000 provided by SBA to build the BCOS. These funds were used to help business users find and understand relevant laws and regulations create additional expert tools, and offer two on-line transactions as prototypes.

### **Office of the National Ombudsman (ONO)**

ONO acts as an impartial liaison between small businesses and Federal agencies with regulatory authority. The National Ombudsman receives small business comments regarding small business disputes with various Federal agencies, transmits them to the relevant agencies, and requests a fair review and prompt response. ONO is assisted by ten

Regional Fairness Boards made up of volunteer independent business owners or officers. These boards also receive comments from small businesses in their communities regarding unfair regulatory enforcement which are transmitted to the National Ombudsman for processing.

### **Ombudsman Results Analysis**

By 2004, ONO will have become a core function of SBA. It will have facilitated a more small business-friendly regulatory enforcement environment and dramatically increased its outreach to small entities through public hearings, roundtables, speeches, media, and the Internet. By September 30, 2004, ONO expects to have received approximately 1000 small business comments, an annual increase of several hundred percent. Many of these comments represent entire industries, such as fishing, mining, ranching, small meat producers, importers, and restaurants, and will have helped improve the regulatory enforcement environment substantially. ONO anticipates that its newly designed and interactive web site will have been accessed over 3 million times – conservatively helping attain the outreach goal of assisting 600,000 small business owners.

### **Ombudsman Resource Analysis**

The majority of the ONO's FY 2002 costs were the \$2.0 million, or 68 percent in executive direction that supported the staff who perform marketing, outreach to stakeholders, recruit, train, support 50 volunteer board members, produce and attend ONO public hearings and roundtables, obtain small business feedback, improve the Federal regulatory enforcement environment for small entities, write reports and respond to public inquiries, as well as develop, maintain and manage public services on the Internet. This amount also includes travel costs for the 50 volunteer board members to more than 20 regional regulatory fairness meetings to hear public testimony. The remainder of the costs – 32 percent or \$1.0 million, includes overhead costs for rent, and support for information technology, legal, human resources, procurement, and executive direction.

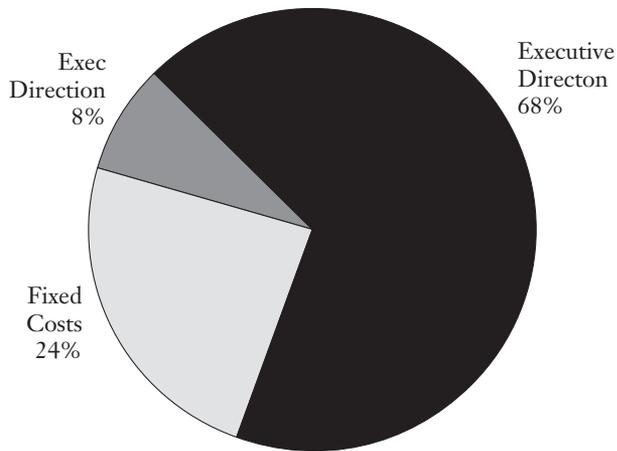
## **Ombudsman Results and Resources**

	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Goal</b>	<b>Goal</b>
<b>Performance Indicators</b>						
% Excessive Enforcement <sup>1</sup>	.N/A	.N/A	.N/A	.N/A	-5%	-10%
% Compliance Assistance	.N/A	.N/A	.N/A	.N/A	.5%	.5%
% Federal Agency Responses <sup>2</sup>	.N/A	.N/A	.N/A	.50%	.55%	.60%
# Small Business Awareness	.N/A	.N/A	.N/A	.250,000	.300,000	.600,000
Program Cost Estimate (\$000)	\$.2,923	\$.1,427	\$.935	\$.2,945	\$.2,627	\$.2,993

<sup>1</sup> The Paperwork Relief Act of 2002 required Federal agencies, for the first time, to track and report by December 2003 the number of regulatory enforcement actions taken against small businesses. These numbers should indicate a decrease in unfair/excessive enforcement actions.

<sup>2</sup> Federal agencies respond to comments/complaints about enforcement actions as submitted through the ONO by small business owners. Although SBREFA requires agencies to respond to all comments, they have actually responded to about 50% of comments received to date.

**Office of the Ombudsman  
FY 2002 Cost Components**



***Regulatory Fairness Board  
Assists Small Business Owners***

As co-owner of Libertyville Brewing Company, Bill Sugars was shocked to learn from the U.S. Department of Labor that his brewers were not exempt from the minimum wage and overtime provisions of the Fair Labor Standards Act (FLSA). After all, trying to keep daily time records for brewers would be impractical, based on their brewery schedule. Brewers brew when they have to – sometimes in the morning, sometimes in the evening, and sometimes, not at

all. Along with the brewers' other numerous daily duties, Bill felt their classification as salaried employees was warranted. However, the Wage-Hour inspector stood by regulations that had been in place long before brewpubs came into being. Although Bill felt the employees were exempt, his main concern focused on the field investigator who stated he would place a negative opinion in the company's file that could be accessed by the press and show up in newspapers. Bill also expressed concern that he would be subject to additional fines due to his alleged non-compliance.

After spending approximately \$7,000 in legal fees, Bill Sugars' brewers were classified exempt from the FLSA. However, Bill feels the legal avenue might not have been necessary had the Department of Labor informed Libertyville Brewing Company of their rights under the Small Business Regulatory Enforcement Fairness Act (SBREFA).

Small business owners with concerns, comments or complaints about Federal regulatory enforcement can voice their comments through the SBA's Office of the National Ombudsman.

After being referred to the Ombudsman's Office by his Congressman, Bill Sugars attended a regulatory Fairness Hearing in Indianapolis in early December to testify about the situation the small business had encountered. The National Ombudsman forwarded information to the Department of Labor. Bill then received information for the DOL stating after "further investigation, the case is being resolved in favor of the small business owner."

## STRATEGIC PROGRAMMATIC GOAL TWO: Empower Entrepreneurs

Americans are the world's most prolific entrepreneurs. However, much of this productive talent lies dormant without tools such as capital, technical assistance, counseling, a solid business framework, and a workable business plan. SBA's goal is to empower entrepreneurs to succeed through the cycle of start-up, initial survival, and growth.

This chapter is organized by the Agency's three major programs divisions—Capital Access (CA), Government Contracting/Business Development (GC/BD), and Entrepreneurial Development (ED). The Agency's menu of programs reflects a mix of services designed to provide assistance to small businesses at each stage of their growth. The following table shows the relationship between SBA's out-

Outcome Goals	Performance Goals	Programs
2.1 Increase small business contribution to the Nation's economy	2.1.1 Number of jobs created and retained by Capital Access programs	All Capital Access programs
	2.1.2 Number of jobs created and retained by Entrepreneurial Development programs	All Entrepreneurial Development programs
	2.1.3 Number of jobs created by Government Contracting Programs	All Government Contracting programs
2.2 Increase the opportunities for small businesses to grow	2.2.1 Start up clients counseled and trained by ED partners	SCORE, SBDCs, BICs, WBCs
	2.2.2 Number of small business start-ups that receive 7(a) loans	7(a) loan
	2.2.3 Number of small business start-ups that receive 504 loans	504 loan
	2.2.4 Number of micro-loans awarded	Microloan
	2.2.5 SBIC Financing to start-up companies	SBIC
2.3 Increase the opportunities for small businesses to grow	2.3.1 Gap lending and Investment	CA - 7(a) loan, Microloan, 504 loan, Surety Bond
	2.3.2 Established firms counseled and trained by ED resource partners	ED - All programs
	2.3.3 Number of established small businesses that receive 7(a) loans	SCORE, SBDCs, BICs, WBCs
	2.3.4 Number of established small businesses that receive 504 loans	7(a)
	2.3.5 SBIC financing to established firms	504 loan
	2.3.6 Number of surety bonds guaranteed	SBIC
	2.3.7 Export sales assisted by SBA loans	Surety Bond International Trade
2.4 Increase the opportunities for small businesses to compete for Federal contracts	2.4.1 Percent of Federal contracts that go to small businesses	Prime Contracting
	2.4.2 Small business appointments conducted with government and private-sector procurement officials	Subcontracting
2.5 Small businesses receive assistance in overcoming longstanding barriers to economic opportunity	2.5.1 Number of veterans assisted by SBA (all programs)	7(a), 504, Surety Bond, Government Contracting, ED programs
	2.5.2 8(a) clients success rate after graduation	8(a) Program
	2.5.3 Federal prime contract dollars awarded to HUBZone firms	HUBZone
	2.5.4 Federal prime contract dollars to small disadvantaged businesses (including 8(a) firms)	Prime Contracting
	2.5.5 Federal prime contracting dollars awarded to service disabled veteran-owned small businesses	Prime Contracting
	2.5.6 Federal prime contracting dollars awarded to women-owned small businesses	Prime Contracting
	2.5.7 Loans to emerging market firms (7(a) and 504)	7(a), 504
	2.5.8 Loans to veteran-owned businesses (7(a) and 504)	

come goals and programs. The specific performance indicators used to measure success may be found in each program's Results and Resources table in the Program Analysis section.

## **CAPITAL ACCESS**

By providing access to capital, SBA provides crucial assistance to entrepreneurs at every stage of the growth of their business. Access to capital supports the following outcome goals.

- Increase the opportunities for entrepreneurs to start a small business
- Increase the opportunities for small businesses to grow

### ***Strategy***

Small businesses cite inadequate access to capital and credit on reasonable terms as a serious impediment to start-up and growth. SBA seeks to expand the parameters within which a conventional lender can make a small business loan. As a "gap lender" for small business, SBA supplements lending available in the commercial marketplace.

SBA's programs are designed to provide a full range of services to its customers. The 7(a) loan program provides general loan financing for a wide variety of purposes. The 504 program finances fixed asset investments and supports local economic development needs with long term rates. Microloans serve the very small entrepreneur, often in emerging markets. Small Business Investment Companies (SBICs) leverage private capital to expand the equity financing options available to small businesses. United States Export Assistance Centers (USEACs) provide export, technical and trade finance assistance for new small business exporters. The Surety Bond Guarantee Program expands the bond credit and capacity of small contractors who would not otherwise be able to compete for public and private work. The program offices that make up the Office of Capital Access work together to increase opportunities for America's small businesses.

SBA delivers financial assistance programs through a network of field offices and lending resource partners which work with small businesses on a one-to-one basis. SBA also processes many of its loans through centralized processing centers located in Sacramento, California and Hazard, Kentucky, relying on its lending resource partners for credit decisions.

Managing SBA's loan portfolio is critical to maintaining the ability to provide access to capital. SBA must maintain the financial safety and soundness of its approximately \$50 billion loan portfolio. SBA's loan servicing program ensures that its assets are protected.

The leadership of the Office of Capital Access has set the following strategic goals for improving program performance over the next two years:

- Identify and implement approaches to reach a greater number of small businesses by promoting access to capital, particularly to those historically under-served by traditional credit markets through creative measures.
- Increase access to scarce venture capital through the licensing and oversight of privately managed venture capital investment funds (SBICs), for the benefit of investors, entrepreneurs, and the customers and communities they serve.
- Through lender oversight, improve the protection of SBA's lending and investment programs from unacceptable levels of financial risk as the Agency continues to rely more on public/private resource partnerships for delivery of loans.

### ***Loan Pooling Proposal***

SBA is exploring a new approach to pool small business loans that would expand beyond the traditional process in place with 7(a) loans pooled in the secondary market. This new approach would be different from the perspective that SBA would be providing a liquidity source to the lending industry (e.g., banks with high loan to deposit ratios) versus the 7(a) gap financing approach. The new approach is not intended to replace the traditional process in place. The new loan pooling initiative would expand the number of small businesses receiving SBA financial assistance without increasing the SBA resources used for program delivery. By pooling loans under this new approach, the agency will leverage the expertise of the private sector to expand the opportunities of small businesses to access the capital markets.

### ***Resource Partnerships and Cross Cutting Issues***

SBA works with other agencies and industry based organizations, state and local development agencies, and various other public service organizations to implement the Agency's programs.

For instance, the Trade Promotion Coordinating Committee (TPCC) has worked to bring multiple agencies and their varied missions together for the common purpose of promoting U.S. exports. USEACs are a one-stop inter-governmental center where personnel are co-located together by means of a joint agreement among the SBA, the Commercial Service of the Department of Commerce, field representatives of the Export-Import Bank, and, on occasion, the Foreign Agricultural Service of the U.S. Department of Agriculture. There are 19 USEACs nationwide. SBA supports the USEAC network by providing full-time personnel at all of the 19 hub USEACs. USEAC personnel are the primary delivery mechanism for SBA's International Trade program. Their primary responsibilities include marketing, export technical assistance, and trade finance counseling.

The Departments of Defense, Veterans Affairs and Labor and the National Veterans Business Development Corporation are also important resource partners in helping veteran and service disabled veteran-owned businesses succeed.

### External Factors

Key to SBA's success in providing access to capital and credit is a cooperative working relationship with the various stakeholders, including, but not limited to the National Association of Government Guaranteed Lenders (NAGGL), the National Association of Development Companies (NADCO), the National Association of Small Business Investment Companies (NASBIC), and the Association for Enterprise Opportunity (AEO).

Although the demographics, terms, conditions, and purposes of the 7(a), 504, Microloan, and SBIC programs vary, economic conditions strongly affect the demand for these products.

### Program Analysis

The results achieved and resources required for each Capital Access program are discussed in this section.

#### General Business 7(a) Loan Guaranty Program

SBA guarantees small business loans up to \$1 million (with a maximum loan size of \$2 million) for virtually every business purpose. The guaranty can be for as much as 85 percent on loans of \$150,000 or less and 75 percent on loans of more than \$150,000. Borrowers may have more than one SBA loan at a time, as long as the total amount guaranteed does not exceed the SBA's guaranty cap of \$1 million. The only exceptions to these limits are for loans approved under the Export Working Capital Program, which receive a guaranty of up to 90 percent, and the Defense Loan and Technical Assistance (DELTA) Loan Program.

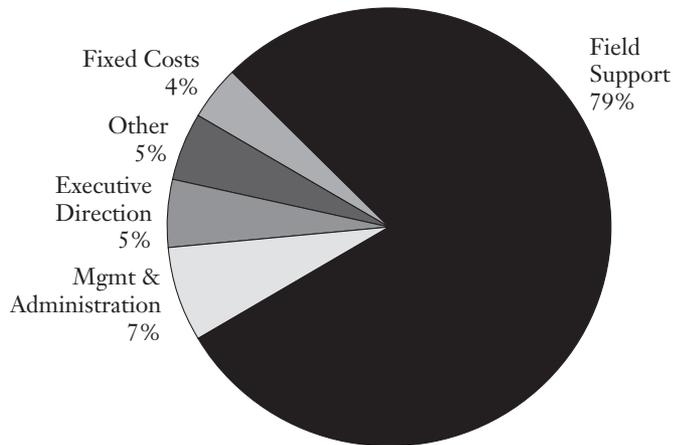
### 7(a) Loan Program Results and Resources

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2004 Goal
<b>Performance Indicators</b>						
7(a) loans to start-up firms approved	13,969	13,552	12,396 (28%)	13,427 (26%)	12,000 (20%)	14,400 (20%)
7(a) loans to established firms approved	29,667	30,196	30,562	38,239	48,000	57,600
Total number of 7(a) loans approved	43,636	43,748	42,958	51,666	60,000	72,000
Dollar volume of 7(a) loans (net)	\$9.5B	\$9.7B	\$9.1B	\$9.4B	\$4.8B	\$9.3B
Dollar volume of STAR loans (net)				\$1.7B	\$1.75B	N/A
Loans to Emerging Market firms <sup>1</sup>	N/A	N/A	N/A	N/A	31,230	37,476
Loans to 51% veteran-owned	4,993	4,810	4,690	5,438	5,438	6,526
Number of jobs created	313,322	324,964	305,509	370,000	266,667	323,333
Number of 7(a) loans below \$150,000	26,464	26,227	27,107	33,185	38,538	46,080
Dollars of 7(a) loans below \$150,000	\$1.9B	\$1.9B	\$2.0B	\$2.2B	\$1.6B	\$1.9B
Subsidy Cost (\$000) <sup>2</sup>	\$132,410	\$113,568	\$106,756	\$129,094	\$85,662	\$95,162
Administrative Cost Estimate (\$000)	\$53,059	\$47,291	\$42,039	\$32,189	\$32,193	\$32,199
Total Cost (\$000)	\$185,469	\$160,859	\$148,795	\$161,283	\$117,855	\$127,361
Administrative Cost per loan	\$1,216	\$1,081	\$978	\$623	\$536	\$477
Total Cost per loan	\$4,250	\$3,677	\$3,463	\$3,121	\$1,964	\$1,769

<sup>1</sup> "Emerging Market" loans include those markets with the most potential for growth – and which are currently the fastest growing segment of small business – such as underserved, place-based businesses (i.e., those located in the most economically disadvantaged regions of each district office) and are likely to encompass minority and women-owned businesses.

<sup>2</sup> Subsidy Cost includes budget authority for loan subsidy for 7(a) loan guaranty, 7(a) STAR program, and 7(a) DELTA program. See the SUMMARY OF CREDIT PROGRAMS table in Chapter Six, Summary of Resource Request.

**7(a) Loan Program  
FY 2002 Cost Components**



**7(a) Loan Program Results Analysis**

SBA will increase the number of 7(a) loans made to small businesses by focusing on smaller loans. SBA has provided incentives for lenders in the SBAExpress program to make small loans. This program has proven very successful, leading SBA to expect that in FY 2003 and FY 2004 over 50 percent of all 7(a) loans will be SBAExpress loans.

In FY 2002, the number of 7(a) loan volume increased by 20 percent over the previous year. There are two primary reasons for the increase: 1) additional small businesses required funding as a result of September 11, 2001, terrorist attack, and 2) the weakening economy and its effect on lenders' willingness to make loans to small businesses.

**7(a) Loan Program Resource Analysis**

In FY 2004 SBA will significantly reduce the administrative cost of making each 7(a) loan. SBA will increase the loan volume while the cost of administering the program will be held to approximately the FY 2002 level. The decrease in the subsidy rate contributes to further reducing the overall cost of making a 7(a) loan.

The \$32.2 million cost of administering the program in FY 2002 includes all categories of 7(a) loans including LowDoc, SBAExpress, PLP and Export. District office direct labor costs for reviewing and approving loan applications plus marketing and outreach to generate new loans are 79 percent or \$26.6 million. The share of rent, utilities, and telecommunications to support the loan making staff is 5 percent or \$1.5 million. Headquarters overhead costs for payroll, information technology, legal, accounting, and direct administration are 13 percent or \$4.1 million.

**7(a) Loan Helps Cajun Restaurant**

Most restaurant owners would stop just short of selling their souls to be featured in the Los Angeles Times Magazine's Annual Restaurant Issue. This year, thanks in

part to the U.S. SBA, Uncle Darrow's Cajun Creole Eatery was listed in the issue's "Cheap Eats" section for the second straight year.

In 1988 four cousins, Norwood Clark, Samuel Small, Ronald Smith, and Ronald Washington founded Uncle Darrow's, Inc. Using family confection recipes from the Louisiana bayous that date back to the 1800s, the new company landed contracts to manufacture pralines for Nordstrom's and Nieman Marcus in Beverly Hills. Uncle Darrow's was off and running.

As their business rapidly grew, the cousins decided to branch out into the restaurant business. The result was the birth of Uncle Darrow's Cajun Creole Eatery on Venice Blvd. in Los Angeles. It was an immediate hit drawing diners city-wide who sought out their superb Louisiana cuisine.

Uncle Darrow's is a gastronomic treasure trove for southern cooking mavens. There are, to be sure, the standard red beans and rice, po boys, and jambalaya, all cooked to perfection. However, the heart and soul of the menu is their fried seafood that is flown in fresh daily from New Orleans. The "Big Easy" combination of fried catfish, oysters and shrimp immediately transports the gourmand in thought to the French Quarter of New Orleans.

Come 2000, the cousins decided it was once again time to expand. With the assistance of a \$150,000 SBA loan funded by Founders Bank, they opened their second restaurant in Marina Del Rey. It was the first time in the history of the organization that they used external financing.

The result, as the saying goes, is history. The legion of Uncle Darrow's fans grows with each bite and includes Rosanne Barr, Halle Berry, Whoopi Goldberg, and several Los Angeles Lakers all of whom can vouch for the quality of the food.

"I would like to acknowledge the financial support we received from the SBA," said Norwood Clark. "They were instrumental in helping us establish our new restaurant and making it the success that it is today."

**504 Certified Development Company  
(CDC) Loans**

The 504 program provides small businesses with long-term, fixed-rate financing for the purchase of land, buildings and long-life capital equipment. SBA fully guarantees (at 100 percent) debentures issued by the CDC for up to 40 percent of the project cost not to exceed \$1.0 million or \$1.3 million for projects that meet specific public policy purposes. The remaining 60 percent is provided by borrower injection (10-20 percent) and private capital sources.

## 504 Loan Program Results and Resources

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2004 Goal
<i>Performance Indicators</i>						
504 loans to start-up firms approved	1,027	925	978 (18%)	989 (18%)	1,000 (17%)	1,000 (17%)
504 loans to established firms approved	4,257	3,640	4,235	4,491	5,000	5,000
Total number of 504 loans (gross)	5,284	4,565	5,213	5,480	6,000	6,000
Dollar volume of 504 loans (net)	\$2.0B	\$1.8B	\$2.3B	\$2.5B	\$2.7B	\$2.7B
Loans to Emerging Market firms	N/A	N/A	N/A	N/A	3,470	3,470
Loans to 51% veteran-owned	488	407	409	437	604	604
Number of jobs created and retained	119,586	104,721	104,702	116,048	80,759	80,759
Program Cost Estimate (\$000)	\$17,034	\$14,110	\$14,462	\$15,236	\$17,418	\$17,472
Cost per loan	\$3,223	\$3,090	\$2,774	\$2,780	\$2,904	\$2,912

### 504 Loan Program Results Analysis

In FY 2002, 504 loan volume increased by 8.8 percent over the previous year. This is consistent with the general pattern of increased SBA lending when there is a weakening economy. This situation results in increased demand for SBA loan guarantees because lenders become more conservative in their lending due to their concern for increased risk exposure, as well as concerns expressed by their regulators.

In FY 2002 the OMB developed the Program Assessment Rating Tool (PART) to establish a systematic, consistent process for rating the performance of programs across the federal government. The PART uses common assessment criteria on performance and management to evaluate the overall effectiveness of programs. PART ratings for 20 percent of programs will be published in the President's FY 2004 Budget. The 504 program was evaluated under the PART criteria and was given the overall rating of "Results not Demonstrated."

The PART review revealed the following:

1. While SBA's 504 loans are unique in structure as compared to its 7(a) General Business loans, the programs are duplicative in that both programs provide long-term financing for fixed assets (land, buildings, and large equipment).
2. The Agency lacks a strategic plan and has not articulated the long-term public policy objectives of the 504 program.
3. SBA needs to increase the availability of loan intermediaries within the 504 program to improve customer access to loans. Additionally, increasing the availability of 504 loan intermediaries will enable borrowers to

determine which of SBA's loan programs (504 or 7(a)) best meet their needs.

The PART findings will be addressed in the following manner:

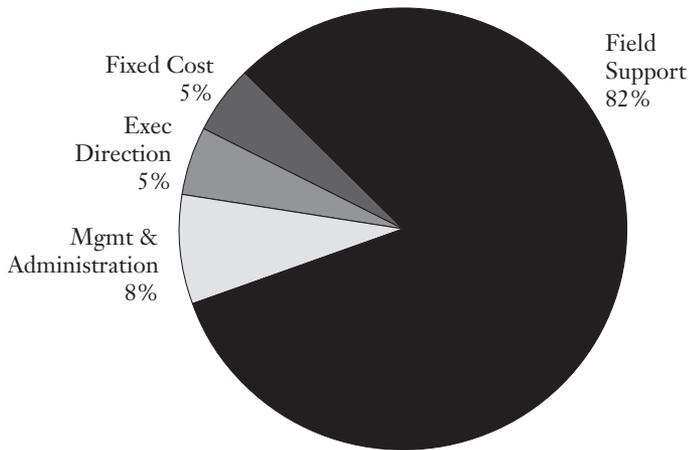
1. The 2004 Budget proposes to increase program evaluations to determine the factors that affect both demand and performance in the 504 and 7(a) programs.
2. The proposed funding for evaluations would also be used to compare the cost of 504, private sector, and 7(a) loans.
3. Through a proposed regulation, SBA will solicit the public's view on developing longterm goals for its strategic plan and increasing borrower choice for 504 and 7(a) loans.

SBA believes that with the publication of its new strategic plan and the completion of a 504 program evaluation, it will be able to clearly demonstrate the benefits of this program.

### 504 Loan Program Resource Analysis

In FY 2002 the cost of the 504 loan program was approximately \$15 million. The majority of the cost of the 504 program, 82 percent or \$12.6 million, was for the cost of the field office staff support that reviewed and approved loan applications and conducted marketing and outreach to generate new loans. The fixed cost overhead of rent, utilities, and telecommunications is 5 percent or \$0.7 million. The cost of Management and Administration for human resources, information technology, and procurement support is 8 percent or \$1.2 million. Executive direction which includes financial management was 5 percent or \$0.7 million.

**504 CDC Loan Program  
FY 2002 Cost Components**



**Microloan**

The Microloan program serves entrepreneurs who lack the financial resources and the technical business knowledge to obtain loans in the commercial market. Microlending combines loans with intensive technical assistance, which increases the likelihood of the success of the borrower by providing essential training tailored to meet the individual needs of the small business. SBA makes loans up to \$750,000 to intermediaries who in turn make very small loans (\$35,000 and under) and provide technical assistance to entrepreneurs traditionally considered unbankable because of inexperience with credit, lack of assets, or the need for technical assistance.

**Microloan Results Analysis**

The demand for microlending has increased because of the weakening of the economy and the increased awareness among potential entrepreneurs of the benefits of this program.<sup>1</sup>

**Microloan Results and Resources**

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2004 Goal
<b>Performance Indicators</b>						
Loans to start-up firms	.568	.864	1,034	1,040	.831	.738
Total number of loans made to small businesses	1,434	2,107	2,295	2,582	2,250	2,000
Total dollars of loans	\$17,385	\$24,337	\$33,470	\$36,726	\$28,645	\$25,462
Estimated hours of technical assistance provided <sup>2</sup>	N/A	N/A	118,521	124,008	N/A	N/A
Number of jobs created and retained	4,910	8,303	10,635	10,210	8,888	7,900
Loan Subsidy Cost Estimate (\$000)	N/A	\$2,419	\$2,827	\$1,153	\$3,633	\$1,630
Loan Making Cost Estimate (\$000)	N/A	N/A	N/A	\$636	\$671	\$675
Total Loan Costs (\$000)	N/A	N/A	N/A	\$1,789	\$4,304	\$2,305
Total Cost Per Loan	N/A	N/A	N/A	\$693	\$1,913	\$1,153
Technical Assistance (\$000)	N/A	\$1,919	\$3,216	\$1,791	\$835	\$824
Technical Assistance Grants (\$000)	N/A	\$19,243	\$18,385	\$17,742	\$17,500	\$15,000
Total Technical Assistance Cost (\$000)	N/A	\$21,162	\$21,601	\$18,533	\$18,335	\$15,824
Tech Assistance Cost per Hour	N/A	N/A	\$182	\$149	N/A	N/A

<sup>1</sup> The Federal Reserve found that “Younger firms were more likely than older firms to apply for new credit but also to be denied it. The finding that smaller and younger firms are riskier have shorter credit histories or less collateral to pledge as security, and more informationally opaque.” Report to the Congress on the Availability of Credit to Small Business (September 2002) p.3.

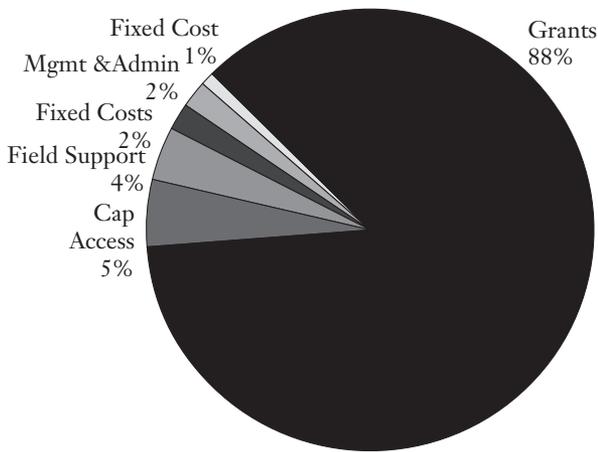
<sup>2</sup> At the time a microloan is closed and reported to SBA, microlenders also report the amount of time spent providing technical assistance prior to the loan being made. These hours can account for a maximum of 25 percent of the time for which SBA grant funds will pay an intermediary. The remaining 75 percent of funding must be used on post-loan technical assistance. These hours are accounted for individually in quarterly and annual reports and are not currently counted in the electronic reporting system. Using reported pre-loan hours for FY 2001 and FY 2003, figures are provided that indicate cost per hour and cost per job of technical assistance. Cost per loan figures are provided separately because post-loan technical assistance may have been provided to micro-borrowers who received loans as long as six years ago (the maximum loan life). SBA has not projected technical assistance estimates for FY 2003 and FY 2004.

The loan volume for FY 2003 and FY 2004 is tied to the amount of funds available for loan subsidy and technical assistance.

### Microloan Resource Analysis

Costs for the Microloan Program were divided into two components: credit program support costs for loan making, servicing, and liquidation; and non-credit for technical assistance. The graph below shows the distribution of the combined costs of the \$20.3 million program. The majority – 86 percent or \$17.7 million is for technical assistance grants. The remaining \$2.6 million is divided between management costs from the offices of Capital Access and Executive Direction plus the portion of overhead costs that these offices incur.

**Microloan Technical Assistance  
FY 2002 Cost Components**



### Small Business Investment Company Program

Small Business Investment Companies (SBICs) serve one of the most important missions of the Agency – encouraging private risk-taking by licensing and investing in privately owned and managed venture capital funds. These funds called SBICs are a major source of scarce equity capital and long-term debt financing for new or expanding entrepreneurial companies. Thousands of small businesses across America depend on this unique public-private partnership for the benefit of the customers and communities they serve. At an average financing size of approximately \$510,000, SBICs made over 60 percent of all venture capital investments in FY 2002.

### SBIC Program Results Analysis

In line with the private venture capital industry, SBICs invested fewer total dollars year-over-year. Given the lower amounts invested, far fewer jobs were created or sustained through the program. Jobs created or sustained are calculated as one job per \$36,000 invested.<sup>2</sup> However, the actual number of financings has not declined significantly, and SBIC financings generally support smaller transactions that may not otherwise receive funding from private venture firms or financial institutions. Also consistent with industry trends, financings to start-up companies (two years old or less) were down, as the percentage of SBIC financings invested in start-ups declined from over 40 percent the prior year to under 30 percent in FY 2002. With the venture industry focused this year mostly on follow-on rounds of financing to support existing investments, SBICs are also making add-on financings to companies that were startups when they were originally financed. When combined, both initial and follow-on rounds of investments to start-ups by SBICs represent over 50 percent of the entire SBIC portfolio.

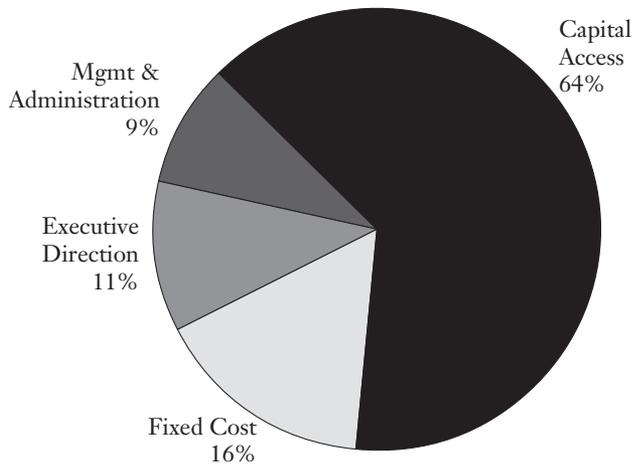
### SBIC Results and Resources

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2004 Goal
<b>Performance Indicators</b>						
Financing to start-ups	.1,171	.2,149	.1,719	.1,178	.1,500	.1,700
Financing to established firms	.1,925	.2,490	.2,558	.2,826	.2,900	.2,800
Total financings	.3,096	.4,639	.4,277	.4,004	.4,400	.4,500
Total dollars of SBIC financing	\$.4.2B	\$.5.5B	\$.4.5B	\$.2.7B	\$.2.8B	\$.3.0B
Number of jobs created and retained	.120,000	.156,000	.127,000	.78,000	.91,400	.125,700
Total # of licensees <sup>1</sup>	.354	.395	.428	.442	.467	.503
New licenses issued	.53	.60	.51	.41	.50	.55
Licensee examinations	.230	.273	.298	.326	.350	.400
Oversight/Examinations Cost Estimate (\$000)	\$.8,614	\$.7,909	\$.9,528	\$.10,700	\$.11,038	\$.12,094
New Licensee Cost Estimate (\$000)	\$.3,186	\$.3,231	\$.4,280	\$.4,586	\$.4,293	\$.4,703
Total Program Cost Estimate (\$000)	\$.11,800	\$.11,140	\$.13,808	\$.15,286	\$.15,331	\$.16,798
Cost per SBIC Financing	\$.3,811	\$.2,401	\$.3,228	\$.3,817	\$.3,484	\$.3,732

<sup>1</sup> Net of new increase and decrease of licensees during the year.

<sup>2</sup> The job coefficient is based on the National Venture Capital Association study by DRI-WEFA (2001).

**SBIC Loan Program  
FY 2002 Cost Components**



**SBIC Loan Program Resource Analysis**

The majority of the cost – 64 percent or \$9.9 million, part of which is recovered by fees charged to SBIC fund managers – is required for headquarters personnel who administer the licensing and oversight of the SBIC, as well as field examiners who perform SBIC regulatory compliance examinations. Headquarters support costs for information technology, procurement, human resources, legal and accounting are 19 percent or \$3.0 million. Fixed costs for rent, utilities, and telecommunications are 16 percent or \$2.2 million.

**New Market Venture Capital  
(NMVC) Program**

This program provides equity-type capital and operational assistance funds to small businesses located in defined low-income areas. The program is modeled on the SBIC program but also includes grant awards to the NMVC companies to allow for more intensive technical assistance. In FY 2001, there was a one time appropriation to fund this pilot program.

**International Trade and United States Export  
Assistance Centers (USEACs)**

The Office of International Trade (OIT) develops, oversees and delivers SBA's technical assistance and export finance programs to small business exporters. It provides overall direction to staff located across the country at 19 USEACs and 70 SBA district offices. OIT works extensively with other Federal agencies, such as the Department of Commerce and the Export-Import Bank, to coordinate the delivery of services to small firms and with the U.S. Trade Representative on small business related trade issues. OIT also supports the Administration's trade policy and foreign affairs efforts, participates actively in bilateral initiatives, and is a key participant on the interagency Trade Promotion Coordinating Committee (TPCC).

**Results Analysis**

In FY 2002, OIT and USEACs exceeded its output goals in the number of export loans by 10 percent, and exceeded its outcome goals in the dollars of export sales generated by export loans by 15 percent. In the export technical assistance area, OIT and USEACs provided counseling to 4,373 small business exporters; conducted 58 E-TAP (Export Trade Assistance Partnership) programs, trained 894 small business clients; participated in 311 trade events for small business; and recruited 36 firms for trade missions/trade shows.

In the area of trade finance, SBA has simplified the Export Working Capital (EWCP) SOP; increased Export Express limit to \$250,000; renewed a co-guarantee agreement with the California Export Finance Organization; signed a new co-guarantee agreement with the Florida Export Finance Organization; and begun negotiations with the state of Texas for a co-guarantee agreement.

In the area of International Strategic Alliance, SBA recruited 16 businesses and participated in a trade mission to Guadalajara, Mexico in November 2001; co-led a mission with Commerce Secretary Evans to Monterey, Mexico and Guadalajara in May 2002; and participated in Gulf of Mexico States Accord in Vera Cruz and Miami. Under the President's Partnership for Prosperity initiative, SBA is facilitating the establishment of an SBDC network in Mexico through the Association of Small Business Development Centers (ASBDC).

**International Trade and USEAC Results and Resources**

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2004 Goal
<b>Performance Indicators</b>						
Number of Export Loans <sup>1</sup>	429	480	425	468	550	550
Export Sales through financing	\$349M	\$675M	\$608M	\$616M	\$700M	\$700M
Program Cost Estimate (\$000)	\$5,071	\$3,318	\$4,254	\$4,990	\$5,867	\$6,568

<sup>1</sup> Includes Export Working Capital Program (WEWCP), International Trade Program and Export Express.

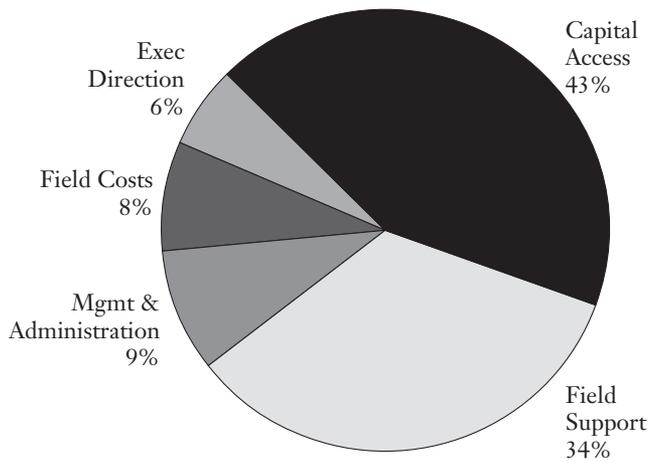
### Resource Analysis

The cost of SBA's international trade programs includes funding for the OIT, the USEAC program, support from other SBA offices, and overhead expenses. The total cost of this program is \$4.9 million which consists of \$1.7 million, or 34 percent, for the cost of field support for the USEAC program; \$2.1 million, or 43 percent, for labor costs for the OIT; \$0.4 million for overhead costs for procurement,

human resources, and information technology; \$0.2 million for executive direction that includes legal and accounting services; and \$0.4 million for fixed costs including rent and various other centralized costs.

The overall budget for SBA's participation at the U.S. Export Assistance Centers (USEACs--19 centers) has been flat-lined at \$3.1 million annually. One-third of the resource at the USEACs is devoted to export financing assistance, the other two thirds of the resource at the USEACs is devoted to export technical assistance and trade promotion. Within the budget for USEACs, SBA shares costs with the Department of Commerce and Export-Import Bank for certain administrative costs at the USEACs.

**International Trade and USEAC  
FY 2002 Cost Components**



## Surety Bond Results and Resources

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2004 Goal
<b>Performance Indicators</b>						
Bonds guaranteed	9,399	7,034	6,320	7,372	8,000	8,000
Increased small business contract revenue	\$.426M	\$.329M	\$.342M	\$.461M	\$.500M	\$.550M
Number of jobs created	3,672	2,836	2,948	3,974	4,310	4,741
Program Cost Estimate (\$000)	\$4,728	\$4,416	\$3,686	\$4,203	\$4,767	\$4,870
Cost per Bond Guaranteed	\$.503	\$.627	\$.583	\$.570	\$.596	\$.609

### Surety Bond Guarantee

The Surety Bond Guarantee (SBG) program provides 70-90 percent bid, payment, and performance bond guarantees on behalf of small businesses for construction, service, and supply contracts up to \$2 million. SBA's guarantee provides surety companies with the necessary incentive to extend surety bond credit to small contractors who could not otherwise compete in the contracting industry.

### Surety Bond Guarantee Results Analysis

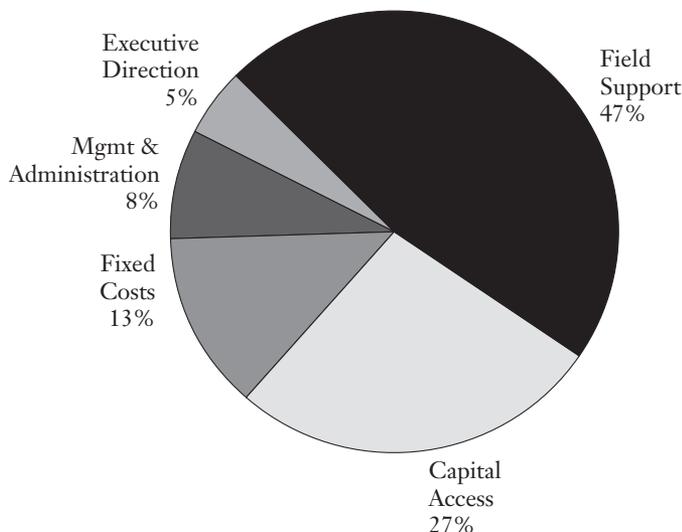
During FY 2002, SBA guaranteed 7,372 bonds on behalf of small businesses for contracts valued at \$461,001,775. The total number of bonds guaranteed represents a 14.2 percent increase from FY 2001. A weakening economy and substantial losses suffered by sureties in the commercial surety bond market had a ripple effect on other areas of insurance, including the contract surety bond market. Typically, when the insurance industry experiences heavy losses, re-insurers, used by sureties to absorb a percentage of its losses, do not renew reinsurance agreements or lower their portion of the risk under their reinsurance treaties. These factors contributed to SBA's participating sureties more frequent use of the Surety Bond Guarantee program to absorb that exposure.

### Surety Bond Resource Analysis

SBA plans to modestly increase funding for the SBG program in FY 2004 to account for inflationary cost increases. The FY 2002 costs, shown in the chart below, include funding for the Office of Surety Guarantees, area office personnel located in the district offices, support from other SBA offices, and overhead expenses. The total cost of the program is \$4.2 million. The majority of the costs, \$1.9 million or 46 percent, is for labor costs for the area offices that administer the SBG program and perform SBG marketing and outreach activities. Other costs include \$1.1 million or 27 percent in labor costs charged to Capital Access for headquarters staff support, policy guidance, and oversight of the Plan A (SBG) Program, administration of the Plan B or Preferred Surety Bond (PSB) Guarantee Program, and headquarters marketing activities to enroll sureties, agents, and contractors. The remaining costs are \$0.2 million or 5 percent for executive direction, \$0.4 million or 9 percent in overhead expenses for procurement, human resources, and information technology, and \$0.5 million or 15 percent in fixed costs for rent and various other centralized costs.

The program collects fees from its surety partners and contractors for bonds guaranteed. That funding is deposited into a revolving fund from which SBA pays claims on defaulted bonds. The fees collected have been substantial enough so that SBA has not had to request an additional appropriation from Congress for the revolving fund for several years, and will not need to do so in FY 2003 and FY 2004. In that sense, the program is self-funded.

**Surety Bond Guaranty Program  
FY 2002 Cost Components**



## Loan Servicing

SBA's Office of Capital Access is responsible for servicing disaster loans and business loans. This includes full service on disaster loans and on purchased guaranteed loans as well as supervision of lender servicing of guaranteed loans

### Loan Servicing Results and Resources

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY 2003 Goal	FY 2004 Goal
<b>Performance Indicators</b>						
<b>Loans Serviced<sup>1</sup></b>						
7(a) .....	184,919	185,257	185,200	189,069	N/A	N/A
504 <sup>2</sup> .....	29,807	31,391	33,380	35,205	N/A	N/A
Disaster Home Loans .....	201,628	195,982	178,522	120,510	N/A	N/A
Disaster Business Rate .....	.68,465	.64,097	.44,118	.37,181	N/A	N/A
<b>Currency Rate<sup>3</sup></b>						
7(a) .....	.89.8%	.90.4%	.92.2%	.93.5%	.92.0%	.92.0%
504 <sup>4</sup> .....	.98.0%	.98.4%	.99.6%	.99.5%	.99.5%	.99.5%
Disaster Home Loans .....	.90.6%	.89.6%	.90.7%	.89.6%	.90.3%	.90.3%
Disaster Business Rate .....	.85.0%	.85.1%	.89.4%	.91.3%	.90.1%	.90.1%
<b>Default Rate<sup>5</sup></b>						
Disaster Home Loans <sup>6</sup> .....	.6.5%	.7.4%	.5.7%	.6.8%	.7.2%	.7.2%
Disaster Business Loans .....			.7.5%	.7.4%	.11.4%	.11.4%
<b>Purchase Rate<sup>7</sup></b>						
7(a) .....	15.1%	14.4%	14.3%	13.9%	12.7%	12.7%
504 .....	13.3%	11.9%	11.1%	8.4%	8.3%	8.3%
<b>Recovery Rate<sup>8</sup></b>						
7(a) .....	.61.0%	.60.5%	.60.7%	.60.3%	.58.0%	.58.0%
504 .....	.31.1%	.24.9%	.31.3%	.26.9%	.20.0%	.20.0%
Disaster Home Loans .....	.4.6%	.4.6%	.5.0%			
Disaster Business Loans .....	.11.8%	.11.8%	.19.4%			
7(a) Loan Servicing .....	N/A	\$.24,709	\$.25,052	\$.15,863	N/A	N/A
Cost Estimate (\$000)						
Cost per 7(a) Loan serviced .....	N/A	\$.133	\$.135	\$.84	N/A	N/A
504 Loan Servicing .....	N/A	\$.6,629	\$.5,050	\$.4,516	N/A	N/A
Cost Estimate (\$000)						
Cost per 504 Loan serviced .....	N/A	\$.211	\$.151	\$.118	N/A	N/A
Disaster Home Loan Servicing ..	N/A	\$.18,818	\$.29,706	\$.21,765	N/A	N/A
Cost Estimate (\$000)						
Cost per Disaster Home Loan ...	N/A	\$.93	\$.166	\$.181	N/A	N/A
serviced						
Disaster Business Loan Servicing	N/A	\$.7,994	\$.9,680	\$.7,572	N/A	N/A
Cost Estimate (\$000)						
Cost per Disaster .....	N/A	\$.125	\$.219	\$.204	N/A	N/A
Business Loan Serviced						

<sup>1</sup> SBA has not made projections for number of loans serviced in FY 2003 and FY 2004.

<sup>2</sup> The currency rate is for the 100% guaranteed debenture to the investor, not the 504 loan to the small business. Currency is almost 100% because if the small business does not make sufficient payments to meet semi-annual payments to the investor, SBA makes up the difference. The currency rate for individual 504 loans is not available in SBA's loan accounting system.

**Note: Currency/Default Rates are based on dollars from the MARS 391 Report dated September 31, 2002.**

<sup>3</sup> As of September 30, the proportion of outstanding portfolio dollars with on time payments.

<sup>4</sup> The currency rate is for the 100% guaranteed debenture to the investor, not the 504 loan to the small business. Currency is almost 100% because if the small business does not make sufficient payments to meet semi-annual payments to the investor, SBA makes up the difference. The currency rate for individual 504 loans is not available in SBA's loan accounting system.

<sup>5</sup> As of September 30, the proportion of outstanding portfolio dollars over 60 days delinquent.

<sup>6</sup> Figures include loans serviced by SBA's contractor, ACS.

<sup>7</sup> The proportion of each year's outstanding portfolio dollars purchased from lenders due to borrower defaults.

<sup>8</sup> The proportion of each year's purchased loan dollars recovered by SBA or lenders, net of expenses.

### ***Loan Servicing Results Analysis***

Historically, SBA's currency rate has not varied significantly, in part because it includes statistics for the entire country. Regional economic conditions vary greatly over time but the overall portfolio's statistics tend to even out in any given year. The calculation method is also subject to certain dynamics that may not be immediately apparent in a year to year comparison. The two most significant factors are: 1) the proportion of new loans in any given year's calculation - larger than average new loan volume may cause the currency rate to rise, and 2) in the disaster portfolios in particular, the asset sales undertaken in the last two years, which resulted in changes in the portfolio mix, may have had an effect on the rates.

### ***Loan Servicing Resource Analysis***

#### ***Overview of Loan Portfolio for Last Four Years***

Currently, nearly 85 percent (by number of loans) of SBA's portfolio is centrally serviced in six centers. A private sector contractor serviced 30 percent of SBA's disaster home loans for four years. This contract expired on September 30, 2002. The portfolio of loans being serviced in the Commercial Loans Service Centers (CLSC), located in Little Rock and Fresno, has increased during the past four years, despite the sale of loans to private investors. On September 30, 1998, the CLSC portfolio was 216,800 loans. As of September 30, 2002, the portfolio contained 221,500 loans, of which approximately 28,000 were disaster business loans. About 500 loans were SBA serviced loans and 193,000 were lender serviced loans. During this time span the number of SBA employees declined from 100 employees to 71 employees. This represents a 29 percent decrease in staff. It is also estimated that approximately 7,000 new loans will arrive in the CLSCs in early 2003.

The portfolio of loans serviced in the Disaster Home Loan Service Centers (HLSC), located in New York City, Birmingham, El Paso and Santa Ana, has substantially declined during the past four years due to a number of factors including the sales of these loans in the Asset Sales Program. In September 1998, the HLSC portfolio was 122,300. In addition, SBA transferred 60,000 loans to a private contractor in June 1998. The entire disaster home loan portfolio, therefore, was approximately 182,300. As of September 2002, due largely to the Asset Sales program, the portfolio had declined to 76,300 loans in the centers and 26,800 with the private contractor. The contractor serviced loans were transferred in October 2002 to SBA for servicing and sale. The total home loan portfolio, therefore, was 103,100 as of September 30, 2002. This represents a 43 percent decline in loans being serviced. During this four year time span, the number of SBA employees in the HLSCs declined from 123 to 83. This represents a 33 percent reduction. However, some HLSCs perform functions for the Agency as a whole such as the Treasury Offset program and the Asset Sales hot line.

The Asset Sales program greatly impacts loan inventories in the centers. Between FY 1999 and FY 2002 (sales 1-6),

29,561 disaster business loans were approved and 37,374 loans were sold. During that same time period, 105,514 disaster home loans were approved and 95,256 were sold through Asset Sales. Sale 7 loans were sold on December 3, 2002 and will be transferred to the investors in February of 2003.

### ***Loan Liquidation***

SBA loan liquidation includes all activities related to ensuring maximum recovery from delinquent loans in all Agency programs. Liquidation is the most time-intensive aspect of loan servicing and therefore very expensive. SBA estimates that the cost of loan liquidation activities was approximately \$46 million in FY 2002, an increase from the \$24 million cost estimated for FY 2001. The largest component of this cost is the estimated labor cost of loan liquidation activities of field office staff.<sup>1</sup>

Over the last year SBA initiated a nationwide liquidation improvement project that included implementation of the Agency's Asset Sales program and strengthened lender oversight. Field office staff time spent in liquidation matters has increased in many offices because of the following factors:

- increased emphasis on workouts for defaulted loans to attempt to get them back into a paying status,
- heightened scrutiny placed on guaranty purchases because of the Inspector General's Management Challenge #5 and the resulting Guaranty Purchase Review project,
- increased lender authority in origination and servicing, has led SBA to devote additional effort to determining the propriety of lender actions in connection with individual guaranty purchase requests and to reviewing lender liquidation activity in required liquidation wrap-up reports,
- guaranty purchases increased by 20 percent in FY 2002 over FY 2001,
- the Office of Field Operations has emphasized to field offices the necessity to resolve any purchase backlogs,
- training lenders in liquidation procedures and SBA policy has also become more time-demanding because of turnover in lender staff and increased lender authority,
- increased loan liquidation requirements for field offices as a result of Agency-wide coordination with Treasury on debt collection issues, and
- preparation of loans in liquidation status for asset sales and notices to borrowers that their loans would be sold have generated an increased number of compromise requests and other servicing actions on loans in liquidation.

SBA is reviewing the loan liquidation process to explore options for reducing cost, redeploying staff, and streamlining the liquidation process.

<sup>1</sup> The estimate is based on a survey of SBA staff that is used to determine cost allocations in SBA's activity based on costing model.

# Inspector General (IG) & General Accounting Office Management Challenges

The following charts lay out the management challenges and associated SBA corrective actions pertaining to this area that have been identified by the IG and GAO.

## IG Management Challenges

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

Rec.	Action Needed	Activity	Status	Estimated Completion Date
	Top management provides a positive and supportive attitude toward the guarantee purchase process.	Management establishes an organizational culture where deny and repair action are used when appropriate.	Currently discussed in SOP and will be further addressed in Policy Notice.	3/30/03
		Adequate training is provided.	Training module is being developed and is in draft format.	3/30/03
	SBA analyzes risks associated with loan guarantee purchases.	SBA periodically determines actual or potential risks of improper guaranty purchases.	The ongoing guaranty purchase review project periodically examines field office purchase decisions.	3/30/03
		SBA determines level of improper payments for the entire loan portfolio.	Erroneous payments from sample of reviewed purchases are extrapolated to entire portfolio.	3/30/03
	Policies and procedures provide guidance to ensure consistency and accuracy in purchase process.	SBA has clear guaranty purchase procedures, which provide for consistent interpretation.	Guaranty Purchase Notice addresses this issue.	Completed
		Current guidance describes adequate documentation needed to make purchase decisions.	Guaranty Purchase Notice addresses this issue and has an updated purchase checklist.	Completed
		Lenders are informed of required documentation to submit with the guaranty purchase request.	Guaranty purchase checklist for required documentation is being revised, and a Policy Notice addresses this issue.	3/30/03
		Goals are established for reducing improper guaranty purchases.	Goals are being developed based on additional purchase reviews.	3/30/03
	Record information and communicate with those who need it to ensure proper guarantee purchase decisions.	SBA has a system for sharing information among field offices regarding the basis and justification for repairs, denials, and withdrawals of loan guarantees.	Guaranty repair tracking system is in place with reports available on-line to field offices showing repairs, denials and lender withdrawals of guarantees.	Completed
		Field offices track the number of guaranty repairs/denials/withdrawals and the information is readily available centrally.	Guaranty repair tracking system is in place with reports available on-line to field offices.	Completed
		Information is captured on improper payments and is accurate.	Erroneous payment information is determined by guaranty purchase reviews and is further analyzed by OFA.	Completed
	The guarantee purchase process is properly monitored.	A quality assurance system provides appropriate feedback to improve the purchase process.	Guaranty purchase reviews provide feedback on field office purchase decisions.	Completed
		Progress in achieving established goals for reducing improper purchases is monitored.	OFA and Field Operations are monitoring erroneous payments through the guaranty purchase review project.	Completed
		Results of the GPRs, audits, and other reviews are provided to field offices timely and accurately.	Policy Notice is in clearance and will notify field offices on results of guaranty purchase reviews.	3/30/03
		Problems identified by the audits and reviews are resolved timely.	The OFA and Field Operations contact field offices on individual purchase decisions examined in guaranty purchase reviews.	3/30/03
		Information on all loans with identified guaranty purchase issues are flagged in the Delinquent Loan Collection System.	The guaranty repair tracking system is in place and indicates problem loans and the nature of the problems.	Completed

### Challenge 10.

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

Rec.	Action Needed	Status	Estimated Completion Date
1	Within Privacy Act constraints, SBA requires all loan agents to provide the Agency with the information necessary to conduct criminal background checks.	OFA will work with the Office of General Counsel to determine the Agency's legal authority to collect the information requested by the IG.	3/30/03
2	SBA informs loan agents that SBA will conduct criminal background checks on them and that they are subject to future IG reviews.	Same as above.	3/30/03
3	SBA systematically identifies all loan agents and tracks their association with individual loans. This process would include maintaining identifying data and background information on loan agents.	Same as above.	3/30/03
4	SBA obtains sufficient funding to identify and track loan agents systematically.	Same as above.	3/30/03
5	SBA changes its policy to advise all prospective borrowers that they may be subject to criminal background checks.	Same as above.	3/30/03
6	SBA obtains sufficient funding to enable the Agency and OIG to perform criminal background checks on prospective borrowers and loan agents in a timely manner.	Same as above.	3/30/03

FY 2002 GAO RECOMMENDATIONS

GAO-02-789 Foreign Patent Challenges

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Rec.	Recommendations	*Status of Recommendation	Est.Date of Completion
	The Administrator of SBA, with assistance from the Director of the U.S. Patent and Trade Mark Office, collect and make available information about key aspects of foreign patent laws, requirements, procedures, and costs that would be useful to small businesses that are considering whether to obtain foreign patent protection.	In progress	

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GAO-02-749 Coordinated Approach Needed to Address the Government's Improper Payments Problems

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Rec.	Recommendations	*Status of Recommendation	Est. Date of Completion
	The Administrator of SBA should assign responsibility to a senior official, such as the COO or CFO, for establishing policies and procedures for assessing agency and program risks of improper payments, taking actions to reduce those payments, and reporting the results of the actions to agency management for oversight and other actions as deemed appropriate.	In progress	

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**FY 2002 GAO RECOMMENDATIONS**

**GAO-02-313 Debt Collection Improvement Act (Implementation of Administrative Wage Garnishment)**

<b>Rec.</b>	<b>Recommendations</b>	<b>*Status of Recommendation</b>	<b>Est. Date of Completion</b>
1	Prepare comprehensive written implementation plan that clearly define, at a minimum, the types of debt that will be subject to Administrative Wage Garnishment (AWG), the policies and procedures for administering AWG, and the process for conducting hearing. Some of the details that should be considered for inclusion in the plan are (1) whether the agency will conduct AWG in-house, at a debt collection center, or both; (2) the types of debts, if any, that will be sent to FMS prior to becoming 180 days delinquent; and (3) whether hearings will be conducted by the agency or contracted out.		Completed
2	Complete and finalize regulations for conducting AWG.	Proposed regulations are in OGC for review	3/31/2003
3	Use AWG in conjunction with other debt collection tools, when practicable, as leverage to obtain payment from delinquent debtors.	In progress	6/30/2003
4	Expedite referrals of eligible debts to FMS for cross-servicing when relying on FMS to perform AWG. Agencies should refer such debts prior to the 180 day delinquency threshold when practicable.	In progress	9/30/2003

## Government Contracting/ Business Development

SBA's statutory mission includes ensuring a fair share of Federal procurement goes to small businesses. The Office of Government Contracting and Business Development (GC/BD) works to ensure that Federal agencies comply with Federal statutory procurement goal requirements to buy a portion of their goods and services from small businesses. Working with Federal agencies, SBA negotiates procurement goals, monitors performance, encourages the use of small business sources, and provides procurement training and technical assistance to small firms.

To achieve this mission, SBA's strategic plan establishes two outcome goals:

- Increase the opportunities for small businesses to compete for Federal contracts.
- Provide assistance to small businesses in overcoming longstanding barriers to economic opportunity.

### Strategy

GC/BD's main objectives to improve performance over the next two years are to:

- increase Federal prime contracting and subcontracting results by securing top level commitment from Federal agencies to achieve small business goals, promoting procurement opportunities through conducting nationwide matchmaking events, and improving customer service;
- modernize the 8(a) Business Development Program through a program restructuring, the development of an automated, on-line 8(a) application, and implementation of the Procurement Academy; and,
- facilitate community economic development and job creation through the continued development and growth of the HUBZone Contracting Program, and facilitate commercialization of Federal research and development performed by small businesses.

GC/BD supports small businesses through a coordinated and collaborative network of programs. The Office of Government Contracting provides policy direction and guidance to Federal agencies and establishes performance targets in collaboration with the Federal agencies. The SBA and other agencies develop business strategies in pursuit of achieving these goals. Several of the government-wide goals are statutory including small businesses, small disadvantaged businesses, women-owned small businesses, HUBZone small businesses, and service disabled veterans-owned small businesses.

The HUBZone program promotes job growth and economic development in 'Historically Underutilized Business Zones' (HUBZones). HUBZones are distressed urban and

rural areas characterized by chronic high unemployment and/or low household income, or are designated as Indian Lands. Firms that SBA certify as 'Qualified HUBZone Small Business Concerns' are eligible for Federal contract preferences. Through award of such contracts, SBA makes funds available in historically underutilized communities, promoting job growth, capital formation, and economic development.

GC/BD's Office of Business Development manages the business development 8(a) and 7(j) programs. The 8(a) Business Development program assists firms which socially and economically disadvantaged individuals own and control to enter and succeed in the economic mainstream. Under the 7(j) program, SBA awards grants, contracts, and cooperative agreements for the development of training and technical assistance to companies owned and controlled by socially and economically disadvantaged individuals, or companies located in areas of high unemployment, and firms located in areas of low income.

GC/BD will continue to work with Federal agencies to seek top level commitment to accomplish small business procurement goals. It plans to improve oversight by conducting surveillance reviews of Federal agencies and prime contractors. These reviews will help to identify potential areas for improvement to foster more small business participation in Federal procurement. To support the involvement of small businesses in contract awards, SBA also promotes procurement opportunities through a series of procurement matchmaking events held in major metropolitan areas.

GC/BD will also use technology to provide broader coverage at Federal buying activities to review potential procurements for small business participation. Currently, procurement center representatives (PCRs) cover approximately 255 of approximately 2,200 Federal agencies' contracting offices throughout the country. Approximately 60 percent of prime contract dollars and 12.6 percent of contracting offices are covered. SBA can improve coverage by developing a "virtual" PCR process to allow for electronic reviews, thereby increasing the number of procurements that SBA can review for small business participation.

SBA's size standards are used to determine eligible small businesses that can compete for Federal contracts awarded through small business programs. SBA plans to improve the formulation of size standards so that more small businesses can have access to Federal procurement opportunities.

SBA encourages small business innovation by establishing government-wide policy for the Small Business Innovation and Research (SBIR) and Small Business Technology Transfer (STTR) Programs. GC/BD will continue to work with Federal agencies to increase the commercialization of small business innovations under these programs.

### **Resource Partnerships and Cross Cutting Issues**

SBA works with all major Federal Government agencies to ensure that small businesses receive a fair share of Government procurement contracts. It monitors agencies' progress towards the accomplishment of their small business goals by providing mid-year status reports. SBA also works in partnership with the agencies to develop policies affecting small business procurement programs and ensure that procurement policies do not adversely affect small businesses participation in Federal procurement.

One way to promote procurement opportunities for small businesses is to match their technical capabilities with the needs of Federal agencies and prime contractors. SBA is working in partnership with the U.S. Chamber of Commerce to conduct a series of matchmaking events across the country.

SBA is working with the Department of Defense to integrate the PRO-Net system with the Central Contractor Registry to implement one of the Administration's objectives of having a single point of vendor registration for companies that do business with the government.

During FY 2003, SBA plans to partner with the Defense Acquisition University to provide training courses to the procurement workforce. The Agency is also partnering with the Federal Acquisition Institute to develop on-line training course for small business programs that can be used by contracting officials and small businesses.

### **External Factors**

The procurement reforms of the 1990's have had a profound effect on contract awards to small businesses. The impact of the reforms has been compounded by the use of streamlined procurement vehicles such as government purchase cards.

As the Federal Government expands the use of E-Government, small businesses must adapt to these changes. SBA, through its resource partners, must continue to provide outreach and training to educate small businesses on the Government's electronic procurement strategy.

In March 2002, the Administration outlined its Small Business Agenda that focuses on ensuring that small businesses have access to government contracts in full and open competition and avoid unnecessary contract bundling. SBA participated in OMB-led task groups to develop a report to the President in these areas. On October 30, 2002, OMB released its report that included a strategy for increasing Federal Contracting opportunities for small businesses. The strategy outlines nine specific steps to eliminate unnecessary contract bundling and mitigate the effects of necessary and justified contract bundling on small businesses. SBA is working with the task groups to develop changes needed to implement the recommendations. SBA is also working with

an Interagency Acquisition Working Group under the Procurement Executives Council to develop supplemental performance measures to better evaluate the success of its programs. Currently, SBA only uses dollars spent with small businesses as a performance measure.

The Administration's management reforms include, among other things, focusing on competitive sourcing and expanding E-Government. Outsourcing to private industry will create additional opportunities for small businesses to obtain Federal Government contracts. The use of small business procurement preference programs will help agencies implement competitive sourcing because OMB guidance in Circular A-76 (Performance of Commercial Activities) allows agencies to convert a commercial activity to contract performance without a cost comparison.

### **Program Analysis Government Contracting – Prime**

Through the Prime Contracting Program, SBA works with Federal agencies to increase small business opportunities in the Federal acquisition process by reviewing their acquisition plans and making appropriate recommendations to set aside opportunities for small businesses. SBA provides small business sources to acquisition officials and counsels small businesses on how to sell to the Federal Government.

### **Prime Contracting Results Analysis**

Because of the delay in getting accurate data from the Federal Procurement Data Center (FPDC), FY 2001 is the last year that full year results are available. The Federal Acquisition Management Information System (FAMIS) is being developed to address these deficiencies.

The data reflect that agencies failed to achieve the 23 percent government-wide small business goal in FY 2000 and FY 2001. The agencies exceeded the 5 percent small disadvantaged business goal—which includes awards under the 8(a) program—and will likely exceed the goal in FY 2002. Although agencies made some progress towards the women's goal, they failed to achieve the 5 percent goal.

The acquisition reforms of the 1990s changed the way agencies obtain goods and services. Agencies are using Federal supply schedules, government-wide acquisition contracts, government purchase cards, and bundling contract requirements. While these streamlined contracting practices may provide for a more efficient procurement process, they often do not result in awards to small businesses. Implementation of the recommendations from the task force on contract bundling will mitigate some of this impact. SBA is working with the Federal agencies to seek top level commitment to accomplish small business procurement goals.

### **Prime Contracting Resources Analysis**

SBA plans for only inflation related increases in funding for the Prime Contracting program in FY 2004. In FY 2002 the program cost is estimated to be \$7.2 million. The cost

## Program Results and Resources — Prime Contracting

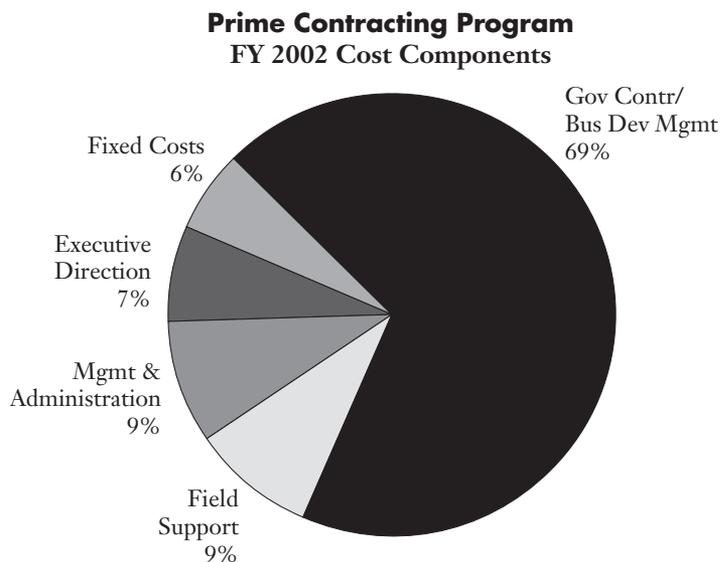
	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual <sup>1</sup>	FY 2003 Goal	FY 2004 Goal
<i>Performance Indicators</i>						
Percentage of all Federal Prime Contractor Dollars awarded to small firms	.23.1%	.22.3%	.22.8%	.N/A	.23.0%	.23.0%
Percentage of all Federal Prime Contractor Dollars awarded to Small Disadvantaged Businesses	.6.5%	.6.5%	.7.12%	.N/A	.5.0%	.5.0%
Percentage of all Federal Prime Contractor Dollars awarded to Women-Owned Small Businesses	.2.3%	.2.3%	.2.49%	.N/A	.5.0%	.5.0%
Percentage of all Federal Prime Contractor Dollars awarded to Service Disabled Veteran-Owned Small Businesses	.N/A	.N/A	.0.25%	.N/A	.3.0%	.3.0%
Percentage of all Federal Prime Contractor Dollars awarded to qualified HUBZone small business concerns	.N/A	.0.30%	.0.72%	.N/A	.3.00%	.3.00%
Jobs Created <sup>2</sup>	.N/A	.N/A	.370,121	.412,614	.412,773	.N/A <sup>3</sup>
Program Cost Estimate (\$000)	.\$4,656	.\$7,162	.\$9,616	.\$7,235	.\$7,785	.\$7,880

<sup>1</sup> Procurement data for FY 2002 is not yet available.

<sup>2</sup> Gross employment impact of Federal Procurements was produced using, as a base, the dollar receipts per employee figure generated within each industry sector for 1997, the year that the Census Special Tabulation was last developed for SBA. Inflation increases are applied to each industry sector in each FY.

<sup>3</sup> Jobs created goals are based on overall Federal budget levels which was not available to SBA during the budget preparation process.

of the program decreased from the FY 2001 level due to a reduction in the amount of program support reported by field offices in SBA's cost allocation survey. In FY 2002 the largest cost component was 69 percent or \$5.0 million, for GC/BD program management. District office support accounted for \$0.6 million or 9 percent of the costs. The cost of executive direction, including financial management support, was \$0.5 million. Management and Administration costs, including human resource, information technology, and administrative support, was \$0.7 million. Allocated overhead costs for rent, telecommunications, and other fixed costs are 6 percent, or \$0.4 million.



## Government Contracting – Subcontracting

Under the Subcontracting Program, SBA works with the Federal government's large prime contractors to ensure that small businesses receive a fair share of subcontracting opportunities. SBA accomplishes this by reviewing the subcontracting plans of large prime contractors and by bringing together large and small businesses to facilitate the formation of mutually beneficial private sector relationships.

2001 estimate of \$4.2 million due to a reduction in the amount of support reported in SBA's cost allocation survey by field office personnel. In FY 2002 the largest cost component is 70 percent or \$2.8 million for headquarters program management by GC/BD. The cost of the support efforts of district office staff is estimated to be 8 percent of the cost or \$0.3 million. Headquarters costs include 16 percent, or \$0.6 million for executive direction support, legal counsel, financial management, procurement, and information technology

### Program Results and Resources — Subcontracting

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY2003 Goal	FY 2004 Goal
<b>Performance Indicators</b>						
Percentage of all subcontracting procurement dollars awarded to small firms	.40.4%	.39.7%	.39.0%	.N/A	.40.0%	.40.0%
Percentage of all subcontracting procurement dollars awarded to Small Disadvantaged Businesses (SDB)	.6.5%	.6.7%	.5.95%	.N/A	.5.0%	.5.0%
Percentage of all subcontracting procurement dollars awarded to Women-Owned Businesses	.4.3%	.4.7%	.4.5%	.N/A	.5.0%	.5.0%
Percentage of all subcontracting procurement dollars awarded to Service Disabled Veterans	.N/A	.N/A	.0.08%	.N/A	.3.0%	.3.0%
Program Cost Estimate (\$000)	\$.2,165	\$.3,327	\$.4,234	\$.3,961	\$.4,367	\$.4,426

### Subcontracting Results Analysis

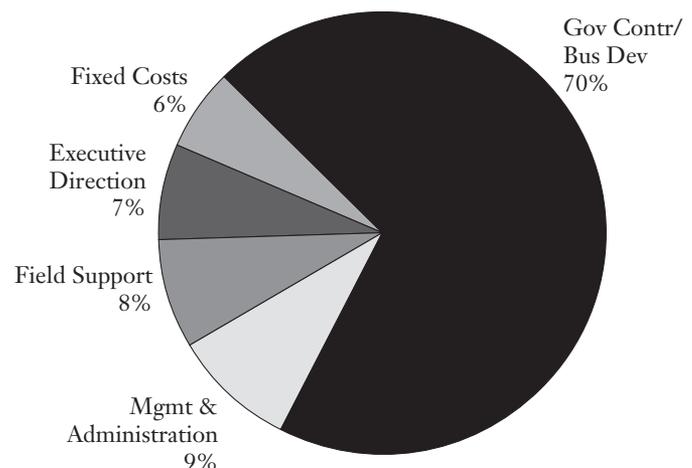
There has been a slight decline in the percentage of subcontracting dollars awarded to small businesses since FY 1999. The percentage of subcontracting to women-owned small businesses is significantly higher than for prime contracts. Collectively, agencies are achieving the 5 percent subcontracting goal for small disadvantaged businesses. Both the percentages of prime and subcontracting dollars to service-disabled veteran-owned small businesses are below the 3 percent goal. SBA will continue to work with the agencies and Federal prime contractors to increase procurement opportunities for those categories of small businesses where the goal has not been met. The task force on contract bundling has developed recommendations that will support small businesses receiving subcontracting awards. Specific efforts will include Agency Surveillance Reviews to ensure compliance with responsibilities for subcontracting plan enforcement and increased productivity in the area of prime contractor compliance reviews.

### Subcontracting Resource Analysis

In FY 2004, SBA plans to support the Subcontracting program at approximately its current level of resources. SBA estimates that in FY 2002 the cost of the program was \$3.9 million. The cost of the program decreased from the FY

support. Overhead costs for rent, telecommunications, and other fixed costs are estimated to be 6 percent, or \$0.2 million.

**Subcontracting Program  
FY 2002 Cost Components**



## Promote Procurement Matchmaking

### Program Results and Resources

Procurement Matchmaking Performance Indicators	FY 2002 Estimate	FY 2003 Goal	FY 2004 Goal
Small Business appointments conducted with procurement officials	1,000	16,000	16,000
Small businesses assisted via pre-scheduled selling meetings with procurement officials	400	4,800	6,000
Small business procurement matchmaking events held	1	12	12

### Matchmaking Results Analysis

During FY 2002, SBA introduced a new effort to promote procurement opportunities. The Small Business Matchmaking Initiative is a joint effort of the U.S. Chamber of Commerce and the SBA. The U.S. Chamber of Commerce, with sponsorship by Raytheon Company, was the major event underwriter for the initial matchmaking event held on May 10, 2002 in Washington, D.C. As part of the SBA and Industry 35th Annual Procurement Conference, meetings between small businesses and procurement officers were arranged through an innovative web portal that captured buying requirements, supplier capacity and experience.

The program provided more than 400 participating small businesses with 1,000 pre-scheduled appointments with procurement officials from Federal agencies and large corporations. Due to the overwhelming success of the May event, the U.S. Chamber of Commerce and the SBA launched a national rollout of the matchmaking program in October 2002. The SBA leveraged its resources and relationships to produce these results without obtaining additional budget funding. The program is funded within the scope of the existing operating budget. By collaborating with the U.S. Chamber of Commerce, SBA is leveraging its budget and increasing efficiency by linking with other organizations. SBA budget dollars are leveraged with resources from state and local governments and private industry, producing results for all participants.

The Matchmaking Initiative facilitates small businesses' access to contracts and related financing by helping to build a pipeline of future contracting opportunities. The small businesses are matched via pre-scheduled meetings with the buyers based on commodity or service needed by the buyer. As a result, both meeting participants share a mutual interest in addressing a need. Through these matchmaking events, the SBA assists government agencies and prime contractors in achieving procurement goals. SBA tracks results, but expects a 6-12 month lag before procurement awards occur. After a baseline is established, SBA will track the procurement dollar awards resulting from matchmaking appointments.

The rollout of the Matchmaking Initiative provides a more citizen-centered approach to accessing government contracts. By delivering these events across the United States, SBA further opens access to contracts to businesses residing outside the Washington, D.C. area. At the Matchmaking event held in October, 2002 in Cleveland, OH, over 600 small businesses participated whereby approximately 1,700 matchmaking appointments were scheduled with Federal and prime contracting officers.

### Matchmaking Resource Analysis

The Procurement Matchmaking Initiative is highly cost effective for SBA. SBA works closely with the event's cosponsor, the U.S. Chamber of Commerce and the other regional chambers, corporations and government entities in order to maximize the use of limited federal budget dollars. Funding of the project is handled almost entirely by the U.S. Chamber of Commerce and its affiliates. SBA funds the initiative through GC/BD's annual operating budget allocation thereby leveraging federal dollars at a rate of approximately 30:1.

### 8(a) Business Development Program

The 8(a) Business Development Program assists firms owned and controlled by socially and economically disadvantaged individuals to enter and succeed in the economic mainstream. SBA helps eligible small businesses in a structured developmental process over a 9-year program participation term. SBA provides access to business development opportunities authorized under section 8(a) of the Small Business Act. Assistance includes access to sole source and limited competition Federal contract opportunities. The program works with Federal acquisition agencies to develop contract opportunities for program participants and assist firms with partnering, teaming, and joint venture arrangements in support of their business development plans.

## Program Results and Resources — 8(a)

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY2003 Goal	FY 2004 Goal
<i>Performance Indicators</i>						
Number of small businesses participating in the program	5,969	6,383	6,942	7,000	7,000	7,300
8(a) client success rate						
3 years after graduation	.68%	.65%	.64%	N/A	.70%	.70%
<i>GC/BD Support Cost</i>						
Estimate (\$000)	N/A	N/A	\$4,448	\$5,129	\$4,461	\$5,140
<i>Field Support Cost</i>						
Estimate (\$000)	N/A	N/A	\$19,162	\$26,764	\$29,212	\$29,389
<i>Agency Support Cost</i>						
Estimate (\$000)	N/A	N/A	\$10,504	\$8,954	\$10,314	\$10,550
<i>Total Program Cost</i>						
Estimate (\$000)	\$31,329	\$30,576	\$34,114	\$40,847	\$43,987	\$45,538
Cost per firm 8(a) firm	\$5,248	\$4,790	\$4,919	\$5,836	\$6,283	\$6,238

### 8(a) Results Analysis

8(a) firms are key contributors to job growth. 8(a) firms employ on average 26 persons per company. By contrast, the national average for non 8(a) small businesses is only two persons employed per firm. Additionally, 42% of 8(a) firms are still in business nine years after acceptance into the 8(a) program, compared to only 29 percent of small businesses in America.

A key program improvement for GC/BD is the modernization of the 8(a) Business Development Program. The 8(a) modernization initiative will enhance and restructure the 8(a) program by consolidating the application and annual review processing into centralized locations. SBA is developing an automated, on-line 8(a) application that will speed the decision-making process and create a more customer friendly application experience for small businesses. The goal is to process 3,000 applications and 7,000 annual reviews annually.

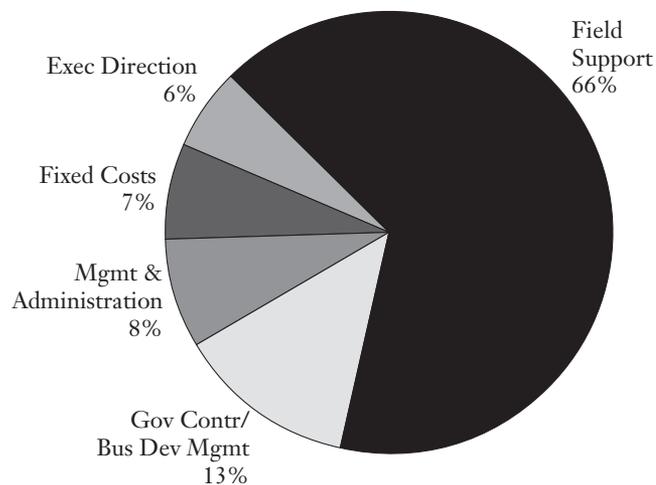
SBA is implementing the new on-line 8(a) Procurement Academy in FY 2003. The 8(a) Procurement Academy initiative will offer CD and Internet based training to all 8(a) firms.

SBA realizes that many firms are applying for and receiving numerous Federal certifications as being socially and economically disadvantaged. Many, but not all, of the requirements for these certifications are similar. SBA is therefore evaluating the feasibility of entering into reciprocal agreements with other Federal, state and local agencies that certify firms that are "owned and controlled by socially and economically disadvantaged" individuals. Reciprocity agreements where programs can share similar certification requirements will ease the application process. The reciprocity agreement initiative attempts to simplify the 8(a) application process for firms by partially relying on existing certifications and the analysis that went into them. The goal is to serve up to 1,500 firms annually.

### 8(a) Resource Analysis

SBA plans to provide resources to the 8(a) at approximately its current level in FY 2004. SBA estimates that the cost of the 8(a) program in FY 2002 was \$40.8 million. The largest cost of the 8(a) program is for field employees who support and implement the program. Field Business Opportunity Specialists act as case workers for each 8(a) firm, conducting site visits and developing personal relationships and trust with individual entrepreneurs. They provide marketing and technical assistance to firms either directly or through resource partners such as SCORE volunteers. They also ensure that firms comply with eligibility requirements. In FY 2002 field support accounted for 66 percent, or \$26.7 million, of the program cost. In FY 2002 field support for the 8(a) program increased due to the introduction of a new district office performance goal for assisting 8(a) firms in obtaining contracts. Headquarters costs for

**8(a) Business Development Program  
FY 2002 Cost Components**



## Program Results and Resources — 7(j)

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY2003 Goal	FY 2004 Goal
<i>Performance Indicators</i>						
Number of small businesses that participated in 7(j) funded activities	N/A	.694	1,964	.605	.900	1,000
% of customers who are satisfied with service	N/A	N/A	N/A	N/A	.75%	.80%
Program Cost Estimate (\$000)	\$3,213	\$3,950	\$3,241	\$4,365	\$4,885	\$4,912
Cost per small business participating in 7(j) funded activities	N/A	\$5,691	\$1,650	\$7,214	\$5,428	\$4,912

GC/BD program management are \$5.1 million. The program was supported by an additional \$6.0 million for legal, accounting, human resources and information technology which are presented in the chart below as Executive Direction and Management & Administration costs. Allocated overhead costs for rent, telecommunications, and other fixed costs are 7 percent, or \$2.9 million.

### 7(j) Program

Under the 7(j) Program, SBA awards grants, contracts, and cooperative agreements for the development of training and technical assistance to companies owned and controlled by socially and economically disadvantaged individuals or companies located in areas of high unemployment, and firms located in areas of low income.

### 7(j) Results Analysis

The 7(j) program is experiencing an increase in demand for its services. Program results vary based on factors such as the duration and depth of the training. SBA is developing initiatives to provide the maximum amount of training to the greatest number of firms at the most convenient locations. One of these initiatives involves developing CD ROM-based business management training that will allow owners and managers to participate in distance learning from the convenience of their homes or businesses. This initiative will have a multiplier effect on the number, type, and location of firms that receive training and assistance via 7(j) funds.

### 7(j) Resource Analysis

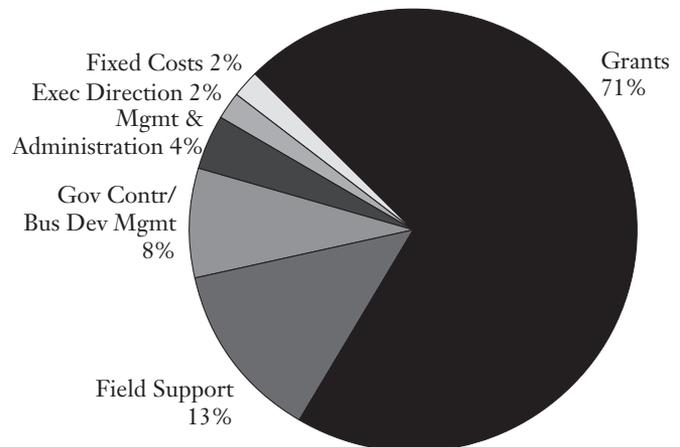
7(j) program activities are funded through grants, cooperative agreements and contracts. Program expenses also include headquarters oversight and field office support for marketing and outreach.

The overall cost of the 7(j) program is projected to increase from \$4.4 million in FY 2002 to \$4.9 million in FY

2003 largely because SBA anticipates spending an additional \$411,000 in grant funds. This will enable SBA to train an additional 300 firms leading to a reduction in the unit cost. In FY 2004 SBA plans to continue resource support for the program at approximately the FY 2003 level.

In FY 2002 SBA's resource support for the 7(j) program is estimated to have been \$4.4 million. The largest cost component is 71 percent, or \$3.0 million, for grants, followed by 13 percent, or \$0.6 million, for labor costs for district office employees who support this program. Headquarters costs for direct management include \$0.3 million for GC/BD and \$0.2 million for legal, accounting, human resources and information technology support. Allocated overhead costs for rent, telecommunications, and other fixed costs including pension liability are 2 percent, or \$0.1 million.

**7(j) Technical Assistance Program  
FY 2002 Cost Components**



## HUBZone Empowerment Contracting Program

The HUBZone contracting program provides for Federal contract set-asides, sole source awards, and price evaluation preferences in unrestricted procurements for qualified HUBZone small businesses. HUBZones are distressed urban and rural areas characterized by chronic high unemployment and/or low household income, or are designated as Indian Lands. Firms certified as "qualified HUBZone small business concerns" are eligible for Federal contract preferences. The government-wide statutory goal for this program is to award 3 percent of the total Federal procurements to such firms in FY 2003. The following table summarizes the results achieved and the resources required by the HUBZone program.

from .30 percent of total awards, or \$663,000,000, to 0.72 percent of total awards, or \$1,581,000,000.

### HUBZone Resource Analysis

The program cost estimate for the Hubzone program increased from \$6.3 million in FY 2002 to \$7.3 million in FY 2003 due to the expectation that SBA will receive and spend the entire \$2 million initiative funding requested in FY 2003, rather than the \$1.6 million expended in FY 2002. Higher overhead costs will also contribute to increased costs in FY 2003. For FY 2004, SBA requests resources to continue supporting the program at approximately the FY 2003 level.

The estimated total program cost in FY 2002 was \$6.3 million. The \$2 million provided as a special initiative line

### Program Results and Resources — HUBZone

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY2003 Goal	FY 2004 Goal
<i>Performance Indicators</i>						
Percentage of all Federal PCDs awarded to HUBZone small businesses	N/A <sup>1</sup>	.03%	.72%	N/A	3.0%	3.0%
Cumulative number of HUBZone firms certified	329	1,843	3,986	6,772	8,000	10,000
Program Cost Estimate (\$000)	\$4,581	\$5,820	\$5,889	\$6,294	\$7,258	\$7,259
Cost per firm certified		\$3,157	\$1,477	\$929	\$907	\$726

### HUBZone Results Analysis

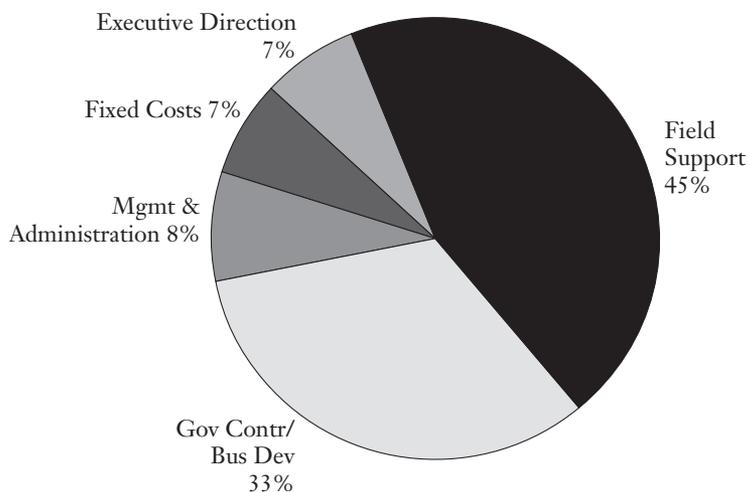
The HUBZone contracting program certifies approximately 2,000 firms each year. By the end of FY 2004, the program will have an active portfolio of 10,000 certified firms. This portfolio will constitute a vibrant pool of potential small business sources capable of fulfilling acquisition agencies' requirements. This, in turn, will enable Federal agencies to meet statutory targets of awarding 3 percent of requirements to HUBZone firms. The result of meeting HUBZone targets will be the flow of approximately \$6 billion annually into disadvantaged communities. These funds will have a powerfully stimulating effect on job growth, capital formation, and economic development in historically underutilized communities.

Based on FY 2000 procurements, HUBZone firms increased employment 33 percent to 50 percent as a result of contract awards. Nearly 50 percent of HUBZone firms increased capital expenditures as a result of receiving contracts in FY 2000.

The number of firms that SBA has certified under the HUBZone Contracting Program has risen from approximately 1,800 at the end of FY 2000 to approximately 4,000 at the end of FY 2001. Over the same period of time, the value of contracts awarded to HUBZone firms increased

item funds are used to cover the costs of the GC/BD's national management of the HUBZone program. The office performs the following statutorily mandated activities: determination of initial and continuing program eligibility, management and conduct of program examinations; adjudication of protests and appeals; and maintenance of a database of certified firms.

### HUBZone Empowerment Program FY 2002 Cost Components



<sup>1</sup> Not available, FPDS did not track HUBZone contract award dollars until FY 2000.

The SBA's operating budget provides the remaining funding necessary for support costs including \$2.8 million in district office labor for marketing and outreach support, \$0.5 million in management and administration support, and \$0.4 million in SBA executive direction.

Over the last several years, SBA has invested in development of the HUBZone system which automates submission of applications by small businesses over the Internet, and processing of certification actions by Agency staff. This system has contributed significantly to organizational improvements, enabling an average staff of eight, including four analysts and four support staff, to certify approximately 2,000-2,700 firms per year. Because of the success of this system, other certification systems will be modeled on it.

### PRO-Net

The Procurement Marketing and Access Network (PRO-Net) is the first step for any small business seeking to participate in the Federal market for goods and services. In accordance with statutory and regulatory requirements, PRO-Net is the authoritative database of firms certified under the 8(a) Business Development and HUBZone Empowerment Contracting Programs and as small disadvantaged businesses. The Federal acquisition community, state and local governments, and prime contractors use PRO-Net as their first step in identifying small business vendors.

### PRO-Net Results Analysis

PRO-Net supports the President's Management Agenda to expand E-Government. Through operation of PRO-Net, SBA will play an important role in offering electronic services to citizens and small businesses. During FY 2002, SBA, the Department of Defense, and the Office of Federal Procurement Policy worked together to integrate PRO-Net and the Department of Defense's Central Contractor Registration (CCR). Preparatory to this integration, SBA purged the PRO-Net database of approximately 40,000 inactive records. As a result of the integration of PRO-Net and CCR, PRO-Net contained approximately 152,000 records as of the December 2002 merger.

### PRO-Net Resource Analysis

In FY 2002 SBA reduced expenditures for the development of the PRO-Net system, leading to a significant reduc-

tion in the costs of administering the program. SBA spent \$161,000 for contractor support to run the PRO-Net help desk, approximately \$120,000 in labor costs, and \$51,000 in administrative overhead to support the PRO-Net program in FY 2002.

### Small Business Innovation Research and Small Business Technology Transfer Programs

SBA encourages small business innovation by establishing government-wide policy for the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs. Through award of research and development assistance grants and contracts, these programs promote the flow of innovative products and services from small businesses to the federal and commercial markets. There are 10 participating federal agencies in the SBIR program, and 5 in the STTR program. Through the Federal and State Technology Partnership program (FAST), SBA provides grants to a single representative of a state that is used to strengthen the technological competitiveness of small businesses. Each grantee under this program must leverage the amount of requested Federal funds with matching state funds as required by the FAST legislation. The SBIR Rural Outreach program provides grants to approximately 25 states to increase participation in the SBIR program. Below are the program results for the SBIR program, the larger of the two programs. The STTR program awards \$70 million annually to small businesses.

### SBIR Results Analysis

The SBIR program has proven popular with the small business community and to our Nation's research agenda. Small hi-tech firms have submitted over 250,000 proposals, which have resulted in over 60,000 awards worth more than \$12 billion in the 20-year history of the program. Commercial successes associated with the program have come from a wide range of technologies and industries ranging from laser technology to medical research. The SBIR program is a highly successful program as evidenced by commercialization rates of SBIR-generated products. Approximately 24 percent of completed projects achieve commercialization within four years. When multiple technologies are combined, the commercialization rate is over 40 percent. In FY 2003, approximately \$1.7 billion will be awarded to small R&D firms under the SBIR program.

### Program Results and Resources — PRO-Net

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY2003 Goal	FY 2004 Goal
<i>Performance Indicators</i>						
Number of firms registered in PRO-Net	183,750	204,148	212,300	178,516	165,000	179,000
Average hits/visits per week	22,962	29,146	29,840	21,321	TBD	TBD
Program Cost Estimate (\$000)	N/A	\$785	\$700	\$332	\$500	\$500
Cost per firm registered	N/A	\$3.85	\$3.30	\$1.86	\$3.03	\$2.79

## Program Results and Resources — SBIR

SBIR & STTR	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY2003 Goal	FY 2004 Goal
<i>Performance Indicators</i>						
Annual Awards	4,590	4,496	4,748	4,980	5,100	5,400
Total Federal Grant and Contract Dollars Awarded (\$000)	\$1,096,500	\$1,190,200	\$1,294,300	\$1,500,010	\$1,700,000	\$2,000,000
Agencies Meeting 2.5% Set-a-Side <sup>1</sup>	7	7	8	8	10	10
Commercialization Rate <sup>2</sup>	.39%	.39%	.40%	.41%	.42%	.43%
STTR and STTR Program Cost Estimate (\$000)	\$2,578	\$1,576	\$1,524	\$1,396	\$1,451	\$1,491

Without this valuable program, it is doubtful that this level of participation and opportunity would exist for small high technology firms. This competitive program has earned high marks for quality. In a recent report, the GAO reported that the quality of work being performed by small businesses in the SBIR program is as good as, and in some cases better than, all other R&D work being performed for the Federal government. Just as important, it does not add cost to the Federal budget. Finally, as a result of this program, there is a flow of innovative new products and services to the American marketplace.

### **SBIR and STTR Resource Analysis**

In FY 2004 SBA plans to provide resources for this program at approximately the FY 2002 level. In FY 2002 the cost of supporting this program is estimated to be \$1.4 million. The costs for this program include field staff outreach, \$0.2million; GC/BD program management - \$0.7 million; Executive Direction - \$0.1 million; Management and Administration - \$0.2 million, and Fixed Costs, \$0.2 million. The cost of the STTR program was approximately \$0.4 million.

### **Complementary and Supporting Programs**

Other SBA GC/BD programs include:

- **Women Business Owners' Program.** The Federal Contract Assistance for Women Business Owners' Program encourages Federal agencies to develop long-term comprehensive strategies that expand opportunities for women-owned small businesses in order to meet the statutory 5 percent women-owned small business goal.
- **Natural Resources Sales Assistance Program.** The purpose of the Natural Resources Sales Assistance Program is to aid and assist small business in obtaining its fair share of Federal property offered for sale or disposal by other means. Within this government-wide program, SBA efforts have concentrated on Federal timber, royalty oil, coal leases, other mineral leases, and Federal surplus property.
- **Certificate of Competency Program.** The Certificate of Competency Program provides an appeal process to small businesses that have been denied contracts with the U.S. Government for a lack of "responsibility" or a perceived inability to perform satisfactorily.
- **Size Standards.** SBA develops small business size standards for Federal programs so that small business assistance is provided to its intended beneficiaries.
- **Small Disadvantaged Businesses.** SBA certifies qualifying companies as Small Disadvantaged Businesses (SDBs). Certification enables eligible companies to obtain certain procurement preferences. Economy Act Agreements with the top 20 Federal procuring agencies have funded this activity.

<sup>1</sup> Set-a-Side: The Small Business Act requires any agency with an annual extramural Research, Research and Development budget in excess of \$100M to participate in the SBIR program and reserve 2.5% of the budget for the program.

<sup>2</sup> Commercialization rate: This is the measurement of the commercialization of SBIR technologies that have been fully transitioned into the marketplace.

# Inspector General (IG) and General Accounting Office Management Challenges

The following charts lay out the management challenges and the corrective actions taken by SBA pertaining to this area that have been identified by the IG and the GAO.

## IG Management Challenges

### Challenge 7. More participating companies need access to business development and contracts in the Section 8(a) Business Development program.

Rec.	Action Needed	Activity	Status	Est. Completion Date
1	Refocus the Section 8(a) BD program to emphasize business development.	Develop a plan to restructure the 8(a) Business Development Program to enhance delivery of assistance, to make contracting assistance more comparable with today's Federal procurement environment, and to ensure a more equitable distribution of program business. The primary objective is to develop 8(a) Firms so that they can be competitive in the Federal marketplace.	In January 2002, the Working Group began work to restructure the 8(a) Business Development Program to enhance delivery of business development assistance, to make contracting assistance more comparable with today's Federal procurement environment, and to ensure a more equitable distribution of program benefits. The effect is focused on training to develop business programs for participants and maximize distribution of available benefits.	Final Report by 03/31/2003
2	Develop criteria defining "business success."	In January 2002, the Working Group began work to restructure the 8(a) Business Development Program to enhance delivery of business development assistance, to make contracting assistance more comparable with today's Federal procurement environment, and to ensure a more equitable distribution of program benefits. The effect is focused on training to develop business programs for participants and maximize distribution of available benefits. Final action not anticipated until March 31, 2003.	Same as Above	03/31/2003
3	Graduate participants once they reach those levels defined as "business success."	Graduation criteria must be clearly defined, such as when SBA considers a company to be successful.	Same as Above	03/31/2003
4	Develop a mechanism to ensure contracting opportunities are more equitably distributed to Section 8(a) program participants.	Develop graduation criteria along with other business development tools.	Same as Above	03/31/2003

## Challenge 8. SBA needs clearer standards to determine economic disadvantage.

Rec.	Action Needed	Status	Est. Completion Date
1	Redefine "economic disadvantage" using objective, quantitative, qualitative and other criteria that effectively measure capital and credit opportunities.	The IG and GC/BD agreed that sufficient guidance and criteria exist in the current statute. Consequently and that the most appropriate resolution would be to develop more specific internal guidance regarding the methodology to be used to ensure full compliance with the law.	A task force met on several occasions to discuss the proposed guidance. Preliminary guidance has been drafted but requires revision. Final guidance will be developed and disseminated by Policy Notice and included in the newly drafted 8(a) BD SOP that is currently in the Agency clearance process. SBA expects to issue this guidance by June 30, 2003.
2	Provide sufficient financial and analytical training to business opportunity specialists to enable them to evaluate a company's business profile and competitive potential.	The IG and GC/BD agreed that the most appropriate resolution would be to develop more specific internal guidance regarding the methodology to be used to ensure full compliance with the law.	Same as above

**Challenge 9. SBA needs to clarify its rules intended to deter Section 8(a) Business Development participants from passing through procurement activity to non-Section 8(a) Business Development firms.**

Rec.	Action Needed	Status	Est. Completion Date
1	Tighten the definition of "manufacturing" to preclude the practice of making only minor modifications to the products of other manufacturers.	SBA needs to clarify its rules intended to deter Section 8(a) Business Development participants from passing through procurement activity to non-Section 8(a) Business Development firms.	9/30/03

**FY 2002 GAO RECOMMENDATIONS  
PERFORMANCE AND ACCOUNTABILITY CHALLENGES**

**GAO-01-260 SBA Challenges**

<b>Rec.</b>	<b>Recommendations</b>	<b>*Status of Recommendation</b>	<b>Est. Date of Completion</b>
	Focus the 8(a) program on helping firms obtain contracts to increase procurement opportunity.	SBA has initiated changes to implement the recommendation. However, the information systems changes that are needed will not take place until the final phase of SBA's Agency-wide systems modernization effort.	9/30/2003

**GAO-02-57 HUBZone Program Reporting an Implementation Difficulties**

<b>Rec.</b>	<b>Recommendations</b>	<b>*Status of Recommendation</b>	<b>Est. Date of Completion</b>
1	Improve accuracy of the data reported by Federal agencies; the Administrator, Office of Federal Procurement Policy, in consultation with SBA when appropriate; strengthen the guidance for all Federal agencies about reporting small business program contracting activities to the Federal Procurement Data Center (FPDC).	The SBA Office of Government Contracting has consulted with OFPP regarding guidance for Federal agency reporting about small business program contracting activities. A meeting between SBA and OFPP was held on November 6, 2002 to formalize and issue specific reporting guidance. Expected completion by January 31, 2003.	01/31/2003
2	To improve the accuracy of data at an agency-wide level, the GAO recommended the SBA develop guidance for all Federal agencies about identifying contracts to be reported to the FPDC that meet HUBZone criteria.	SBA and OFPP developed guidance for all Federal agencies about contracts to be reported to the FPDC that meet HUBZone criteria. This guidance was issued in a Memorandum For Agency Senior Procurement Executives and signed by OFPP Administrator Angela B. Styles on June 24, 2002.	COMPLETED Documents submitted to GAO to close recommendation.
3	To help contracting officers identify firms with the appropriate capabilities the SBA inform small businesses listed in PRO-Net about the importance of entering and maintaining timely, complete and accurate data.	All Pro-Net listed firms have been notified of the importance of entering and maintaining, complete, and accurate data to ensure that contracting officers have the appropriate information necessary to identify capable firms for potential contracting opportunities. Also, an automated system has been developed that notifies all Pro-Net listed firms of the need to update their profiles on an annual basis.	COMPLETED Documents submitted to GAO to close recommendation.

## Entrepreneurial Development

The vision of SBA's Office of Entrepreneurial Development (ED) is to enhance business expansion and entrepreneurship by providing cutting edge programs and services, through traditional and E-government methods, designed to provide existing and potential entrepreneurs with the knowledge, skills and tools to succeed and compete in the 21st century business environment, domestically and internationally.

Access to training and counseling supports the following outcome goals.

- Increase the opportunities for entrepreneurs to start a small business.
- Increase the opportunities for small businesses to grow.

### Strategy

Lack of management knowledge and the inability to access knowledge are major underlying causes of small business failure. Therefore, empowering entrepreneurs through counseling, education, training and information is one of SBA's principal objectives. ED plays an important role in delivering and disseminating business information, providing education and training and counseling clients about starting or growing their businesses.

ED serves over 1.3 million clients annually through its programs including, among others, Women's Business Centers (WBCs), Small Business Development Centers (SBDCs), Business Information Centers (BICs), the SCORE program and various on-line activities. The Agency is also creating citizen-centered Internet applications that empower entrepreneurs to easily access government information when and where they want.

Most of ED's programs and services are leveraged with the private sector, requiring reduced government funding while providing the advantage of increased support, commitment and outreach for the programs locally. The SBDC and WBC programs are matching grant programs many of whom are highly leveraged with the private sector.

SBA is requesting \$475,000 for the Business Information Center program (BIC). Focusing on the pre-venture market, BICs provide a package of tools – technology, technology-based products and reference materials – to SBA district offices and community-based resource partners to improve their technical assistance capability for increasing opportunities for small business growth. BICs provide early start-up clients with a living laboratory of "state of the art" technology, enabling them to experiment with technologies.

SBA is requesting \$5 million for the SCORE program which helps current and potential entrepreneurs make intelligent business decisions through advice and assistance delivered by a nationwide network of small business-savvy

volunteers, both retired and still working. The vast majority of clients counseled by SCORE are pre-start or recently started businesses. In addition to face-to-face counseling, SCORE provides email counseling, which now accounts for almost 25 percent of its clients.

SBA is requesting \$88 million for Small Business Development Centers (SBDCs). SBDCs increase opportunities for entrepreneurs to start a small business as well as increasing their growth and survival. Approximately 50 percent of SBDC clients are entrepreneurs who want to start a small business. With a national network of 58 lead centers, over 1,100 service centers and approximately 6,000 employees, SBDCs tailor their services to the needs of each individual client and provide the full range of business counseling from the basics, such as marketing and finance, to the relatively more advanced such as patent assistance, export assistance, and strategic planning. SBDCs provide this assistance at SBDC sites, or at the client's site. It may be provided face-to-face, by phone, by e-mail, by fax, by video, or by teleconferencing.

SBA is requesting \$3 million for the Paul D. Coverdell Drug-Free Workplace Program. ED delivers this program to small businesses nationwide in part through the SBDC system. The grantees provide training to small businesses on how to set up drug-free workplace programs.

SBA is requesting \$12 million for Women's Business Centers (WBCs). The primary focus of WBCs are to assist women entrepreneurs start and expand small businesses. The centers assist the pre-venture client and existing businesses in the maintenance and growth phases of their business development. The WBCs, along with SBA district offices, conduct long-term mentoring roundtables that provide ongoing support which aid in business retention and provide training on applying for financial and credit assistance.

SBA is requesting \$260,000 for the E-Business Institute, the on-line training initiative, expands SBA's reach to significantly more clients. It demonstrates vigorous support for expanding electronic government with its 24/7 availability, ease of use, and rich educational content. The E-Business Institute will significantly increase opportunities for small businesses to get started, compete and grow.

ED is committed to improving its ability to serve small business by modernizing programs and improving their management. ED's management objectives for FY 2004 include:

- Expanding the SBA customer base through electronic and other means and meeting the needs of a growing and increasingly diverse clientele.

This objective expands and improves SBA's efforts, through creative mechanisms, to reach a larger proportion of America's small businesses. Clients will be better served through 24/7 customer-centric programs that deliver market-driven products to meet 21st Century demands. The Agency needs to increase outreach by its resource partners, to improve marketing, and to create different delivery methods such as participating in new types of assistance centers and working with resource partners that are already assisting segments of the business population not currently served by SBA. The Agency plans to develop a more comprehensive on-line training assistance capability which will reach far greater numbers at reduced costs. SBA will complete the first national on-line small business needs assessment survey of SBDC clients by the end of FY 2003.

- Improving delivery through program modernization.

ED has years of experience in providing grants for technical assistance delivery through programs such as SCORE, SBDCs and WBCs. In FY 2003, ED will be looking at these programs and others under its jurisdiction with an eye toward improving access to information and technical assistance by offering more effective programs that are readily accessible, easier to find and use, better managed and are responsive to the needs and diversity of the small business community. It will be looking to improving their flexibility and service and their responsiveness to changing priorities.

- Improving integration of ED programs.

Recognizing that ED is the first contact for most of SBA's customers, ED understands that, to be credible to its customers, it needs to be entrepreneurial. It is endeavoring to create seamless delivery mechanisms and increase effectiveness by building cross-division coalitions within the Agency and locating resources nearer the customers in order to serve them better and through strengthening partner oversight. For example, where legally permissible, ED will take a key role in SBA's transformation efforts by putting more responsibility in the field, closer to the customers, and improving integration of its programs with other SBA and Federal programs. ED is also participating on the Agency's E-grants team.

#### ***Resource Partnerships and Cross Cutting Issues***

SBA provides management and technical assistance through partnerships with other Federal, state and local agencies and the private sector. For example, SBA and the Department of Commerce (DOC) provide different products and services to American minority businesses, and focus on different market segments. Through grants, cooperative agreements and cosponsorships, SBA provides counseling,

technical and management assistance to help small firms write business plans, apply for loans, compete for Federal contracts, and run their businesses. It works with many Federal agencies to accomplish this, including the Department of Defense regarding procurement opportunities for small businesses. SBA focuses on long-term competency-based skills and institution building. Most of ED program recipients utilize the resources of state and local business and economic development entities to enhance their capabilities. Many of SBA's grantees and cosponsors have formal memoranda of understanding with various state and local agencies delineating their various roles, including collocation of personnel.

SBA is working with OMB, DOC, the National Institute of Science and Technology (NIST), the U.S. Department of Agriculture (USDA) and the Minority Business Development Agency (MBDA) of the DOC on e-commerce outreach and training.

#### ***External Factors***

No other SBA program exemplifies the importance of "shared outcomes" more than the "access to entrepreneurial development assistance" programs. With the positive and cooperative assistance from a host of business resource partners, SBA is able to reach more than 1.3 million small firms annually. A critical success factor is the active cooperation and support of SBA's resource partners and the ability to identify means that increase the effectiveness and efficiency of service delivery through access to and training in the use of the Internet.

#### ***Program Analysis***

An analysis of the results achieved and resources required for SBA's ED program, follows:

#### ***Business Information Centers***

The Kauffman Foundation and Dun & Bradstreet indicate that 80 percent of new businesses discontinue operations within five years and do so because of lack of "knowledge" of key business skills. Business Information Centers (BICs) assist small businesses, particularly the critical pre-venture and early start-up market, by providing access to these business skills. A national network of over eighty community-based locations, BICs are public/private co-sponsorship with companies such as Microsoft, Adobe and Dell Computers. These co-sponsors make it possible for SBA to install and keep current resources such as "state-of-the-art" hardware and software at BIC locations for use by counselors and small business clients. Counselors from SBA's resource partners -- SCORE, SBDC's, and WBCs -- use the facilities and resources of the BIC as education and training tools for their clients, such as using BIC software for developing company business and marketing plans.

## BIC Results and Resources

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY2003 Goal	FY 2004 Goal
<i>Performance Indicators</i>						
Number of clients served	123,527	134,358	142,148	146,658	151,058	155,590
Number of clients counseled	N/A	N/A	N/A	N/A	126,000	129,780
Number of information transfer contacts	N/A	N/A	N/A	N/A	10,000	10,300
Customer satisfaction <sup>1</sup>	N/A	.88%	.93%	TBP	.91%	.91%
Program Cost Estimate (\$000)	\$5,920	\$11,795	\$12,132	\$11,942	\$12,655	\$12,774
Cost per client served	\$48	\$88	\$85	\$81	\$84	\$82

### BIC Results Analysis

The BIC program's goal is to increase the number of clients served by 3 percent in FY 2003 and in FY 2004. The BIC program receives about 7 percent of its total costs from private sector support enabling it to tailor its resources to the needs of local economies. BICs have achieved annual client growth of 6 percent for the last three fiscal years and added 23 more locations while experiencing a 20 percent reduction in funding, through centralized support and streamlining of operations. Two recent surveys conducted by SBA examining BIC customers yielded very positive results: 90 percent of the clients surveyed rated BICs as very good to excellent. In FY 2003, SBA will conduct its first impact survey which will measure both customer satisfaction and economic impact of the BIC program. Data from the FY 2003 survey will provide a baseline from which future outcome goals will be developed.

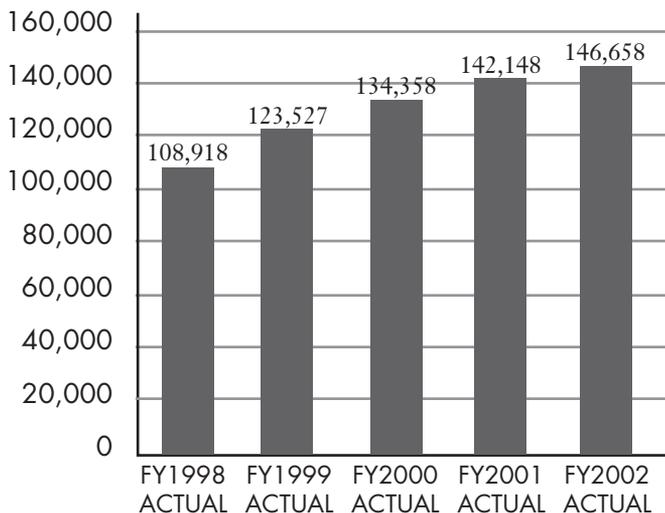
In FY 2002 the Office of Management and Budget developed the Program Assessment Rating Tool (PART) to establish a systematic, consistent process for rating the performance of programs across the federal government. The PART uses common assessment criteria on performance and management to evaluate the overall effectiveness of program. OMB completed PART ratings for 20 percent of programs. PART ratings will be published in the President's FY 2004 Budget. The BIC program was evaluated under the PART criteria and was given the overall rating of "Results Not Demonstrated." The assessment found that the program lacks a clear purpose or outcome goals to measure performance. Additional findings include:

1. There are no data to show that the program has resulted in long-term benefits to small businesses.
2. There are no evaluations to assess the Agency's management of the program. Based on SBA's preliminary cost allocation data, the Agency spent approximately \$12 million in 2002 to manage and support \$500,000 in grants. Inclusion of these direct administrative funds would significantly increase cost per recipient, thereby reducing efficiency.
3. Surveys of recipients of BIC services show a high satisfaction rate of 93 percent.
4. Planning is significantly lacking. SBA does not have outcome-based annual or longterm goals.

In response to these findings, the SBA will:

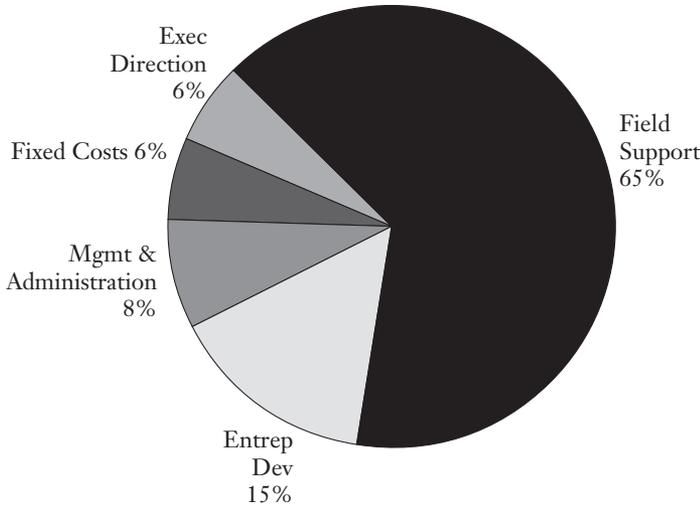
1. Develop outcome-oriented annual and long-term goals and measures.
2. Undertake an evaluation of the program's effectiveness and measure whether it duplicates other Federal and non-federal mentoring programs.

**BIC Performance Goal FY 1998- FY 2002**  
Clients Counseled and Trained



<sup>1</sup> The Office of Business and Community Initiatives began in FY 2001 to use an OMB approved questionnaire to collect information about client perceptions of the quality of customer service and the usefulness of the computer hardware, software, peripherals and reference libraries provided at BICs.

**Business Information Centers  
FY 2002 Cost Components**



3. Revisit the cost allocation methodology to determine if current estimates accurately represent true program related expenditures.

SBA believes that completing these steps will enable it to clearly demonstrate the value of the BIC program.

**BIC Resource Analysis**

SBA will maintain the BIC program at approximately the current level in FY 2004, with only a small increase in the projected cost estimate due to inflation. The \$475,000 requested in SBA's Non-Credit Programs and Initiatives will be used to maintain and purchase equipment, and for the costs of installation of new equipment.

The estimated full cost of SBA's support for the BIC program is \$11.9 million for FY 2002. This estimate includes \$7.8 million for the field office staff who support BIC operations and the cost of rent for BICs that are located in SBA offices. The program management costs of the Office of Entrepreneurial Development were \$1.7 million or 15 percent of total costs. Management and Administration costs for human resources, information technology, and procurement support approximate \$1 million or 8 percent and fixed costs are \$0.7 million. The BIC programs share of SBA's fixed costs amounts to \$0.7 million.

BICs leverage private sector support of about \$1 million annually through donated equipment and programs. Many BICs are also located in donated space further reducing the cost of the program. These donations constitute contributions to the co-sponsorship.

**SCORE**

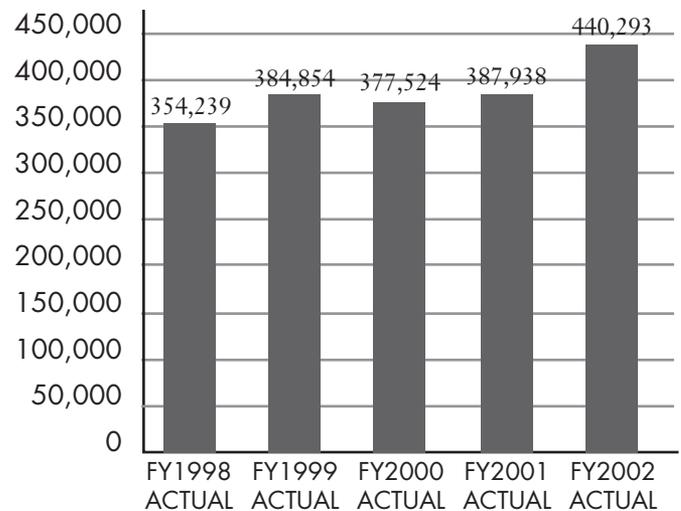
SBA funds SCORE through a cooperative agreement with the National SCORE Association (NSA). SCORE volunteers provide face-to-face counseling from 389 chapter locations with 10,900 SCORE volunteers across the country. As SBA's leading resource partner handling the pre-venture market segment, SCORE helps clients set realistic business expectations through development of sound business and marketing plans, management advice and guidance. This counseling contributes to a reduction of small business failures and personal and company bankruptcy. The SCORE program complements SBA's other information, counseling and technical assistance programs by delivering its services at SBA district offices, BICs and resource partners such as SBDCs, as well as chambers of commerce, colleges and universities, banks, libraries and economic development offices. SCORE counselors also travel to places of business for on-site evaluations.

An extensive database allows entrepreneurs to search for SCORE counselors who are available on-line 24/7 and connects people coast-to-coast by matching client needs with counselor skill sets. In FY 2002, 1,100 e-counselors conducted 82,616 email counseling sessions. The SCORE website also has over 2,000 pages of content with "how to" information on practical solutions and suggestions for overcoming business obstacles.

**SCORE Results Analysis**

With over 1 million hours of mentoring, counseling and training by retired and active small business owners, the SCORE program provides "real world" expertise for pre-venture and start-up businesses. SCORE proactively anticipates and is meeting the needs and expectations of a diverse client base shown by a steady increase in minority, women and veteran clients. The FY 2002 funding increase resulted

**SCORE Performance Goal FY 1998- FY 2002  
Clients Counseled and Trained**



## SCORE Results and Resources

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY2003 Goal	FY 2004 Goal
<i>Performance Indicators</i>						
Number of clients served	.384,854	.377,524	.387,938	.440,293	.462,257	.510,000
Number of clients trained	.N/A	.N/A	.N/A	.119,929	.125,925	.129,703
Number of clients counseled	.N/A	.N/A	.N/A	.320,364	.336,332	.346,42
Customer satisfaction <sup>1</sup>	.N/A	.N/A	.68	.TBD	.87%	.87%
Program Cost Estimate (\$000)	\$8,461	\$9,792	\$11,858	\$13,271	\$13,559	\$13,678
Cost per client served	\$.22	\$.26	\$.31	\$.30	\$.29	\$.27

in program enhancements, such as increased electronic counseling, and improved customer service. The SCORE program plans to increase the number of clients served by 3 percent in FY 2003 and FY 2004.

SBA will conduct its first impact survey in FY 2003 which will measure both customer satisfaction and the economic impact of the SCORE program. Data from the FY 2003 survey will provide a baseline from which future outcome goals will be developed.

In FY 2002 the Office of Management and Budget developed the Program Assessment Rating Tool (PART) to establish a systematic, consistent process for rating the performance of programs across the federal government. The PART uses common assessment criteria on performance and management to evaluate the overall effectiveness of programs. The SCORE program was evaluated under the PART criteria and was given the overall rating of "Results Not Demonstrated."

The assessment found that the program's purpose was very clear and cost per client was relatively low relative to similar programs. Additional findings include:

1. The program has successfully brought together volunteers with entrepreneurs for mentoring.
2. Based on SBA's preliminary cost allocation data, the agency spent nearly \$9 million in FY 2002 to manage and support \$5 million in grants.
3. There are no data to show that the program has resulted in long-term benefits to recipients. SBA does not have outcome-based annual or long-term goals.

In response to these findings, the SBA will:

1. Develop outcome-oriented annual and long-term goals and measures.

<sup>1</sup> The customer satisfaction rate for FY 2001 is based on studies conducted by the University of Michigan, using the American Customer Satisfaction Index. FY 2002 data is in the process of being tabulated. The government-wide average index is 67 (0-100 Scale). Beginning in FY 2002 the National SCORE Association is conducting annual customer satisfaction surveys.

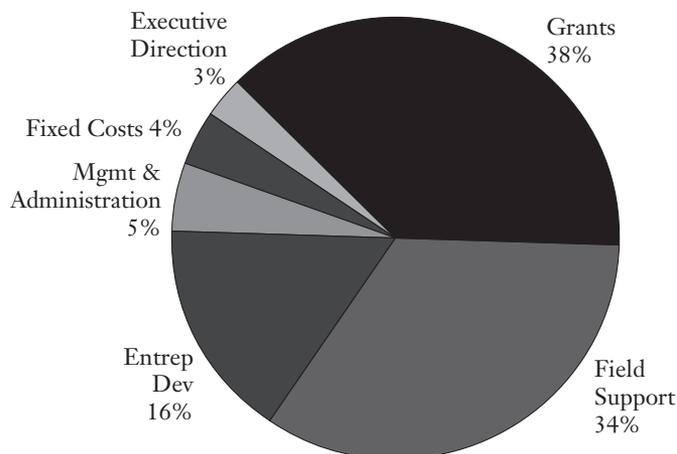
2. Undertake an evaluation of the program's effectiveness and measure whether it duplicates other Federal and non-federal mentoring programs.
3. Revisit the cost allocation methodology to determine if current estimates accurately represent true program related expenditures.

SBA believes that completing these steps will enable it to clearly demonstrate the value of the SCORE program.

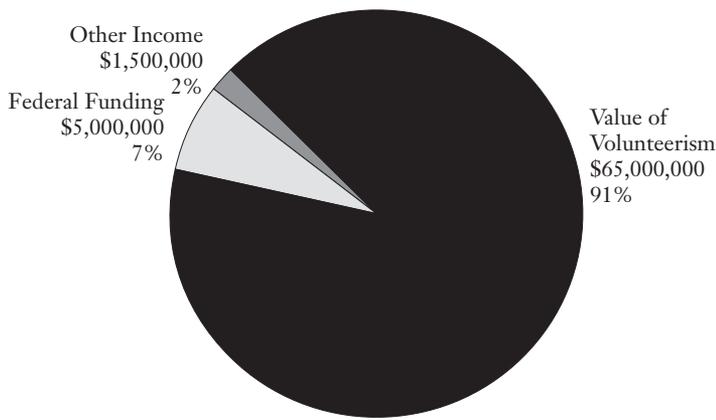
### SCORE Resource Analysis

In FY 2004 the SBA plans to continue to support the SCORE program at its current resource level. The estimated cost of SBA's support to the SCORE program in FY 2002 was \$13.2 million. In FY 2002 the largest portion of costs, 38 percent or \$5.0 million, was a grant to SCORE to cover travel and administrative costs for SCORE offices. The FY 2004 budget proposes to continue the \$5 million grant to SCORE. The labor cost of SBA district office employees who support the SCORE volunteers is 34 percent or \$4.5 million. Headquarters direct management costs of the Office of Entrepreneurial Development amount to \$2.2 million. All other costs including Executive Direction, rent, legal services, accounting, human resources, and procurement support was \$1.5 million.

**SCORE Program  
FY 2002 Cost Components**



### SCORE Resource Leverage



### SCORE Helps Skate America

The Internet took Michael Bornstein where he wanted to go – from a successful sporting goods business with three locations and into an even more successful skateboarding business with no actual "bricks and mortar" stores.

In 1992, Michael Bornstein started a sporting goods store that sold new and used sports products. The skateboarding equipment was the fastest moving section. Eventually the skateboarding section was made into a specialty part of the store and began to grow. By 1994, he had opened two additional stores and was one of the top skate board dealers on the West Coast.

After a couple years of success, Michael began to think about how to expand his business and maximize the profits from the skateboarding success. The market for each store was generally no more than three miles from the store. He began to consider the possibility of adding a mail order and Internet business focusing solely on skateboarding equipment.

In 1999, he began planning for the next phase. His father had been a SCORE counselor so he knew the value the small business counselors could bring. He met with SCORE counselor, Jerry Greenspan to do some financial planning preparation. Greenspan also referred him to fellow counselor Marty Weiss, who had established his own site for his business. "Marty and Jerry were tremendous help. They helped me set up the financials for the new business; identified systems and advertising opportunities; pointed me toward key people and assisted in negotiations. Jerry Greenspan even came up with the name Skate America," Bornstein said. When planning this "virtual" business, Michael and his SCORE counselors addressed some marketplace fears, in their planning. 1999 was right in the middle of the "dot bomb" and there was much apprehension from customers, vendors and suppliers on the viability of the company. They also had to figure out how to market the Californian skateboarding image to the more conservative mid-west and northeast.

When all his ducks were in a row, he sold the lease on the third store and moved all inventory, people and comput-

ers to the other two stores. He also used the first store as a base of operations for the Internet and Mail order branch of the business. Everything was done on a shoe-string budget. "I even taught myself the programming for my initial Web site," Bornstein said. We started with a sectioned-off part of my retail store and one computer to handle all operations for Skate America.

The Web site was launched in November of 1999. It took several months for the site to be picked up by search engines. The first to do so were smaller engines. The first sale occurred in January of 2000. After that orders began to start rolling in. When Yahoo, picked up the site, in June, 2000, the number of orders compounded.

Sales in 2001 continued to outpace forecasted numbers. By September of 2001, they were again faced with the very real possibility of out growing their warehouse space. This move into bigger storage, presented them with the business decision as to whether to buy or lease a space. After working with Marty and Jerry again, Skate America decided to purchase a larger warehouse and lease out a portion of the building. They gutted the building and designed the interior to complement the sales process.

As far as results, Michael has been very smart and careful when planning his business and it shows. Skate America grossed \$1million in its first year and \$2.5 million in its second. He is forecasting revenues of over \$5 million for 2002 and \$7 million for 2003.

"Marty and Jerry have been tremendous consultants to me on an ongoing basis. We have monthly phone calls to go over financials, troubleshooting situations, and general business issues," Bornstein said.

### Small Business Development Centers

The Small Business Development Center (SBDC) program, delivered through 58 separate cooperative agreements, is SBA's largest management and technical assistance program, with more than 1,100 service locations in all 50 states and the territories. SBDCs offer counseling, training, and other services tailored to the needs of the state and community in which it is located. The SBDC program provides counseling and training to small business owners to assist them in marketing and business strategy, financing, technology transfer, government procurement, management, manufacturing, engineering, sales, merchandising, accounting, e-commerce, exporting and other disciplines needed to help their small businesses grow and prosper. Federal dollars are matched minimally at 1:1 from non-federal sources (cash and non-cash) including universities, community colleges, state and local governments and chamber organizations. Program direction and accountability are local as negotiated on an annual basis between SBA district offices and SBDC state directors. Included in SBDC funding is \$2 million for the Defense Economic Transition Assistance Program (DETA) which provides technical assistance to small businesses affected by base closings.

## SBDC Results and Resources

SBDC	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY2003 Goal	FY 2004 Goal
<i>Performance Indicators</i>						
Number of clients served	.595,391	.582,598	.609,646	.651,421	.634,214	.653,240
Number of hours provided	.2,930,471	.3,080,958	.3,065,589	.3,060,560	.3,099,999	.3,192,999
Number of clients trained	.331,464	.324,292	.354,706	.383,770	.376,293	.387,582
Number of clients counseled	.263,927	.258,306	.254,946	.267,536	.257,921	.265,659
Number of information transfer contacts	.N/A	.N/A	.N/A	.N/A	.100,000	.103,000
Customer satisfaction <sup>1</sup>	.86%	.87%	.87%	.N/A <sup>2</sup>	.87%	.87%
Jobs created and retained <sup>3</sup>	.70,398	.60,395	.131,770	.N/A	.132,000	.132,000
Program Cost Estimate (\$000)	\$.101,267	\$.94,114	\$.100,327	\$.100,150	\$.97,695	\$.97,883
Cost per client served	\$.170	\$.161	\$.165	\$.154 <sup>4</sup>	\$.154 <sup>4</sup>	\$.150

### SBDC Results Analysis

The SBDC program has matured substantially over its twenty-two year history. The client base has grown from 40,000 annually to a projection of over 653,000 clients in FY 2003. In FY 2001 this program helped to create and/or retain over 132,000 jobs. Using a quantitative description of performance outputs and impacts such as counseling, training and economic impact data such as jobs created, jobs retained, sales, state and Federal taxes generated, the SBDC program provides a good return on the Federal investment. SBA will conduct its first impact survey in FY 2003 which will measure both customer satisfaction and the economic impact of the SBDC program.

In FY 2002 the Office of Management and Budget developed the Program Assessment Rating Tool (PART) to establish a systematic, consistent process for rating the performance of programs across the Federal Government. The PART uses common assessment criteria on performance and management to evaluate the overall effectiveness of pro-

grams. The SCORE program was evaluated under the PART criteria and was given the overall rating of "Results Not Demonstrated."

While the assessment found that the program's purpose is clear, SBA lacks meaningful annual and long-term goals necessary to measure the program's performance. Additional findings include:

1. An independent evaluation of the program indicated that each \$1 spent on counseling resulted in \$2.78 in tax revenue.
2. There are no evaluations from which to assess the Agency's management of the program. Based on preliminary cost allocation data, the agency spent approximately \$13 million to manage and support \$88 million in SBDC grants.
3. Funds are allocated to SBDCs based on formulas rather than performance. In addition, the hourly cost of counseling services varied significantly among SBDCs without any evidence that the quality of services or outcomes differed.

In response to these findings, the SBA will:

1. Develop outcome-oriented annual and long-term goals and measures to assess program performance.
2. Undertake an evaluation of the program's effectiveness and measure whether it duplicates other Federal and non-federal mentoring programs.

<sup>1</sup> The customer satisfaction rates are based on an independent biennial study conducted by the Association of Small Business Development Centers.

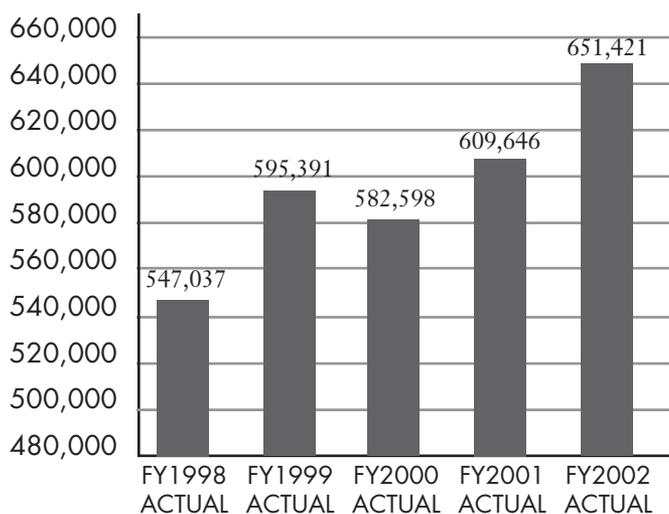
<sup>2</sup> Customer satisfaction results for FY 2002 are due to be completed by April 1, 2003.

<sup>3</sup> Jobs created and retained are higher in FY 2001 because more SBDCs are reporting this measure. FY 2002 data has not yet been reported.

<sup>4</sup> SBA revised the cost estimates since the data was submitted to OMB for inclusion in the President's Budget.

### SBDC Performance Goal FY 1998- FY 2002

#### Clients Counseled and Trained



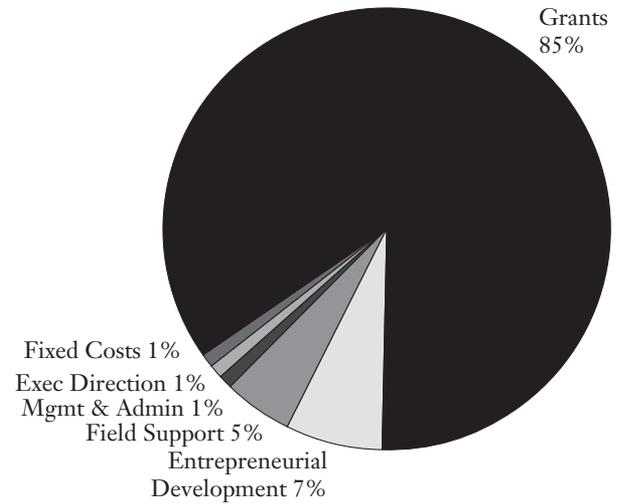
3. Revisit SBA's cost allocation methodology to determine whether current estimates accurately represent true program related expenditures.

SBA believes that completing these steps will enable it to clearly demonstrate the value of the SBDC program.

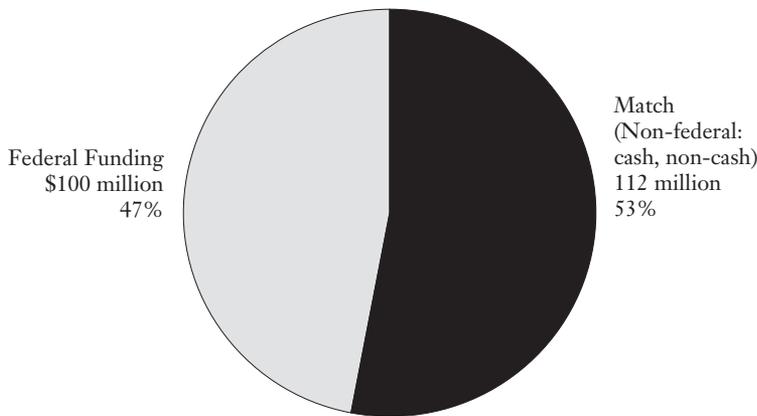
### **SBDC Resource Analysis**

SBA's FY 2004 requested budget funds the SBDC program at approximately the FY 2002 level. The cost components for this program in FY 2002 include 85 percent or \$85.1 million for grants; 5 percent or \$5.2 million for field labor support; 7 percent or \$7.0 million for ED program management; and 3 percent or \$2.9 million for overhead costs including rent, legal, human resources, and information technology support.

**Small Business Development Centers  
FY 2002 Cost Components**



**Small Business Development Centers  
Funding and Match**



### **SBDC Assists Blind Owner's Vision for Human Resources Company**

Michael Strait is blind, but he had a clear vision that he could create a successful small business. No stranger to success, Mike had been a senior executive in large multi-national retail corporations. He had managed annual budgets of \$100 million.

Mike was on the fast track when a gunshot changed his life 13 years ago. His optic nerves were severed, leaving him totally and permanently blind. Mike moved from California to his home state, Iowa. He returned to school, earning an undergraduate degree in business administration at Drake University. He completed his master's degree in human resources management at the University of Oklahoma, with a perfect 4.0 grade point average. He moved to southern Arizona in 1996. "I couldn't find a job," he recalls. "I sent out 400 or 500 resumes and had 15 or 20 interviews." His resume looked superb. Potential employers seemed skeptical because Mike is blind. Mike decided to create his own human-resources management consulting company. He provides human resources management and employee leasing to small and medium-sized businesses.

The Sierra Vista Chamber of Commerce guided Mike to the Small Business Development Center. Sheila DeVoe Heidman introduced him to his community and its services. She helped to create a detailed business plan, work with the Arizona Rehabilitation Services Administration and secure necessary start-up capital.

"The SBDC gave me more confidence," Mike says. "The fear of failure wasn't about money...It was about wanting to be productive and useful." Mike's team includes two part-time assistants. He recently added 11 leased employees, through a contract with Cochise County. Mike knows that he can count on the SBDC, too. "Sheila stops by regularly to ask how things are going," Mike says. She's taught him to use QuickBooks Pro. They're working together on a marketing plan to grow the business.

Mike expects the business to allow him time for his hobbies that include golf, skydiving, water skiing and snow skiing. And he knows he'll make it: "I have perseverance. I never give up."

## DFWP Results and Resources

DFPW	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY2003 Goal	FY 2004 Goal
<i>Performance Indicators</i>						
Number of small businesses establishing drug-free workplace programs <sup>1</sup>	N/A	977	1,671	1,365	1,500	1,550
Total number of firms educated about the benefits	N/A	9,726	11,021	11,520	11,600	11,650
Program Cost Estimate (\$000)	N/A	\$3,469	3,498	\$2,800	\$3,000	\$3,000
Cost per firm educated	N/A	\$357	\$317	\$241	\$259	\$257

### Paul D. Coverdell Drug-Free Workplace Program

SBA, through its DFWP, funds SBDCs and other intermediary organizations to provide financial and technical assistance to small businesses implementing a DFWP. Some intermediaries have conducted extensive research on the businesses that established a DFWP. The results show that a DFWP leads to decreased employee turnover, absenteeism, tardiness, theft, and worker's compensation premiums. The results also show increased morale and productivity. Because of the connection between a DFWP and the bottom line, the Coverdell program increases the opportunities for small businesses.

#### DFWP Results Analysis

The DFWP is overseen and delivered through the SBA's SBDC program office. Begun in FY 1999, the program educates and trains about 11,000 small businesses annually on the benefits of establishing drug-free workplace programs. Of those 11,000, about 14 percent go on to actually establish programs in their businesses. Only about 3 percent of small businesses nationwide have drug-free workplace programs compared to about 98 percent of Fortune 200 companies. Yet a 1997 survey by the Substance Abuse and Mental Health Services Administration (SAMHSA) revealed that

drug and alcohol abuse is nearly twice as prevalent in small businesses as in larger firms. The SAMHSA survey also revealed that small businesses are more vulnerable to drug and alcohol abuse by employees because small businesses are less likely to test employees for drug or alcohol use either before or during employment. This program has been very successful in bringing the issue of drug and alcohol abuse to the attention of small businesses, despite a decrease in the program's funding.

#### DFWP Resource Analysis

The majority of the \$2.8 million cost for this program is grants - \$2.5 million or 89 percent and the remainder is management costs and the overhead costs associated with management - \$0.3 million.

### Women's Business Centers

SBA's WBC program provides in-depth, long-term training, counseling, mentoring, access to capital and encouragement to start-up and existing women-owned small businesses. Each WBC focuses on the special needs of women, including those who are socially and/or economically disadvantaged. Many offer child care, evening and weekend hours, scholarships and classes in different languages. SBA also supports the Online WBC, which offers online business information and training in seven languages

## WBC Results and Resources

WBC	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY2003 Goal	FY 2004 Goal
<i>Performance Indicators</i>						
Number of clients served <sup>2</sup>	30,630	45,223	60,767	85,748	88,540	91,196
Number of clients trained	15,054	N/A	37,881	55,064	56,664	58,364
Number of clients counseled	9,982	12,144	22,886	30,684	31,876	32,832
Number of information transfer contacts	176,200	N/A	192,049	194,427	200,555	206,572
Customer satisfaction <sup>3</sup>		93%	75		80%	80%
Program Cost Estimate (\$000)	\$14,762	\$14,990	\$21,337	\$17,450	\$16,406	\$16,524
Cost per client served	\$481	\$331	\$351	\$204	\$185	\$181

<sup>1</sup> Funds were appropriated in FY 1999, but dispersed on September 19, 1999. Therefore, the work performed with the FY 1999 funds actually took place during FY 2000. That continues to be the case for the years that follow.

<sup>2</sup> Counseled, trained and provided with relevant information.

<sup>3</sup> The customer satisfaction index for FY 2001 is based on studies conducted by the University of Michigan, using the American Customer Satisfaction Index. The government wide average is 67. The survey conducted in FY 2000 was an SBA survey and had a 59% response rate. SBA will conduct surveys in FY 2003 and FY 2004.

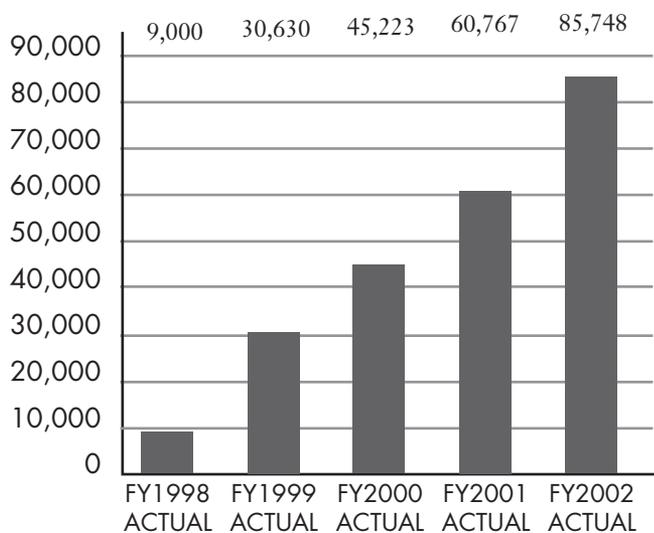
as well as individual counseling, mentoring, networking and links to other relevant web sites, 24/7. WBCs are public/private partnerships funded through cooperative agreements. Each undergoes quarterly on-site reviews and an annual programmatic and financial review before receiving another year of funding.

### WBC Results Analysis

Despite funding that has remained stable at \$12 million since 2001, the WBC Program has more than doubled its goal of a 3 percent annual increase in the number of clients served in the past two years. This is due in large part to the success of the sustainability grants, which enable established centers to continue to receive SBA funding. SBA expects this trend to continue as more centers become firmly established and as their reputations for excellence spread. The Online WBC provides a global impact, reaching women in more than 100 countries. Since FY 2000, the number of hits the Online WBC receives has increased dramatically, from 2 million to more than 5 million a month.

### WBC Performance Goal FY 1998- FY 2002

#### Actual Clients Counseled and Trained



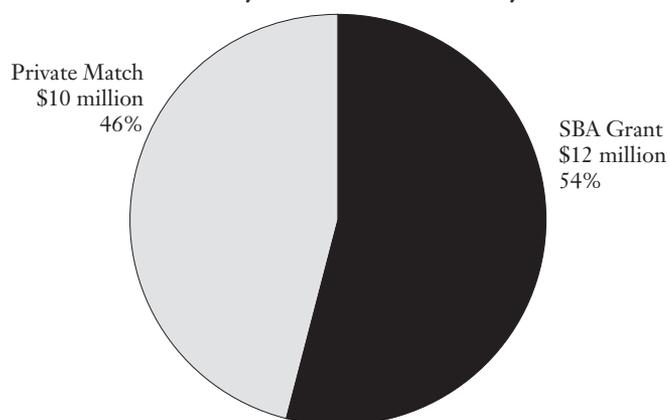
SBA will conduct its first impact survey in FY 2003 which will measure both customer satisfaction and the economic impact of the WBC program. Data from the FY 2003 survey will provide a baseline from which future outcome goals will be developed.

### WBC Resource Analysis

WBC's leverage Federal funds through matching requirements. Under current grant rules, centers must match one dollar for every two Federal dollars for the first two years. During years three through five, and for the entire five years of a sustainability grant for the period beyond five years, the match is one-to-one. Many larger and more established centers exceed the matching requirements, often making SBA's contribution a small portion of the total funds that WBCs receive.

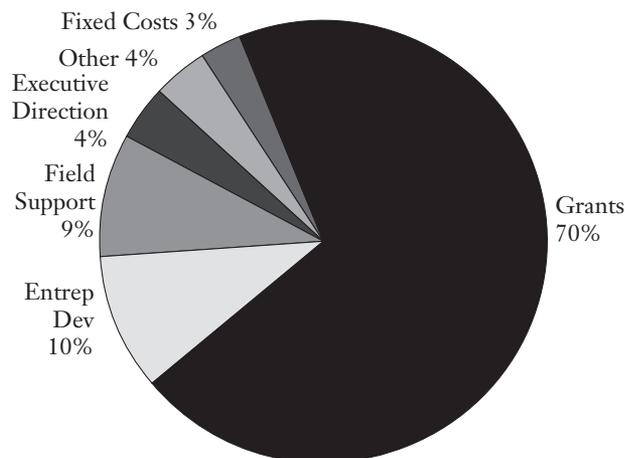
### Women's Business Centers Funding & Match

includes years 1-5 and sustainability



SBA estimates that the cost of the WBC program in FY 2002 was \$17.4 million. The largest cost component for the program was \$12.0 million for grants to WBCs. SBA requests the same level of grants in FY 2004. SBA will maintain a stable level of support for the WBC program in FY 2004. In FY 2002 SBA provided \$1.6 million in field labor costs for district office employees who support this program. Program management costs of the Office of Entrepreneurial Development were \$1.8 million. Other support costs totaled \$1.3 million for legal, accounting, human resources and information technology support.

### Women's Business Centers FY 2002 Cost Components



## Online Training Results and Resources

SBDC	FY 2001 Actual	FY 2002 Actual	FY2003 Goal	FY 2004 Goal
<i>Performance Indicators</i>				
Number of clients served	191,000	208,000	238,750	262,625
Customer satisfaction	N/A	N/A	TBD	TBD
Jobs created and retained	N/A	N/A	TBD	TBD

### E-Business Institute

ED operates an on-line training initiative through its web-based Small Business Classroom, which is being expanded and re-named the E-Business Institute (EBI). The new learning portal is designed to enrich, educate and enable small businesses. It operates like a virtual university—offering on-line courses, workshops, seminars, information resources, learning tools and direct access to electronic counseling, community learning environments and other forms of technical assistance.

EBI supports SBA's small business customers originating from SCORE, WBCs, SBDCs, BICs, the Veteran Business Outreach program, SBA district offices and other Federal agencies. Currently, the virtual SBA classroom offers 38 on-line courses and numerous electronic resources for small businesses. The E-Business Institute, as it evolves, will reach a broader-base of small business clients more efficiently and more effectively.

#### E- Business Institute Results Analysis

The EB I Institute is a dynamic on-line learning platform rendering SBA the ability to train significantly more clients more efficiently. With EB I the marginal costs associated with training additional users falls toward zero. As a result, per client training costs are very low relative to other training alternatives and will continue to decline each year.

#### E- Business Institute Resource Analysis

The cost of the EB I in FY 2001 and FY 2002 included nominal amounts of staff time that were not tracked in SBA's cost allocation model.

### Veteran's Business Development

The Office of Veterans Business Development (OVBD) provides assistance to small businesses owned and controlled by veterans and service-disabled veterans. The office ensures veterans access to capital, technical assistance, and training through targeted marketing and outreach. The office also ensures that the 3 percent goal of Federal prime and subcontracts for service-disabled veterans and veterans is implemented.

The office supports the efforts of all SBA program offices to assist veterans and members of the reserves and the National Guard. The office works in partnership with the Department of Defense's Deputy Assistant Secretary of Defense for Reserve Affairs, Department of Veterans Affairs' Center for Veterans Enterprise, the VA Vocational Rehabilitation and Employment Service, the Department of Labor (DOL) Assistant Secretary for Veterans Employment and Training, the DOL Office of Disability Employment Policy, the Association of Small Business Development Centers, SCORE, the National Veterans Business Development Corporation, state Departments of Veterans Affairs, Congressionally Chartered Veterans Service Organizations and local community and faith based veterans service organizations to reach out to prospective veteran entrepreneurs, provide detailed resource materials about all SBA programs, and to assess the needs of the veterans, service-disabled veterans, members of the reserves and the National Guard and the small business community. These efforts include helping to mobilize private sector resources to assist veterans.

## OVBD Results and Resources

OVBD	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY2003 Goal	FY 2004 Goal
<i>Performance Indicators</i>						
Number of veterans assisted by SBA (all programs)	73,188	98,332	101,924	107,190	112,000	118,000
VBOC clients	7,373	15,938	17,500	19,500	21,500	21,500
OVBD funded district office outreach event participants	.233	.1,900	.3,500	.4,500	.75,000	.150
VetGazette newsletter recipients	.15,000	.55,000	.65,000	.75,000	.50	.150
VET project entrepreneur training participants	.50	.150	.50	.150	.50	.150
Program Cost Estimate (\$000)	\$2,962	\$2,299	\$2,322	\$2,387	\$2,642	\$2,692
National Veterans Business Development Corporation	.50	.150	.50	.150	.50	.150
	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000

### **Veterans Results Analysis**

In FY 2003 and FY 2004 a major priority of the OVBD will be to support members of the Reserves and National Guard who have been activated for the war on terrorism and homeland security. OVBD will lead an agency wide effort to deliver both pre and post mobilization assistance to thousands of small businesses affected by the activation. Services ranging from management counseling and training, to utilization of available small business loan programs are included in this effort. Further, outreach coordination is ongoing with the Department of Defense, other federal agencies and with State and private organizations to ensure the availability of support and assistance for self employed members of the Reserves and National Guard.

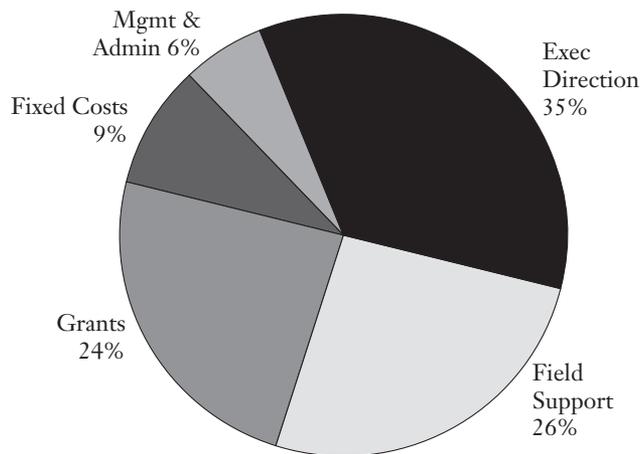
OVBD will also continue to improve its capability to assist veterans. The four VBOCs created in 1999 are enhancing service delivery through increased use of Internet outreach, e-based counseling and training, coordination of local resources and development of private volunteer mentors. In FY 2002, OVBD provided funding to 25 SBA district offices to conduct special outreach, needs assessments, and delivery of entrepreneurial assistance to veterans. In 2003, the effort will be expanded to 67 district offices. In FY 2001, the OVBD began publishing the VetGazette newsletter to inform veteran small business owners and entrepreneurs and veteran-serving professionals about the resources

and services available from SBA and its resource partners. The number of recipients has grown to more than 55,000 quarterly. In FY 2002, SBA disseminated more than 500 comprehensive Veterans Business Resource Guides to veteran serving locations, organizations and individuals. Beginning in FY 2003, it will disseminate 5,000 printed and CD versions of this guide to veteran serving locations and libraries. In FY 2004, an additional 5,000 guides to similar locations will be disseminated. In FY 2003, in collaboration with the National Veterans Business Development Corporation, SBA will jointly deliver comprehensive Veteran Entrepreneur Training (VET project) to a minimum of 50 service-disabled and other veteran entrepreneurs in at least two locations. In FY 2004, this VET project will be expanded to a minimum of six locations and 150 veterans. In FY 2002, more than 100,000 veterans were assisted by the SBA; the largest number of veterans assisted by SBA in one year in more than a decade. In FY 2002, the number of loans guaranteed for veterans increased by 15 percent, marking the first increase in seven years.

### **Veterans Resource Analysis**

The headquarters staff and grants to Veterans Business Opportunity Centers are the major costs of operating SBA's veteran programs. Field offices also provide significant support to veterans programs.

**Veterans Business Development  
FY 2002 Cost Components**



## **STRATEGIC PROGRAMMATIC GOAL THREE: Help Businesses and Families Recover from Disasters**

The SBA disaster assistance program promotes economic recovery in disaster ravaged areas. In the wake of physical disasters, SBA's loans are the primary form of Federal assistance for non-farm, private sector disaster losses for individuals and businesses. SBA's disaster loans help homeowners, renters, businesses of all sizes, and non profit organizations fund rebuilding. The loans also provide assistance to small businesses affected by the mobilization of reserve military units.

Following are the specific outcomes that will be achieved through the SBA disaster loan programs.

<b>Outcome Goals</b>	<b>Performance Goals</b>	<b>Programs</b>
Disaster victims receive speedy and customer friendly assistance in restoring businesses and homes to pre-disaster conditions	3.1.1 Percentage of allplications processed within 21 days	Home and Business Disaster Loans
	3.1.2 Percentage of initial disbursements made within 5 days of loan closing	

### **Strategy**

The disaster loan program is the only form of SBA assistance not limited to small businesses. SBA's disaster loans help homeowners, renters, businesses of all sizes, and non-profit organizations fund rebuilding and recovery efforts.

SBA disaster assistance is a critical source of financial assistance in disaster-ravaged communities. It is crucial to respond to disaster victims as quickly and efficiently as possible. Agency strategies to help disaster victims include developing a flexible infrastructure of resources that it can apply to a disaster area and using the Internet to facilitate the disaster home loan application process.

Current interest rates charged to borrowers are determined according to statutory formulas: a lower rate, not to exceed 4 percent, is available to applicants without credit available elsewhere; and a higher rate, not to exceed 8 percent, is for those with credit available elsewhere. SBA offers physical disaster loans to individuals, physical disaster loans to businesses of any size, and economic injury loans to small businesses without credit available elsewhere. SBA also offers disaster loan assistance to businesses that have essential employees who are reservists and National Guard members that are activated during a period of military conflict and eligible small businesses to fund specific projects to prevent disaster damage.

The dollar volume of approved loans varies from year-to-year, reflecting the inability to accurately forecast disasters. SBA's primary objective is to offer victims quality, timely, easy-to-access, and cost-effective help to rebuild their homes and businesses. Customer satisfaction is a key element of success for this program.

SBA operates a direct loan program to assist victims of physical disasters and supports the servicing and collection of these loans after they have been made. The Agency makes disaster loans totaling approximately \$1 billion each year and has an active portfolio of about \$4 billion.

The Pre-disaster Mitigation Pilot Loan Program is a 5-year pilot program that provides financial assistance to small

businesses located in designated communities participating in the Federal Emergency Management Agency's (FEMA) formal mitigation program to protect property from future disaster damage. Under this program, SBA may use up to \$15 million of loan authority in each fiscal year.

The Military Reservist Economic Injury Loan Program provides financial and other assistance to small businesses that are economically impacted because either the owner or an employee is called to active duty in response to a military conflict.

### **Resource Partnerships and Cross Cutting Issues**

Systematic coordination among Federal, state and local agencies is necessary before and during a disaster to ensure effective, efficient delivery of the array of recovery programs. The Federal Response Plan (FRP) describes the initiation, coordination and implementation of the wide array of Federal disaster programs that provide assistance directly to individuals and families and business owners attempting to recover from the effects of a Presidential-declared major disaster. The Stafford Act assigns FEMA the coordination role, in which multiple Federal assistance programs are reviewed, initiated, implemented, and delivered to address the unique needs of a particular disaster area. Interagency coordination is critical to promote efficient, consistent Federal action. It also helps avoid ad hoc decision making, funding initiatives at cross-purposes, replicating efforts (e.g. multiple damage assessments, inspections, environmental reviews), and duplicating benefits.

Disaster assistance programs for individuals, families, and businesses often overlap in their coverage and purposes. Section 312 of the Stafford Act requires that no person, business concern, or other entity receive Federal disaster assistance for any part of a loss that has been covered by any other program, insurance, or any other source. FEMA has established a policy and procedure that outlines when duplication can occur, and describes procedures for preventing and rectifying duplication.

The following delivery sequence establishes the order for providing the major forms of assistance:

1. Voluntary organizations' emergency assistance and insurance proceeds, including additional living-expense benefits;
2. Disaster temporary housing assistance, including rental assistance, funds for minimal repairs, and provision for housing units;
3. SBA and U.S. Department of Agriculture disaster loans;
4. Individual and family grant awards; and
5. Additional assistance from voluntary organizations.

SBA will coordinate the implementation of the Disaster Assistance Loans for Reservists and National Guard members with DOD, States Adjutant Generals and the National Veterans Business Development Corporation.

### External Factors

The single most important external factor is the unpredictability of disasters. Helping businesses and families recover from disasters requires SBA to work closely with FEMA as well as other Federal, state and local agencies. SBA must coordinate closely with FEMA to establish disaster-assistance centers when physical disasters strike, provide expedited responses, reduce paperwork, and create ongoing resource partnerships with voluntary agencies, businesses, and industries in the disaster area.

### Results Analysis

As a result of the September 11, 2001 terrorist attacks, the Office of Disaster Assistance was called upon to process and approve more disaster business loans within any single fiscal year since the 1994 Northridge Earthquake. This terrible disaster adversely affected our country's economy nationwide and dramatically increased the demand for timely and direct financial assistance to the Nation's business community. Despite the unexpected and substantial increase in demand for disaster business loans during FY 2002, ODA met all its production goals and approved 11,718 business disaster loans to businesses in New York, Virginia and across the Nation for more than \$1.1 billion dollars. As indicated above, the Office of Disaster Assistance exceeded its goals of placing disaster staff on site within 3 days of the date a disaster is declared, processing all disaster loans in less than 21 days and disbursing loan funds within 5 days of loan closing.

ODA enlisted the assistance of the marketing division of SBA and completed a customer service survey to be issued to disaster loan recipients this fiscal year to help measure and analyze customer satisfaction. This survey was not issued during FY 2002 because it continues to await final clearance from OMB.

### Disaster Loan Making Results and Resources

	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Actual	FY2003 Goal	FY 2004 Goal
<b>Performance Indicators</b>						
Loan applications processed or modified <sup>1</sup>	163,066	106,442	158,104	88,837	N/A <sup>2</sup>	N/A
Field presence in 3 days	100%	100%	100%	99%	95%	95%
Applications processed in 21 days	60%	91%	94%	96%	85%	90%
Initial disbursements in 5 days	N/A	N/A	N/A	96%	95%	95%
Customer satisfaction rate	N/A	81%	N/A	N/A	80%	80%
Administrative Expense (\$000)	\$87,130	\$83,929	\$88,190	\$76,465	\$81,093	\$85,646
Loan Subsidy Cost (\$000)	\$170,428	\$173,869	\$152,604	\$123,871	\$111,140	\$114,224
Total cost	\$257,558	\$257,798	\$240,794	\$200,366	\$192,233	\$199,870
Administrative Cost per loan application processed or modified	\$534	\$788	\$558	\$1,063	N/A	N/A
Loan Subsidy Rate	22.36%	22.20%	17.46%	14.26%	13.98%	13.98%
Loan Program Level (Net)(\$000)	\$762,200	\$783,184	\$874,018	\$844,345	\$794,993	\$817,053

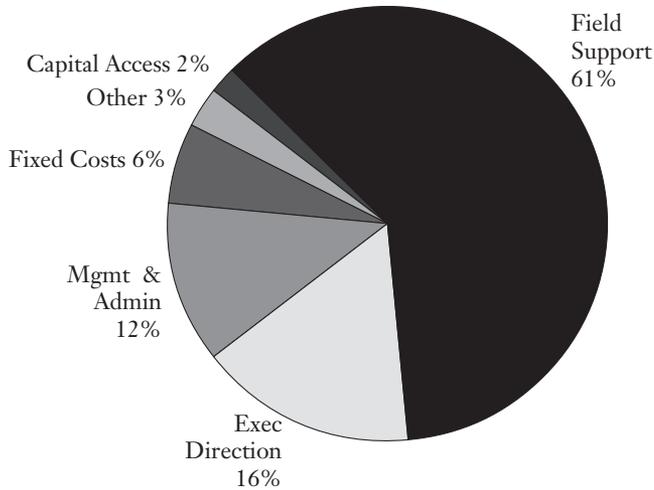
Note: FY 2002 resources excludes 9/11 costs funded out of emergency supplemental.

<sup>1</sup> Includes home and business loan applications processed, home and business reconsiderations/appeals, and home and business loan modifications  
<sup>2</sup> SBA does not predict the future level of disaster loans required.

## Resource Analysis

The total cost of the Disaster program, including loan making, loan servicing, and loan liquidation and litigation is \$148.9 million. The cost components included 61 percent or \$92 million for field labor support; 12 percent or \$18.5 million for human resources, procurement and information technology support; 16 percent or \$24 million for executive direction from 4 area offices and headquarters; 2 percent or \$3.5 million for support from the Office of Capital Access; 6 percent or \$9.4 million for rent and other fixed costs.

**Disaster Assistance  
FY 2002 Cost Components**



## SBA Assists Small Business Flood Victims

At 7:30 p.m. on Friday, April 18, 1997, the word was: "The dikes will hold. We're going to make it." Within three hours, though, that prediction would prove to have been overly optimistic, as downtown Grand Forks, N. D., was engulfed by the Red River's raging floodwaters.

Midnight would find Donald Kuntz and his son Kevin wading through ice cold water to salvage the financial records of their company, Fine Print of Grand Forks. The only equipment they recovered that could be used again was a forklift. Don would take one last look at the equipment he had spent the last 13 years of his life accumulating, lock the door, and become one of the 50,000 flood refugees from Grand Forks, N.D.

At that moment, he vowed that after 18 years of business, Fine Print of Grand Forks would not be washed away. In fact, with the opportunities presented by an SBA disaster recovery loan to re-establish his business on a much more advanced technological plane, Fine Print is doing better than it ever has.

"We were very successful after the flood," says Don. "With the technology we've put in since then, we've found that we're able to produce a lot more work with a lot less people. Before the flood, with our old way of doing things, if we netted 3-4 percent per year in profit it was huge. Now it's in the upper teens. We've doubled our sales and expanded our work force to 25 employees, and financially we're better off now than we've ever been."

Don started the business in Fargo in 1979, with a partner and a single employee operating from a small rental unit that had a garage for a pressroom and a window for a light

table. Within three years, there was a second employee and production was up to \$250,000 annually. In 1982, Fine Print moved into a larger facility, and with the help of an SBA-backed 7(a) business loan, the company expanded into a second location in Grand Forks.

Kuntz and his wife, JoAnn, then set out to grow the business into a high-end commercial shop. During business hours, JoAnn managed the office while Don would visit potential clients, building relationships that still exist today. In the evenings, Don could be found in the pressroom, making sure the work was done right and on time. Over the next few years, Don would produce beautiful full-color printing on a one-color Harris system; something today's pressman would say is impossible. By 1991, sales revenue at the Grand Forks Fine Print had outpaced the printing operation in Fargo, and the family sold the Fargo shop to concentrate on Grand Forks.

By early 1997, plans were being made to purchase a new four-color press and the process of looking for a new building had begun. Unfortunately, before the four-color press could ever be installed or a new business could be built, Fine Print would be destroyed by the historic flood of 1997.

As a result of the flood damage, Don and JoAnn Kuntz were approved for an SBA Economic Injury Disaster Loan and a Physical Disaster Loan in June 1997. Six months to the day after Fine Print had been destroyed by the flood, Don and JoAnn opened their new location in Grand Forks. During the six months of downtime, they rebuilt a business that had grown to 12 full-time employees, with nearly \$800,000 in annual sales. Hundreds of hours of cleanup were needed to put the company back in business.

More important, the rebuilding – and the SBA loan that financed it – allowed them to focus on ways that new technology could help their business. "We went from three or four Macs and PCs before the flood to more than 45 computers now, with scanners, and whole digital imaging system," says Don. "There really were no alternatives."

"What we did, we had a simple imaging system put in after the flood, and we started producing work that was well beyond what we'd ever done, and after awhile, we outgrew the capacity of that image center. So we went out and got another, and now we're looking for our third one. You've got to keep ahead to stay in business, and that's what we decided to do. And it's been a combination of productivity gains from the technology and new business, and lots of good luck that has allowed us to do it."

Don also is thankful for the help from the SBA. "I can't compliment the SBA enough for what they've helped us with," he says.

Don has a few key pieces of advice for any business that is considering upgrading through a technology boost. "The first thing to do is get expert help. My son has a knack for it, so I've been blessed. I never went to college, so if it was me alone, we'd be in big trouble. You've got to have somebody who knows what they're doing. You can have all the equipment in the world, but if you don't have someone who can run it, understand it, you're in big trouble.

"The second thing is you've got to know what you want to do with new technology before you buy it, and you've got to know what you're buying and how you're going to use it, because there are a lot of people out there who are eager to sell you things you don't need."

**FY 2002 GAO RECOMMENDATIONS  
PERFORMANCE AND ACCOUNTABILITY CHALLENGES**

**GAO-01-260 SBA Challenges**

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<b>Rec.</b>	<b>Recommendations</b>	<b>*Status of Recommendation</b>	<b>Est. Date of Completion</b>
	Streamline and automate disaster loan processing to improve timeliness.	SBA is using an expedited system that streamlines processing of certain home and personal property loans. As part of its Agency-wide modernization efforts, SBA is in the midst of a larger project to reengineer loan processing overall, including increased use of automation.	June 2004

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# Chapter Three

## The President's Management Agenda

The President's Management Agenda (PMA) lays out a vision of government that is citizen-centered, results oriented and market-based. It uses five core management initiatives to hold agencies accountable and measure their progress. They are:

1. Strategic Management of Human Capital
2. Competitive Sourcing
3. Improved Financial Performance
4. Expanded Electronic Government
5. Budget and Performance Integration

The SBA is committed to implementing the President's Management Agenda and improving its services to small businesses while at the same time judiciously using taxpayer resources. This chapter discusses SBA's implementation of the President's Management Agenda.

### Strategic Management of Human Capital

SBA is implementing a transformation plan that realigns its organization, operation, and workforce to better serve its small business customers in the 21st Century. The plan has major implications for SBA's workforce and includes the assessment of skills and increased training; provision of appropriate tools to assist employees to better accomplish their job responsibilities; delegation of additional program and decisional authorities and responsibilities; and the strategic placement of employees within the SBA organization to effect closer customer and resource partner relations. SBA will also implement several succession planning efforts, including executive and leadership developmental programs and strategic hiring, to ensure it has the appropriate number of employees with the skills needed for long term success. SBA is also strengthening its performance culture to ensure the SBA workforce is diverse, results oriented and high performance. Our new performance management system effectively differentiates between high and low performance and links performance to organizational goals and desired results.

### Outcomes

The Agency has developed and is in the process of implementing an ambitious transformation strategy that will achieve the following outcomes listed in the table below.

### Strategy

SBA's Transformation and Human Capital plans will implement the new vision of the SBA that is the foundation of SBA's Strategic Plan. The Transformation and Human Capital plans define the actions that SBA must take and the funds that SBA needs to invest over the period FY 2003-2007 to achieve this new vision. SBA is implementing this vision through a strategic and incremental process involving pilot locations and projects—expanded to the full organization in a deliberate and thoughtful manner after thorough evaluation and adjustment—starting at the beginning of FY 2003. Major components of the plan include:

- Consolidating credit administration and management activities and 8(a) review activities which the agency considers "backroom" activities into centralized locations using a high degree of automation to increase efficiencies of process, improve customer service, and make additional front-line resources available for direct customer support and delivery of programs.
- Enhancing SBA's management and support of small business customers and resource partners through implementation of customer and resource partner relationship models and concepts leading to more comprehensive and effective small business support. This includes eliminating traditional program "stove-pipes" and better integration of all programs and delivery systems through One-stop shops and/or supply chain management techniques.
- Strategically using resource partners to increase their levels of authority and responsibility, and to better integrate their service delivery with that of SBA and all program resource partners.

Outcome Goals	Performance Goals	Programs
Strategic Use of Staff	Better alignment and reporting structures	Human Resources, Field Operations
Increase Employee Skills	Increased performance as a result of skills training	Human Resources
Increased Efficiency	Increased efficiencies as measured by unit costs and other criteria	CFO, Field Operations and Program and Staff Offices
Improved service to external customers (small businesses)	Improved customer service and response services, such as a complaint desk	Field Operations

- Increasing the authorities, responsibilities, decision-making, and management of field offices through better integration of regional offices into field program delivery and management; through realignment of Surety Bond and GC/BD activities with the field organizational structure; through designation of senior career management officials in each regional office to assist with program and operational management; and through delegation of program oversight and administration of ED programs to field offices. Responsibility for lender oversight and risk management of the loan portfolio will be further centralized at Headquarters.
- Implementing technology solutions to reengineer business processes resulting in the transition to virtual workloads that can be managed and administered centrally, allowing for the full use of available technical and expert staff at any location and at any time nationwide. Redesigned business processes will include expert tools that guide customers through processes interactively, and provide for immediate and on-going follow-up and status reporting. Per unit costs of transactions will decrease; customer and resource partner response times will decrease; and customer and resource partner satisfaction will increase. These activities, coupled with further delegations to resource partners and continued asset sales, will result in a more efficient and effective administration of backroom activities and better utilization of limited staff and resources to serve 23 million small business customers.
- Competitively sourcing commercial activities leading to most efficient and effective operations—whether performed by the SBA or private-sector contractors.
- Realigning, over time, SBA's staff nationwide to expand their reach into local communities and to provide closer coordination with SBA's resource partners through the use of storefronts, one-stop centers, consolidation with resource partners, and various telecommuting arrangements.
- Completing comprehensive analysis of the skills required of SBA staff to be successful in implementing the necessary small business programs and services in the 21st century. Completing an inventory of current employee skills. Developing the training curriculums and recruitment and retention programs necessary to address identified current and projected future "gaps." Delivering the training in a cost effective and efficient manner, including the use of video training, Internet training, and on-site training.
- Continuing successful executive, district director and Presidential Management Intern development programs to provide a cadre of capable and competent managers able to step in when needed to assist SBA in its management and administration of the Agency in the future. Establish new leadership development term program targeting high performing GS-11/13 employees.
- Identifying appropriate performance goals and objectives for each manager and responsible employee and including these in formal personal business commitment plans to increase attention to and focus on results, and to enable the appropriate recognition for successful accomplishments.
- Identifying strategic hiring needs and implementing effective position management strategies to ensure SBA has the right people with the right skills in the right jobs at the right times, to serve citizens and small businesses nationally.

### ***External Factors***

Due to the scope of SBA's planned transformation, SBA anticipates close scrutiny of all actions by Congress, OMB, OPM, and GAO. SBA will continue to consult with its labor union and make it a full partner in all planned actions. Finally, significant change of all degrees will cause anxiety and meet certain levels of resistance throughout the organization. SBA will manage all of these areas through close coordination with all interested parties, an incremental implementation plan, evaluation of results at strategic milestones, and the adjustment of plans as implementation progresses.

SBA's transformation efforts go far beyond the activities funded in its current operating budget. Therefore, SBA will need additional out year appropriations to invest in these transformation changes if it is to achieve meaningful results.

### ***Resources Required***

For planning purposes and to develop the FY 2004 Budget Request and Performance Plan, SBA assumes that a minimum of \$3 million will be available for SBA's transformation activities in FY 2003. An initial estimate of a proposed allocation of this level of funding is shown below. The FY 2004 request of \$8,795,000 is based on this spending plan. Significant effort will be made in FY 2003 to comprehensively pilot test and perform analysis of business activities performed at loan servicing centers and district offices. Based on this work SBA will develop business cases so that management can make informed decisions about the next steps in the transformation process.

Some of the decisions about transformation will involve using information technology to improve business processes. SBA will conduct appropriate capital planning activities to develop better cost and timeline estimates. In several cases, SBA has identified small levels of funds as "placeholders" to allow for additional planning and analysis that would continue into FY 2004.

### **Space Restructuring**

An investment in space restructuring will allow SBA to redirect potential cost savings and better serve its customers. A review of current office space across the Agency identified significant opportunities for cost savings and customer service improvements. First, many SBA offices are in space that is in Central Business Districts (CBDs), and therefore, extremely costly to meet the need compared with other space alternatives. Less expensive options can be sought and resources saved can be redirected to more value-added services for small business assistance. Second, office space is not fully being used – potential rent savings can be realized in certain locations where excess space can be given back to the General Services Administration (GSA). Finally, many SBA offices are located in buildings that are not conducive to interaction with the small business owners that are served. Business owners, aspiring entrepreneurs, and resource partners should be welcomed into SBA office space that is easily accessible on their terms and at their convenience.

To restructure the SBA's office space requires an investment in facilities redesign and moving costs. Over the near-term, strategic investment will be recouped through reductions in rent payments. Initial funding of \$2,750,000 is needed to: (1) contract for detailed analysis of specific locations, including space redesign and market analysis of alternate locations; (2) contract for construction costs, electrical, cabling, systems furniture (new, or cost to disassemble and reassemble), conference furniture, physical move costs (labor, storage, excess equipment) and swing space, if needed. The total cost per location is estimated at \$200,000-\$250,000 depending on a number of variables.

### **Program Evaluation**

SBA requests \$850,000 to conduct program evaluations in FY 2004. Effective program evaluation provides the engine for thoughtful and rigorous analysis of government initiatives. Thorough evaluation not only identifies deficiencies in programs and/or processes but also illuminates the attributes of successful programs. This information

enables agencies to improve the delivery of their products and services.

SBA aims to carefully assess the impact of its programs by assessing the purpose, goals and objectives, and costs and benefits of its programs. The Agency will continue to use external and internal reviews to refine goals, measure progress, report on results, and institute regular reviews of its programs. Currently, SBA uses information provided externally by the GAO and by its IG to further monitor its programs.

The information SBA gathers in both internal and external reviews will provide it with a comprehensive view of overall program performance. This will equip SBA to accurately rate its programs using OMB's Program Assessment Rating Tool (PART).

The following table summarizes how SBA proposes to spend the \$9,545,000 that it requests for transformation funding in FY 2004. SBA will incrementally implement its transformation plans and make adjustments as it gains experience from pilot and analysis efforts. Therefore, in many cases, specificity of exact amounts required and categories of spending is not possible at this early stage of implementation. SBA will refine its spending plan based on the progress with district pilots. SBA will maintain a continuous dialogue with all stakeholders to provide appropriate information about the use of resources provided and results achieved.

### **Transformation Funding Request (\$ thousands)**

	<i>FY 2004</i>
Human Capital Initiatives . . . . .	\$1,325
District Pilot Costs . . . . .	\$600
Business Process Changes . . . . .	\$2,300
Infrastructure Changes . . . . .	\$1,720
Space Restructuring . . . . .	\$2,750
Program Reviews/Evaluations . . . . .	\$850
SUM SBA Transformation . . . . .	\$9,545

## IG Management Challenges

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

Action	Action Needed		Status	Estimated Date of Completion
1	Develop and implement a comprehensive human capital strategy that encompasses human capital policies, programs, and practices to guide the Agency and that is linked to SBA's strategic goals includes major human capital objectives, identifies the milestones and resources needed to implement the strategy and establishes results-oriented performance measures for human capital objectives.	The human capital strategy should include the following:	SBA developed its Human Capital plan, linking it to the Agency's Strategic Plan and transformation strategy. The Plan addresses all six Standards for Success in the Human Capital Framework jointly published by GAO, OMB and OPM. SBA's Human Capital Plan is designed to facilitate effective accomplishment of SBA's mission. The Plan is a living document that must be regularly modified to address changing customer, work load, work force and budget realities to ensure SBA's continued ability to provide excellent customer service to America's small businesses.	On Going
1A		Identification of the know ledge, skills, abilities, and other characteristics SBA employees will need to perform successfully in the new business environment.	OHR contracted with OPM San Francisco Service Center to conduct an agency-wide workforce/ gap analysis. The project was fully funded in FY 2002. Phase 1, covering GS 1101 and 1165 EDS, BOS & Loan Specialist positions at GS-9 and above is scheduled for completion in Feb 2003. OPM has committed to completing Phase 2 covering rest of the Agency by Sep 03.	Analysis Phase 1 Feb 03 Analysis Phase 2 Sep 03
1A1		A. Management has analyzed the tasks that need to be performed by SBA today.	SBA's Senior management has identified the functions that need to be performed by SBA today. The Agency is testing these tasks during a one-year pilot beginning in the second quarter of FY 2003. The concept will be refined based on pilot results and expanded incrementally across the Agency.	June 2003

**Challenge 4. Maximizing program performance requires that the SBA fully develop and implement its human capital management strategies, *continued***

Action	Action Needed		Status	Estimated Date of Completion
1A2		B. Management has analyzed the tasks that need to be performed for SBA's core competencies in the new business environment, completed a gap analysis, and linked the needed tasks to SBA's strategic plan.	Management is working with OPM San Francisco to complete workforce / gap analysis. (see 1A)	Analysis Phase 1 Jan 03  Analysis Phase 2 Sep 03
1A3		C. Competency models or other means of identifying and defining specific tasks required for job positions have been established and implemented.	Competency assessments are part of the deliverables of the workforce analysis project. SBA's servicing HR offices will work with their clients' managers to implement competency modeling as the results of OPM's analysis are made available to them.	Analysis Phase 1 Jan 03  Analysis Phase 2 Sep 03
1A4		D. An evaluation process for regular assessments of Agency skills has been developed and implemented.	This action item is pending approval of SBA/HR FY 03 budget, which includes funding for a knowledge management system.  SBA anticipate's beginning the procurement process for the initial pieces of the Knowledge Management System within 30 days of receiving adequate funds. Initial operation may be delayed due to delay in funding.  Once the system is procured, SBA's servicing HR offices will work with HR to implement for their client organizations by incorporating competency models and results of skills/ gap analysis into the system.	July 03
1B		An estimate of the number of employees with the identified skills who will be needed in the new business environment.	This is part of the workforce analysis and future recruitment plans will utilize this baseline data when determining hiring strategies.	Analysis Phase 1 Jan 03  Analysis Phase 2 Sep 03
1C		Adequate training for all employees to perform their jobs well.	We have developed an outstanding training curriculum for transforming the workforce. Phase 1 targets employees in pilot districts and Phase 2 covers the rest of the Agency.	Pilot Phase 1 April 03

Action	Action Needed		Status	Estimated Date of Completion
1C1		A. There are appropriate orientation and training programs to meet the needs, and minimize skills gaps/imbances, of all employees-especially those in the core competencies.	Training for pilot districts will commence after pilot kickoff, currently scheduled for Jan 03. Twenty-two training sessions covering eight courses will be offered during the first three months of the pilot, plus employees will have electronic access to Transportation's Virtual University.	Mar 03
1C2		B. An evaluation/control mechanism is established and implemented to ensure that all employees have received appropriate training and have the necessary skills.	HR will use an Excel database to document completion of training, and serve as a control mechanism. The evaluation component will include pre-course and post-course surveys and a 6-month post assessment to gauge the degree to which the training is translated into on the job practice. Survey results will be used to adjust course content and determine if additional training is needed.	Apr 03
1D		A comprehensive succession planning process for the Agency, including forecasting SBA's future executive resource needs at both headquarters and in the field.	SBA continues to use its tiered leadership development programs, including PMI, DD-CDP and SES-CDP, as a key component of our succession planning program.  Data gathered from the workforce skills / gap analysis will allow our servicing offices to more clearly forecast SBA's long-term leadership needs.	Jun 03
1D1		A. The Human Capital plan includes an analysis of attrition rates, retirement eligibility, and retirement rates of senior managers.	This type of information is being included in the Accountability section of SBA's Human Capital Plan. Initial data is currently in the Plan, but it will be refined and additional data added.	Apr 03
1D2		B. The Agency has defined the types of leaders it wants through written descriptions of roles, responsibilities, attributes, and leadership competencies, has established broad performance expectations for them, and has implemented them.	Done. This has been accomplished through the DDCCDP and SESCDP and through the addition of the President's Management Agenda performance criteria into each manager's PMAS in FY 2002.	

Action	Action Needed		Status	Estimated Date of Completion
1D3		C. The District Director Development program is reestablished and continued with periodic evaluations of its impact and effectiveness.	Done. A class of DD candidates recently graduated, and being placed throughout the Agency.	
1D4		D. The Senior Executive Service Candidate Development Program is reinstated and periodic evaluations of its impact and effectiveness conducted.	<p>On July 2, 2002, SBA reinstated the SES-CDP. 18 SES candidates were selected.</p> <p>SBA participates in an interagency SES support group that meets monthly. The recent focus has been on evaluating SES candidates. This interagency collaboration led SBA to develop an new "SES Candidate Rotation Evaluation" form which seeks not only information on tasks assigned during the rotation, but also collects feedback on each of the five OPM executive core qualifications (ECQ). Rotational managers will indicate for each ratable ECQ competency whether it is an area of strength or development for the candidate. The managers are asked to substantiate their ratings with observable feedback.</p> <p>This assessment tool was reviewed by the ERB on December 19, 2002.</p> <p>An ERB/HR taskforce will review the draft assessment tool and present to the Chair of the ERB for approval. Expected completion date is 1/3/03.</p>	Jan 03

Action	Action Needed		Status	Estimated Date of Completion
1D5		<p>E. A recruitment, retention, and development plan for lower and middle levels which has explicit links to skill needs the Agency has identified is developed and implemented.</p>	<p>During the first quarter of FY03, OHR planned to develop a recruitment plan that identifies the best available recruitment sources for SBA's strategic competencies and to establish continuing relationships with the best available recruitment sources.</p> <p>Development of recruitment, retention and career development plans must be based on identification of core competencies and results of the gap analysis, which are not yet available to us. Consequently, the target date for this action item has been delayed.</p> <p>The new target dates for developing recruitment, retention and career development plans will be 60 days after the gap analysis for any particular occupation is available to our operations staff.</p> <p>We anticipate the phase 1 gap analysis will be available in January 2003. Feb 03</p>	

## Competitive Sourcing of Commercial Activities

SBA will complete its annual inventory of commercial activities required under the Federal Activities Inventory Reform (FAIR) Act. In addition, SBA will initiate the appropriate actions and study to result in increased efficiency and effectiveness of operations, including direct conversion and competitive sourcing analysis and study with participation by the private-sector, leading to the Most Efficient Organization (MEO).

### Outcomes

The Agency has developed and is in the process of implementing an ambitious competitive sourcing strategy that will achieve the following outcomes.

Outcome Goals	Performance Goals	Programs
Most Efficient Organizations	Direct conversion and/or competitive sourcing analysis and studies with private-sector	COO, All program offices

### Strategy

SBA's competitive sourcing plan includes the annual completion of the required FAIR Act inventory to identify commercial activities. Consistent with Administration goals, SBA will undertake appropriate activities to identify commercial activities for direct conversion and/or competitive sourcing analysis and study with the private-sector. In order to complete necessary studies, SBA will use the services of consultants expert in OMB Circular A-76 guidelines and competitive sourcing analysis. SBA's plans will include, to every extent possible, the continued use of all current on-board staff to perform high priority Agency functions.

SBA plans the following specific activities:

- During FY 2002, SBA identified 190 full-time-equivalent (FTE) positions representing commercial activities performed in the Office of Disaster Assistance that it will directly convert to a private-sector contract.
- For FY 2003, SBA contracted for consultant services to provide expert assistance in the review of the FAIR Act inventory and the development of strategies and options to meet competitive sourcing targets.
- For FY 2003, SBA contracted with a consultant expert in A-76 and competitive sourcing analysis techniques to facilitate necessary actions to directly convert and/or conduct competitive sourcing analysis and studies on commercial activities identified in the FAIR Act in accordance with goals agreed on between SBA and OMB.
- For FY 2004 and out years, SBA will follow the same strategies used in FY 2003, with plans leading to the direct conversion and/or competitive analysis and study of additional FAIR Act inventory positions in accordance with goals agreed to between SBA and OMB

### External Factors

Due to the scope of SBA's planned efforts under this initiative (up to 50 percent of the FAIR Act FTE's), SBA anticipates close scrutiny of all actions by OMB, Congress, and GAO. SBA employees labor union will be involved in these planned actions. Finally, significant change of all degrees will cause anxiety and meet certain levels of resistance throughout the organization. SBA will manage these areas through careful and deliberate actions involving close coordination with large numbers of individuals, through frequent and open lines of communications and through incremental implementation.

Also, due to the need to use contractors expert in A-76 and competitive sourcing analysis and study, SBA will need additional appropriations to cover these costs if it is to achieve meaningful results.

### Resources Required

SBA will use \$500,000 in FY 2004 to contract with a firm expert in A-76 and competitive sourcing analysis and study to facilitate necessary actions leading to the direct conversion and/or study of FAIR Act FTEs to meet goals agreed upon by SBA and OMB.

### Improved Financial Performance

The emphasis of this initiative is to improve financial accountability through increased timeliness of reporting, increased accuracy, and usefulness of financial information. As SBA is a credit agency, this area includes the development and implementation of an effective lender oversight program and Loan Monitoring System (LMS); the development and implementation of an econometric loan performance model to support Section 7(a) and other loan subsidy costs; and the institutionalization of the loan asset sales program at three sales per year, or as necessary and prudent to manage the portfolio.

## **Outcomes and Indicators**

SBA will improve financial accountability by achieving the following outcomes in FY 2004.

<b>Outcome Goals</b>	<b>Performance Goals</b>	<b>Programs</b>
Provide timely and accurate financial information to the American people	Unqualified audit opinion with no material weaknesses  Compliance with the Federal Financial Management Improvement Act	OFCO
Improved risk management and lender oversight system for SBA's credit programs	Implementation of new Loan Monitoring System	Office of Lender Oversight, Capital Access
Increased privatization of SBA's loan portfolio	Reduce resources required to service SBA's loan portfolio	Office of Capital Access
Increased accuracy of the circulation of SBA's loan portfolio	Redevelopment of new subsidy models for the Disaster loan and SBIC programs. Development of 504 economic models that increased the accuracy of subsidy rate estimates.	OCFO

### ***Subsidy Rate Calculations***

SBA uses econometric modeling to identify economic factors that have a statistical influence on the performance of SBA's 7(a) loan portfolio. Using this technique SBA intends to develop and implement computer models to more accurately estimate the loan subsidy cost used for budgeting. The 7(a) project effort included economic analyses developed in conjunction with the Office of the Comptroller of the Currency (OCC), supplemented by analyses conducted with the Office of Federal Housing Enterprise Oversight (OFHEO). OFHEO and SBA, in concert with OMB, spent much of FY 2002 building the econometric model for use by SBA in modeling the 7(a) loan program for the FY 2004 President's budget. In the coming year, SBA anticipates developing new subsidy models for the disaster loan and SBIC programs. To the extent possible, SBA will use econometric modeling techniques for these models. Furthermore, in FY 2004 SBA intends to expand this work effort into the 504 loan program for FY 2006. In the future, SBA will be extending these analytical techniques to cover its other loan and loan guarantee programs.

### ***Outcomes and Indicators***

Outcomes for Loan Performance Econometric Modeling include:

- Increased accuracy in cost of credit programs
- Increased identification and understanding of credit risk
- Increased understanding of impacts on and relationship with economic factors

### ***Strategy***

SBA will use its internal expertise in cost performance modeling and supplement this with external expertise in statistics, economics, and automation. Goals will include improving the accuracy of forecasting and using automation to enhance efficiency and eliminate human error. Scenarios

that are under consideration include extending relationships with current resource partners at OCC and OFHEO, bringing additional statistical experienced people into the organization, or finding additional resource partners.

### ***External Factors***

SBA will consider several factors when under taking this endeavor. As with all research projects, SBA can only adopt a new model after significant research and testing is done to ensure that the model accurately predicts cash flows. Research on a 504 program will require more background work, since SBA has done little work on this program and may not have electronic access to appropriate loan data. Finally, SBA may have to upgrade its infrastructure significantly in order to enable these complex calculations to be done.

### ***Improved Risk Management and Lender Oversight***

The Office of Lender Oversight (OLO) is responsible for providing objective, efficient and coordinated monitoring and oversight of SBA's lending resource partners and lending programs by using risk management techniques and approaches.

### ***Outcomes and Indicators***

The benefit of effective lender oversight is more prudent financial management of the SBA's loan programs, including identification of risk characteristics and predictors of default, and ultimately, projections of lender and/or portfolio performance. OLO will assess SBA's lending activities from the perspective of the performance and risk profile of individual lenders making SBA loans (SBA's delivery system for its loan products) and the loan portfolio as a whole or segmented by program, region, industry, loan size or other key characteristics. OLO achieves these benefits by tracking and analyzing performance trends, assessing credit quality and identify-

ing geographic and industry concentrations. By using this information to develop early warning systems that identify potential problems, SBA can make better informed management and program decisions with regard the Agency's loan programs and lender resource partners.

**Strategy**

At the present time, SBA achieves its lender oversight objectives through on-site lender reviews and limited off-site analysis. With more than 5,000 lenders, current processes are labor intensive, inefficient and do not adequately focus resources on the greatest need. Automation is critical to implement a risk management approach to lender oversight. The Loan Monitoring System (LMS) will provide the necessary analytical tools to identify and meaningfully monitor those lenders representing the most risk to SBA and to monitor those lenders who represent minimal risk to SBA on an exception basis. LMS is the primary vehicle by which SBA will conduct lender oversight for the vast majority of SBA's lenders. SBA will conduct strategic on-site operational reviews with those lenders whose risk profiles indicate a high level of financial risk to the Agency. SBA measures financial risk in terms of both the amount of outstanding dollars guar-

anteed by SBA and a lender's performance with SBA lending and other financial characteristics.

With regard to SBA's overall loan portfolio, LMS will allow the data on individual lenders to be aggregated with other lender data to assess the portfolio or components of the portfolio and identify risk characteristics and predictors of default. SBA completed a re-scoping and re-orienting of the LMS project in FY 2002 and is beginning implementation of a refocused LMS project.

**Resource Partnerships and Cross Cutting Issues**

Resource partnerships with industry groups are important to communicate lender oversight approaches and expectations.

Coordination with Federal financial regulators to identify lenders needing extra scrutiny is required.

**External Factors**

For effective oversight, good relationships and communication with the lending community and individual SBA lenders is essential. The process implemented must be transparent to the lenders so that evaluation criteria and resulting consequences are clear and understandable.

**Program Analysis**

OVBD	FY 1999 Actual	FY 2000 Actual	FY 2001 Actual	FY 2002 Estimate	FY2003 Goal	FY 2004 Goal
<b>Performance Indicators</b>						
Develop and Implement LMS System	.N/A	.N/A	.N/A	Complete Rescoping & Re-orientation of LMS	Complete Planning & Begin System Development, Evaluation & Selection	Implement Initial Version of LMS
SBLC.Non-Bank Lender Examinations	14	14	7	10	12	14
Preferred Lender Program (PLP) Lender Reviews	277*	303*	325*	385*	396*	150**

\* PLP Compliance Review annual cycles run from April 1 to March 31. These results reflect reviews conducted during the cycle completed in the FY indicated.  
 \*\* Reflects implementation of enhanced on-site lender review process (i.e., fewer, more comprehensive operational reviews with 1-2 week review periods as opposed to current 1-5 day compliance review process)

## **Loan Monitoring System**

During FY 2002, SBA contracted with KPMG Consulting to assess the Agency's actions to date with regard to LMS, identify priorities for LMS, and make recommendations for re-scoping and reorienting LMS objectives given the remaining funds available for this project. KPMG Consulting issued its report in June 2002 and recommended the following priorities for LMS given the remaining funds available (approximately \$14 million):

- Comprehensive Project Management
- Develop and Implement Lender Oversight/Risk Management System
- Assess Data Quality
- Complete Electronic Application and Resource Partner Information Management System
- Leverage Existing Analytical Tools
- Develop Plan to Replace the Loan Accounting System

SBA adopted the recommendations made by KPMG Consulting and began implementation. A Project Management Board has been established comprised of senior executives (Chief Operating Office, Assistant Deputy Administrator for Capital Access, CFO, CIO and Assistant Administrator/Lender Oversight) to provide high level policy guidance and direction to the project teams developing the various components of LMS. A contract was issued on September 30, 2002 to provide project management services for LMS. SBA issued a contract to begin the planning and development work for the lender oversight/risk management components of LMS. SBA is in the process of exploring options including contracting instead of purchasing.

## **Lender Reviews**

SBA conducts two types of lender reviews. Small business lending companies (SBLCs) and other non-bank lenders receive safety soundness examinations which the Farm Credit Administration conducts on behalf of SBA. In FY 2003, SBA is expanding these examinations to include those non-bank lenders that are not overseen by a Federal financial regulator and have significant volume and/or geographic range of operations.

In addition, SBA lenders currently receive compliance reviews. SBA reviews lenders in the Preferred Lender Program (PLP) annually and non-PLP lenders over a three year cycle. These reviews focus on compliance with SBA rules and procedures. OLO is redesigning the review process to focus on operating activities. While not replicating the safety and soundness reviews depository institutions receive, SBA reviewers will assess a lender's SBA origination, servicing and liquidation practices to ensure that they reflect reasonable lending practices and are consistent with SBA requirements. OLO expects to test and roll out the enhanced review process during FY 2003.

LMS also plays a vital role in planning for and executing on-site lender reviews. LMS will be fully integrated with the review process. For example, LMS will:

- provide for monitoring and oversight of smaller volume lenders on an exception basis, eliminating the need for on-site reviews of approximately 2500 – 3000 low-volume lenders;
- include results of on-site reviews conducted as part of lender risk ratings; and
- assist SBA reviewers in planning and scoping the operational reviews by providing information on performance results and trends, concentrations and level of activity.

This approach will use SBA's resources more effectively by allowing SBA to devote on-site lender review resources towards those lenders representing more financial risk to SBA and conducting off-site analytical reviews for other lenders. Recent analysis indicates that approximately 300 lenders generate and hold about 80 percent of loans that SBA guarantees. SBA will focus on-site reviews and/or SBLC/non-bank lender examinations on this group of lenders. Once SBA identifies risk profiles, on-site reviews will be conducted on a 12 to 24 month cycle depending upon the level of risk assigned to a lender by SBA.

## Inspector General (IG) Management Challenges

The following chart lays out the management challenges pertaining to this agenda item that have been identified by the IG and it shows the action that SBA has taken.

### Challenge 6. SBA needs to continue improving lender oversight

Rec.	Action Needed	Activity	Status	Estimated Completion Date
1	Top management provides a positive and supportive attitude toward lender oversight.	The Agency establishes OLO to implement and manage the oversight of lending resource partners.	Action implemented.	Completed
		SBA has plans for lender oversight.	Action implemented for 7(a) and is in progress for SBIC and 504.	03/31/03
		Training programs exist for implementing the participant oversight process.	OLO will coordinate with the Investment Division and set up policies and training.	03/31/03
		Senior management provides adequate resources for the lender oversight program.	OLO staffing has been increased from 6 positions to 12 positions. All staffing was been completed as of November 2002.	Completed
2	SBA analyzes risks associated with achieving objectives.	A systematic process exists to estimate the level of financial risk on a per loan/investment and participant basis.	The revised lender review process will address this item relative to 7(a) and 504. OLO will coordinate with the Investment Division to address this item for SBIC.	06/30/03
		A systematic process exists to estimate the level of compliance risk on a per loan/investment and participant basis.	The revised lender review process will address this item relative to 7(a) and 504. The Office of Lender Oversight will coordinate with the Investment Division to address this item for SBIC.	06/30/03
		Overall program risk is independently reassessed on a recurring basis.	The combined tools provided by the revised lender review process and LMS will allow independent assessment of overall program risk for 7(a) and 504. The OLO will coordinate with the Investment Division to address this item for SBIC.	09/30/04
3	Policies and procedures provide guidance to ensure consistency among organizational components.	Policy and program guidance for lender reviews exists. Action implemented for 7(a).	OLO will develop policies for 504. OLO will coordinate with the Investment Division to address this item for SBIC.	06/30/03

## Challenge 6. SBA needs to continue improving lender oversight, *continued*

Rec.	Action Needed	Activity	Status	Estimated Completion Date
		<p>SBA provides guidance and training for new participants and those who demonstrate an unacceptable level of compliance.</p> <p>Uniform policies and procedures have been established for periodic evaluations of participant performance and retention.</p>	<p>Guidance and approach to training will be developed as part of the OLO standard operating procedures.</p> <p>SBA will develop policies and procedures as part of the OLO standard operating procedures.</p>	<p>06/30/03</p> <p>06/30/03</p>
4	Information is recorded and communicated to management and others who need it to fulfill their oversight and stewardship.	<p>SBA has an automated loan monitoring system to capture useful information and effectively monitor risk.</p> <p>There is effective communication among SBA's internal units.</p>	<p>In progress.</p> <p>OLO has initiated regular meetings with the Office of Financial Assistance to coordinate activities and will set up similar meetings with the Investment Division to coordinate SBIC activities.</p>	<p>09/30/04</p> <p>12/31/03</p>
5	Monitoring of performance occurs and findings of audits and other reviews are promptly resolved.	<p>Standardized and periodic reviews of lending activities that address risk are performed.</p> <p>Systems tracking review results and recommendations are implemented.</p> <p>SBA periodically reevaluates the status of each lending resource partner based on the results of the estimates of financial and compliance risk.</p>	<p>Action implemented for 7(a) and SBIC, and is in progress for 504.</p> <p>Action implemented for SBIC and 7(a), and is in progress for 504.</p> <p>In progress.</p>	<p>06/30/03</p> <p>03/31/03</p> <p>09/30/03</p>

**FY 2002 GAO RECOMMENDATIONS  
PERFORMANCE AND ACCOUNTABILITY CHALLENGES**

**GAO-01-260 SBA Challenges**

Rec.	Recommendations	*Status of Recommendation	Est. Date of Completion
1	Continue to improve oversight of SBA's lending partners to correct oversight weaknesses.	SBA's oversight of its lending partners has become more important as SBA has shifted more loan making and servicing responsibilities to private lenders. SBA recognizes the need to improve its oversight of lenders and has, among other things, embarked on a system modernization program to permit better data collection, lender oversight, and risk management and has begun regular reviews of lenders.	Ongoing

**Asset Sales**

SBA initiated the Asset Sale Program in FY 1998 as part of a government-wide effort to better manage the government's credit portfolios. The Program was designed to sell almost \$10 billion in loans owned by SBA to private sector investors and to establish an ongoing sales program for new loans as they become available. SBA is continually assessing the Asset Sale Program's results to ensure that the program is achieving its intended results.

Recent reviews of SBA's budgeting and accounting for asset sales by SBA, its auditor, and the GAO have indicated some potential problems however. SBA is working to address the issues and ensure that the Agency properly accounts for both the loans sold and those retained in the SBA's portfolio.

**Outcomes and Indicators**

The Asset Sales Program's goals and objectives are to maximize sales proceeds, protect the public policy goals of the Agency's loan programs and improve portfolio management, as well as create an opportunity to re-deploy staff to mission critical functions.

The Agency's core mission is to provide financing for small businesses and for homeowners and businesses that are the victims of disasters. SBA staff work associated with collection and processing of loan payments—commonly referred to as loan servicing—does not further these goals. The Asset sales program has enabled the SBA to reduce loan servicing staff through attrition. The Asset Sales Program also meets the Administration's policy of privatizing those functions that the private sector can conduct efficiently.

**Strategy**

By institutionalizing the sale of owned loans the Asset Sales Program has provided the Agency much needed flexibility in an ever tightening budget environment. The sale of assets has allowed the Agency to continue to provide essential loan servicing services and maintain capacity for future major disasters while coping with the loss of staff through attrition in the servicing centers and field offices.

**Resource Partnerships and Cross Cutting Issues**

SBA continues to work on establishing and maintaining the best Asset Sales Program in the Federal Government. Through this effort SBA has met with other Agencies to provide valuable lessons learned to assist their efforts. The Asset Sales Team (AST) has worked very closely with OMB and GSA in developing their "e-government" initiative.

**Program Analysis**

The Asset Sales Program has achieved numerous benefits for the Agency and the taxpayers.

**Maximize proceeds:**

- Sold 139,796 loans, with an unpaid principal balance (UPB) of \$5.12 billion.

At the time of the sales, the proceeds generated from the sales were higher than SBA's estimates of the value to the government of continuing to hold the loans, thus it was determined that it was advantageous for the SBA to sell the loans. More recent analysis however, has indicated that these estimates may need further review. SBA is working to address this issue as expeditiously as possible.

## Asset Sales Program

Fiscal Year	Asset Sales Program						Total
	1999	2000	2001		2002		
Sale Number	1	2	3	4	5	6	
No. of Loans <sup>1</sup>	4,060	26,283	19,033	31,068	29,335	30,021	139,800
UPB <sup>2</sup>	\$332	\$1,201	\$1,127	\$1,200	\$611	\$657	5,128
UPB Sold <sup>3</sup>	\$332	\$1,201	\$1,105	\$1,186	\$601	\$651	5,076
Sales Proceeds <sup>4</sup>	\$195	\$530	\$662	\$873	\$402	\$463	3,126

<sup>1</sup> Total number of loans pooled for sale, it includes 7(a), 504, and Disaster loans. The number includes retained loans. Retained loans are those that are either paid in full or withdrawn prior to closing.

<sup>2</sup> Total unpaid principal balance (UPB) in millions of pooled loans

<sup>3</sup> Unpaid principal balance of sold loans

<sup>4</sup> Actual dollars received at closing

### *Improve Portfolio Management*

- *Increased Loan Payoffs.* For a variety of reasons many borrowers find a way to pay off their loans when informed their loans have been selected for sale. Of the loans that SBA selected for the first six sales, borrowers paid in full 11,810 loans aggregating approximately \$427 million.
- *Motivates borrowers and servicing staff to prioritize and complete pending restructures, workouts, and compromises during the sale process.* Of the loans that were selected for the first six sales, there have been 718 loans totaling \$109 million entered into compromise agreements.
- *Cleans up the books and records of the Agency by processing write-offs and other pending actions that surface when SBA prepares loans for sale.* Of the loans that SBA selected for the first six sales, over 8,481 loans aggregating approximately \$705 million of unpaid principal balance have been charged-off.
- *Draws attention to information system needs that could improve the Agency's portfolio management ability and make the sale process more efficient.* The Asset Sales Program identified the need to capture collateral data electronically, and to maintain collateral data in a commercially acceptable manner.

### **Improper and Erroneous Payments (OMB Exhibit 57)**

The SBA's initiative to improve its payment administration includes the following payment categories.

1. Section 7(a) Loans
2. Section 504 Debentures
3. Small Business Investment Company Program
4. Disaster Loans
5. Administrative payments (CFO fiscal operation)

### **7(a) Business Loan Program**

Through the 7(a) business loan program, SBA guarantees approximately \$9 billion in lender originated loans each year. Upon default by a borrower, the participating lender may request SBA to purchase the guaranteed portion of a loan. SBA then conducts a thorough analysis of the purchase request, including reviewing the lender's loan origination, use of proceeds, and diligence in servicing and liquidating. If SBA determines that there has been a breach in any of the terms of the loan or the guaranty agreement with the participating lender, SBA may modify the purchase request through a reduction of the amount paid (a "repair"), or deny the purchase request in full.

#### ***Erroneous Payments Data***

The measurement of erroneous payments in the 7(a) business loan program resides in the guaranty purchase process, which is when Treasury funds are disbursed. A January 2000 report issued by SBA's IG provided the results of an audit of the 7(a) loan program that was conducted to determine whether loans were processed, disbursed and used in accordance with SBA requirements. OIG concluded that this was not always the case. Based on a statistical projection of the sample results, OIG estimated that loans valued at \$405 million might have deficiencies that could result in some erroneous payments.

As a result of an audit on guarantee purchases, OIG recommended that SBA centralize the guaranty purchase process for all loans. In response, SBA has taken two separate actions to support this recommendation. First, SBA centralized the purchase of loans made under the Agency's SBAExpress program, which currently accounts for about one-fourth of 7(a) loans made by participating lenders. Second, with OIG's concurrence as to methodology, SBA established a process by which almost 10 percent of loans purchased each year would be reviewed centrally. As a result, the SBA guaranty purchase review program (GPR) was started to strengthen the Agency's quality control and oversight of the 7(a) loan program, with particular emphasis on the purchase process.

## **Certified Development Company Loan Program**

Through the GPR, SBA made a preliminary estimate of possible erroneous payments in guaranty purchase disbursements. This was based on an initial review sample consisting of 145 purchases (representing disbursements of \$9.4 million). Of this limited number, 14 disbursements (\$1 million) were identified as possibly being in error in whole or in part. Since this was a first-time estimate based upon a very small statistical sample early in the GPR review process, SBA noted that the finding would be subject to future revision as more experience was gained through the GPR using a larger sample of purchases. It was also indicated that further research on additional data was necessary to validate even this initial finding since information related to the level of errors in purchase disbursements did not exist prior to the newly initiated GPR process.

SBA has now completed further analysis on a larger sample size of guaranty purchases. This sample consisted of 71 purchases that were reviewed in FY 2000 and 300 purchases reviewed in FY 2001. The percentage of possible erroneous payments (in dollars) calculated for each review year is:

FY 2000	5.0%
FY 2001	1.9%

SBA believes the FY 2001 percentage represents the most accurate estimate to date for possible erroneous payments because of the larger sample size and additional experience in the review process. Based on these new figures, SBA proposes the following target rates for erroneous guaranty purchase payments for FY 2002-2004:

FY 2000 preliminary "error" rate	5.0%
FY 2001 baseline "error" rate	1.9%
FY 2002 target "error" rate	1.9%
FY 2003 target "error" rate	1.8%
FY 2004 target "error" rate	1.8%

### ***Assessment and Action Plan***

SBA commenced its guaranty purchase review project in FY 2000 on a statistical sample of purchase decisions by SBA field offices that were examined by teams of experienced financial and legal staff. The Agency will continue the review process with the goal of reducing the purchase error rate. This will be accomplished through identifying problem areas in policy and procedures that may require revision, and developing training materials to achieve greater consistency in purchase decisions. In response, SBA issued a major policy notice in October 2002 to ensure greater accuracy and uniformity in the guaranty purchase process and in November 2002 trained all Agency attorneys on the new policy. SBA reviewed 300 guaranty purchase decisions in FY 2001 and 232 in FY 2002, and plans to review a similar size sample in FY 2003 and subsequent years, depending upon the available budget.

Through the Certified Development Company (CDC) Loan Program or 504, SBA guarantees about \$2 billion in loans annually. Participating CDCs issue debentures to private investors to finance the loan transaction with the small business borrower. SBA guarantees 100 percent of this debenture financing, which covers approximately 40 percent of the total borrower transaction. A private sector lender generally provides 50 percent of the financing that receives no guaranty from SBA but instead receives a first lien position on the project collateral. In the event of payment default by the borrower, and in the absence of a satisfactory workout agreement, SBA must honor its guaranty to the investor holding the debenture. This is done through a Central Servicing Agent (CSA) using tightly controlled procedures. Since SBA's guaranty is 100 percent and is unconditional to the investor, there is no issue with respect to erroneous payments. Recovery for the CDC/SBA on the amount disbursed for purchase of the debenture is obtained through payments from the borrower, through the liquidation of collateral or recovery from guarantors.

### ***Erroneous Payment Data***

Since SBA's 100 percent guaranty to the debenture holder is unconditional, there is no possible erroneous payment issue or problem in connection with the debenture purchase process. The disbursement procedure for debenture purchases is very tightly controlled through SBA's CSA. Recovery on the amount disbursed for debenture purchase is achieved through borrower payments and liquidation actions, as appropriate.

### ***Assessment and Action Plan***

SBA's field staff will continue to train and conduct reviews of CDCs to assure compliance with all applicable laws, regulations and Agency procedures governing the program. CDCs that fail to appropriately follow these authorities will not be allowed to participate in the 504 program. Beyond this, no further action is necessary with respect to possible erroneous payments in this program. Consequently SBA does not believe that the 504 loan program should be included in the formal tracking of erroneous payments.

## **Small Business Investment Company (SBIC) Programs**

SBICs are privately-owned and managed venture capital firms. SBA guarantees approximately \$2.5 billion in debentures and participation certificates (leverage) annually. The participating SBIC issues debentures and/or participation certificates to private investors to supplement the private capital raised by the fund. These funds are then used to finance investments in small businesses. The private capital is always at risk ahead of SBA. Upon default on payments by the SBIC for a debenture or participation certificate, SBA must honor its guarantee to the investor and attempt collec-

tion through working with the SBIC and the small businesses financed by the SBIC for a workout or through ultimate liquidation of collateral.

Unlike the 7(a) and 504 programs, the SBIC program has a very rigorous licensing process prior to the issuance of any form of SBA leverage. Also, annual reviews of all leveraged SBIC participants are conducted to assure full compliance with all applicable laws, regulations, and agency procedures. When a potential for default is identified, the SBIC is closely monitored by SBA. If a default occurs, the SBIC is reclassified into SBA's specific SBIC liquidation unit where a comprehensive review and analysis is undertaken to mitigate any ultimate loss to the government.

### ***Erroneous Payment Data***

SBA does not believe erroneous payments have been made to an SBIC. The actual disbursement to an SBIC requires the cooperation of two offices within the Investment Division and another independent party plus the disbursing agent prior to a payment being made.

However, SBICs may make investments in portfolio concerns that are in violation of the regulations governing their investments. SBICs are routinely examined (approximately once per year for leveraged SBICs) and potentially improper investments are reported by the examiners. These investments are oftentimes later found to be appropriate but the raw number is included below.

In the examination report the potential violations are referred to as "Findings." The Findings are resolved in a number of ways. After review, it may be determined that no violation occurred. The terms and conditions of the investment may be amended to conform to the regulations. The terms may be approved by the Investment Division post investment. Alternatively, the SBIC may disinvest.

Although the Findings may, in fact, not be a violation, they can serve as a proxy for potential erroneous payments as the term is described in the OMB instructions. The reported number of Findings is as follows:

FY 99	335
FY 00	269
FY 01	238
FY 02	196

These potential violations can then be calculated as a percentage of the total investments made by the SBICs. Those percentages are shown below:

FY 99	10.8%
FY 00	5.8%
FY 01	5.6%
FY 02	4.9%

SBA's objective is to have these potential violations not exceed 7.5 percent of the total number of investments made by the SBICs. Therefore, the target rates for FY 2002-2003 are as follows:

FY 02	7.5%
FY 03	7.5%

### ***Assessment and Action plan***

SBA will continue to implement its rigorous licensing and examination and review processes of SBICs. Continued oversight to this area is accomplished by the following:

1. An active oversight staff.
2. A regulations training class for new licensees.
3. Fee structure for examinations that rewards good compliance history.
4. Rigorous licensing standards.

### ***Disaster Loans***

The SBA Disaster Loan program provides direct loans to individuals and businesses to repair and/or replace disaster damaged property not covered by insurance. Small businesses are also provided working capital loans to enable them to sustain operations during the recovery period.

The disaster loan program has a number of checks and balances in place to ensure that assistance is provided to eligible recipients and at amounts determined to be appropriate. Disaster related damages are verified onsite by SBA staff. The cost to repair and/or replace the disaster damaged property is determined by SBA construction analyst. Appropriate credit checks, verification of income, verification of ownership and checks with FEMA to ensure that federal assistance is not duplicated takes place during loan processing and disbursement of funds. Additionally, every secured loan is reviewed by staff attorneys for legal sufficiency. Use of electronic funds transfer is utilized to prevent lost and stolen checks.

In FY 2002, SBA's Office of Disaster Assistance amended its "Quality Assurance Review" process to include "Erroneous Payments" in order to establish a baseline and future targets. A review of 100 loan files in each of the Disaster Area Office was conducted. The review consists of four primary compliance areas: (1) basic eligibility, (2) adherence to relevant laws, rules regulations and standard operating procedures, (3) credit worthiness and repayment ability and (4) erroneous payments.

Based on a review of the 400 files the erroneous payment rate was determined to be 0.9 percent. It should be noted that a majority of these "erroneous payments" will be recovered either through the borrower's repayment or the collateral securing the loan in the event of default.

Rather than establish a baseline and target (goal) "erroneous payment rate" based on a one year review, the Office of Disaster Assistance proposes to use the FY 2002 data and the results from FY 2003 and FY 2004 to establish the "erroneous payment" baseline and target (goal).

### **Office of Financial Officer (OCFO) Payment Activities**

In addition to the four SBA programs identified in OMB's Circular A-11, SBA's Denver Finance Center (DFC), within the Office of the Chief Financial Officer (OCFO), is responsible for all agency disbursements, including processing payments referenced above under the four specific program areas. General information on SBA's DFC transactions is addressed to provide additional assurances over its broader oversight and management of financial activities. These general DFC financial activities are not proposed for tracking and reporting outside the specific program areas identified within the OMB Circular.

All DFC disbursement activities, especially in the area of administrative payments, are subjected to regular audit and review by the Office of the Inspector General. The OCFO has very proactive and comprehensive internal control and quality assurance processes to ensure that all payments made are appropriate and documented. As such, all findings and recommendations from any of these assessments are identified, tracked, and resolved in a manner that is acceptable to all parties involved.

### ***Erroneous Payment Data***

The audit and review activities that have been conducted in the payment areas in DFC have not identified any material findings of erroneous payments in past years. SBA believes that no unacceptable level of errors is made.

### ***Assessment and Action plan***

Due to the attention being provided to this area and its relative importance in assuring public confidence and fiscal management, the OCFO will enhance its current oversight activities in this area through the conduct of selected statistical testing of payment transactions to supplement its normal internal control and quality assurance activities. If any problems are identified, they will be immediately rectified through a modification to policies and procedures, and the initiation of claim procedures, if warranted.

During FY02, the OCFO developed a project plan for a statistical sampling and review of payments processed at the DFC. DFC is now working that plan, beginning with administrative payments. Research is now being done to update the internal procedural documents on payments. Once that is done, DFC will conduct the actual sample and review. This is targeted to be completed during the first quarter of 2003, at which time a statistical review of programmatic payments will be conducted.

### **Summary Comment by OIG**

While the OIG has performed limited work to determine erroneous payments made by SBA, the OIG requires additional resources to validate actions that the Agency is proposing to undertake to respond to OMB Circular A-11, Section 57. The OIG has requested additional funds in its FY 2003 budget request to validate SBA's initial estimate and progress made in reducing erroneous payments. To date, no additional funds have been received by the OIG for this effort.

## Inspector General (IG) Management Challenges

The following charts lay out the management challenges pertaining to this area that have been identified by the IG, and they show the action that SBA has been taken.

### IG Management Challenges

#### Challenge 2. SBA faces significant challenges in modernizing its major loan monitoring and financial management systems

Rec.	Action Needed	Activity	Status	Est. Completion Date
1	Top management provides a positive and supportive attitude toward adherence to Information Technology (IT) capital investment methodology.	Top management designates an official or advisory board to oversee IT capital investment projects, and these projects adhere to the requirements of the Information Technology Management Reform Act (known as the Clinger-Cohen Act of 1996)	Establishment of process and procedures completed with the establishment of SBA's IT capital planning committee—Business Technology Investment Council (BTIC) and the development and issuance of the capital planning guidelines. The BTIC is chaired by the CIO and composed of senior managers.	Completed with the establishment of the BTIC in 1997
		Employees are trained in fulfilling their responsibilities for managing IT capital investment projects.	Published SBA IT capital planning guidelines in FY 2001. 32 staff attending the most recent OMB Capital Planning and Investment Control Processes (CPIC) training. OCIO added senior analyst to work on CPIC implementation issues and is conducting weekly status checks on completion of IT capital plans for FY 2004 budget. OCIO conducting training for HQ program personnel on preparing IT capital planning documents (Form 300) for submission with budget to OMB. The BTIC also conducts periodic sessions on IT planning to familiarize senior managers that are new to the Council.	Training is conducted yearly (4th qtr) to familiarize staff with new IT capital planning guidelines that OMB issues.
		_ Management provides adequate resources to support system development projects.	On-going; resource allocation is a function of the rating and ranking of proposed and on-going projects by the BTIC. Resources are provided based on the priority of the project in attaining the Agency's mission, goals, & other strategic management goals.	Normally one meeting per quarter each FY. Continuous, feedback provided via regularly scheduled BTIC meeting minutes and recommendations on projects.
2	Top Management identifies risks associated with IT capital investment projects.	_ IT project have risk management programs designed to identify potential risks to the projects and possible risk mitigation plans to minimize identified risks.	SBA will award a contract in FY 2002 to develop a standard Cost-Benefit Analysis methodology for use by SBA and to refine post-implementation review portion of CPIC. This work will be managed jointly by OCIO and OCFO. On completion of that effort in Q1FY 2003, SBA will update the Information Technology Investment Management Guide to make it current with the revised Circular A-11.	09/30/03
3	Policies and procedures provide guidance to employees to ensure an effective system development and acquisition process.	_ SBA establishes policies and procedures to define processes for investment selection, control, and evaluation.	Investment selection and control procedures have been defined in the Agency's ITIM Guide, published in Dec. 2000 and available on SBA's Intranet since March 2001. BTIC is following more stringent processes to make IT project selection decisions. Evaluation /post implementation review procedures to be refined during Q1 FY03	12/31/03

**Challenge 2. SBA faces significant challenges in modernizing its major loan monitoring and financial management systems, *continued***

Rec.	Action Needed	Activity	Status	Est. Completion Date
		_ Procedures provide a systematic process for architecture development and maintenance and target dates for implementation of the maintenance process.	In March of 2000, SBA completed its initial Information Technology Architecture efforts. A draft policy and procedures for the maintenance of the architecture in the future has been developed. GAO's Enterprise Architecture management Maturity Model is being used to assess progress.	12/31/2003
		_ Agency wide use of SBA's Systems Development Methodology (SDM) is institutionalized and enforced.	Procedure Notice issued on 10/01 which institutionalized the process. Now developing a review process to ensure enforcement.	03/31/2003
		_ Policies, procedures, and processes address areas such as requirements management, project planning, project tracking and oversight, software quality assurance, configuration management, acquisition planning, solicitation, contract tracking and oversight, product evaluation, and transition to support.	Developed comprehensive plan that identified the schedule and resource requirements to complete policies and procedures for all OCIO functions.	09/30/03
		_ Policies and procedures mandate effective communication of project progress to project participants, stakeholders, and SBA management.	Developing project management methodology to provide guidance to IT project managers	03/31/03
		_ Policies and procedures ensure that systems are adequately documented and tested before those systems are implemented.	Included in comprehensive plan to implement polices throughout OCIO. In the interim using the certification and accreditation (C&A) review to monitor compliance.	12/31/2003
		_ Proper evaluation of prototype software and documentation is defined by procedure before the prototypes are put into production. Specifically for LMS, a decision is made to consider whether the software should be separated from LMS and implemented, separated from LMS and further modified to meet mission needs, or held in suspense until all LMS requirements and plans have been completed.	Completed. Evaluation of the Resource Partners Information Management System (PIMS) completed 4/02. E-Tran evaluation completed 4/02. Both evaluations recommended separation from LMS and implementation of the systems. SBA has forwarded reports to the Project Management Board for LMS. Awaiting a decision before moving forward.	06/15/03

## IG Management Challenges

### Challenge 2. SBA faces significant challenges in modernizing its major loan monitoring and financial management systems.

Rec.	Action Needed	Activity	Status	Est. Completion Date
1	Top management provides a positive and supportive attitude toward adherence to IT capital investment methodology.	Top management designates an official or advisory board to oversee IT capital investment projects, and these projects adhere to the requirements of the Information Technology Management Reform Act (known as the Clinger-Cohen Act of 1996).	SBA is establishing a Project Management Board (PMB) to provide top management support for LMS. A recommendation is with the Administrator to establish a PMB consisting of the COO, CFO, ADA/CA and AA/OLO.	9/30/2003
2	Policies and procedures provide guidance to employees to ensure an effective system development and acquisition process.	SBA establishes policies and procedures to define processes for investment selection, control, and evaluation.	Action implemented.	Completed
		Procedures provide a systematic process for architecture development and maintenance, and target dates for implementation of the maintenance process.	SBA initiated a procurement action the week of July 22nd; but no substantive action has been taken on the LMS recommendations due to the Agency's inability to spend any LMS funds.	N/A

## **FFMIA Remediation Plan Update**

Per the Financial Manager's Improvement Act (FFMIA) of 1996, the SBA's independent auditor must issue an annual statement regarding the Agency's compliance with laws and regulations in the areas of Federal financial management systems and Federal accounting standards. During the FY 2000 audit, the auditors found "no instances of noncompliance," effectively reporting that the SBA was in substantial compliance. This was based on the Combined General Ledger (CGL)/Financial Reporting Information System (FRIS) process that was first developed for FY 2000 reporting.

The auditor's opinion in the SBA's FY 2001 audit as to FFMIA compliance changed, identifying two areas in which the SBA's financial management systems did not substantially comply with FFMIA. These two areas are:

- SBA's core financial system is not able to provide complete, reliable, timely and consistent financial management information on operations to enable management to fulfill its responsibility of being accountable to the public and provide timely financial information of managing current operations.
- SBA is not in substantial compliance with Federal accounting standards because of significant errors and misstatements in its initial financial statements.

### **Implementation of New Financial Statement Formats**

At the end of FY 2001, OMB issued new guidance regarding changes to the financial statement formats (OMB Bulletin 01-09 dated 09/25/01). In this bulletin, OMB required agencies to implement these changes by the reporting year FY 2002, but allowed implementation a year early if desired. SBA decided to implement the financial statement changes for the FY 2001 reporting year.

SBA's reporting system allows for flexibility to make such changes to financial statement formats without having to make major modifications to complex core accounting systems. In brief, SBA collects the trial balances for all subsidiary accounting systems (Loan Accounting, Administrative Accounting, etc.) on a monthly basis and feeds the CGL and FRIS. The final step in the preparation of financial statements is to take the CGL accounts and "map" them to various lines on the several financial statements. When OMB makes changes to the statement formats, SBA must react to these changes by updating its mappings from the CGL to the statements. The mapping of the CGL to the new statement formats was more difficult than SBA anticipated. As a result of an accelerated reporting schedule and resource constraints, SBA did not complete validation of the new mappings. This allowed some errors to flow through to the draft statements. The auditor identified the errors, resulting in the negative FFMIA finding. SBA attempted to be pro-active in the implementation of OMB's new formats

a year early, but failed to complete the implementation. The CGL/FRIS process, however, still provides the same basic functionality that was approved as FFMIA compliant for FY 2000.

### **Corrective Action**

SBA has contracted with KPMG to conduct a complete validation of the crosswalks/mappings in its financial reporting system to assure the data flows correctly from the combined general ledger to the financial statements for FY 2002.

### **Other Errors and Misstatements**

The auditor identified other entries to the financial statements which require improvement. For example, during FY 2001 SBA took action to address an auditor recommendation regarding how it calculates loss allowance. SBA could not fully implement the recommended changes resulting in an adjustment to the statements. This example is primarily due to human error, as are other similar issues identified by the auditor.

### **Corrective Action**

SBA continues to explore new ways to take the human intervention out of the preparation of financial statements and to improve its quality assurance processes over all entries. It is working to automate the loss calculation for FY 2002 reporting based on suggestions made by the auditor. SBA is evaluating additional entries for similar automation.

## **FFMIA Remediation Plan Update**

Following is the page from the FFMIA remediation plan dealing with the Financial Reporting issues. This page has been updated to include these two new items.

### **SBA Remediation Plan**

Tracking number: FFMIA-99-04

Title of Noncompliance: Financial Reporting

Description: Improved financial reporting processes are needed to insure compliance with GMRA, which requires agencies to submit agency-wide financial statements. Specifically:

1. Manual processes are prone to errors.
2. Internal controls and verifications of reports are not implemented.
3. Financial statements are not submitted timely.
4. The transition of the reporting function from the Washington Headquarters to the Denver finance office must be rigorously managed in order to meet FY 2002 requirements and timelines.

Comments: This noncompliance item is related to FFMIA 98-02.

Corrective Actions	Target Completion Date	Status	Project Lead
Perform mainframe reports business process reengineering	1997	Complete	
Automate selected reports creation processes	1997	Complete	
Implement conversion of mainframe reports to electronic format	1998	Complete	
Develop plan for fiscal yearend reporting	2000	Complete	
Implement conversion of admin reports to electronic format	1999	Complete	
Transition reporting function from DC to Denver	1999	Complete	
Implement new administrative accounting system (Oracle)	2001	Complete	...OCFO
Implement quality assurance function and flux analysis process	2000	Complete	...OCFO
Reinvent financial reporting process using new Combined General Ledger application	2000	Complete	...OCFO
Automate monthly recurring journal vouchers	2001	Complete	...OCFO
Automate manual reporting processes	2001	Ongoing	...OCFO
Meet Committee of Sponsoring Organizations (COSO) standards for internal controls	2002	Ongoing	...OCFO
Improve reliability of data produced by the reporting system	2002	Ongoing	...OCFO
Reduce errors in the preparation of initial financial statements	2002	Ongoing	...OCFO

## Expanded Electronic Government Strategy

SBA's E-Government (E-Gov) vision is:

- To meet or exceed small business expectations by offering a "single face of government" with anytime-anyplace access to information, service, and transactions

Simply put, SBA's vision is not about technology. It is about delivering improved customer service to help small businesses start and grow. It is more about satisfying small business expectations, transforming the Agency, and changing the way it interacts with small businesses. Today anyone can use the Internet to find answers to almost any imaginable question, buy or sell products or services, even enjoy art and music. All 23 million small business owners in the United States, should also be able to get what they need electronically.

More than two-thirds of the small business community uses the Internet. In general, many if not most find it extremely difficult to deal with government. Small firms repeatedly have argued that the difficulty in finding business-related information, the complexity in receiving essential service and the unnecessary regulations/paperwork cost them money and impair their growth. By allowing an individual to access information and services directly from government, the Internet is shifting power from public institutions to the citizen. But to make SBA truly "citizen-centered," it must work with state and local resource partners to

build tools that meet the needs of the small business owner. Delivering products and services electronically—anytime/anyplace—will save the business owner money, permit increased outreach, transform the way business is done, and improve productivity.

### Elements of SBA's Expanded E-Gov Effort

- Create an E-SBA with a single portal for small businesses to access everything government has to offer. The new Portal will offer comprehensive information organized in a logical and functionally-driven manner as well as more dynamic and interactive solutions that include electronic access to all of SBA goods and services including, compliance with laws and regulations, e-loans, asset sales, international trade, disaster help, on-line eligibility and certification, integrated acquisition portal, and a small business learning network. The initial effort involves building a startup module that the aspiring entrepreneur can use. The new web presence will also include links to other government goods and services of value to small business.
- Manage the Business Compliance One Stop Initiative (Regulatory Advisor). SBA will lead nine regulatory and six state agencies in developing a "single face of government" to help businesses find, understand, and comply with laws and regulations at all levels of government. Access to laws and regulations, compliance assistance tools, and on-line transactions form the core of this 24-month effort to create a web services portal.

- Participate in various cross-agency E-Gov initiatives. SBA must represent the interests of small businesses and incipient entrepreneurs in a number of cross-agency E-gov projects, including: asset sales, international trade streamlining, e-loans, integrated acquisition portal, coordinated disaster assistance, on-line rulemaking, electronic tax tools for business, USA Service, GovBenefits.gov (on-line eligibility and certification), E-Grants, and Integrated HR.

As the single point of entry for all that businesses need on-line, SBA will offer web services: interactive, personalized information and service that is cross-agency, multi-functional, and intergovernmental and features a number of cross-agency initiatives:

- Legal and Regulatory Burden Reduction: Regulatory Advisor (Business Compliance One Stop);
- Easy Access to Financial Assistance: asset sales, e-loans, and international trade streamlining;
- Distance Learning Network: on-line tools, courses, tutorials, and customer relationship management;
- Coordinated Disaster Assistance: paperless loan application and processing, harmonized loss verification;
- Integrated Acquisition Portal: on-line eligibility for 8(a) firms, marketplace created for small business buying and selling, and registry of small firms interested in selling to the government, plus an on-line tool for how to sell to the government; and
- On-line administrative management systems (e.g., travel, procurement, personnel).

## Results and Resources

In FY 2004, SBA is requesting \$5 million to manage the creation of the Regulatory Advisor (Business Compliance One Stop), the third and final year of an \$11,000,000 cross-agency, intergovernmental effort to reduce the burden on business owners by making it easy to find, understand, and comply with governmental laws and regulations. The cost of regulations is nearly \$500 billion annually with almost 7.5 billion hours spent by businesses to deal with the more than 150,000 pages of the code of regulations. SBA's first general goal is to champion small business interests by reducing the costs of laws and regulations that inhibit their success.

Having received funding in the summer 2002, the Agency completed Phase I of its deliverables, including:

- National business registration -- a first-of-its-kind web services to permit the entrepreneur to register the business at the state level, as well as get a Federal EIN in a single transaction. The initial release will include 3 states: Georgia, Illinois and Washington.
- Single-source coal reporting – allows coal mining companies to report their quarterly coal production to several agencies and states through a single transaction. The initial release will include the Office of Surface Mining, Mine Safety and Health Administration, the IRS, and the State of Pennsylvania.
- Start-up business advisor – a module that provides information and tools to prospective businesses to help them start a business.
- Building evacuation electronic tool – an expert system that helps a business develop an emergency action plan

Outcome Goals	Performance Goals	Programs
SBA offers anytime anyplace access to government services and information to small businesses	Establish business.gov as the small business web portal for all business-related government assistance.  Implement the regulatory advisor with expert tools, on-line transactions, and vertically integrated, industry specific one-stops.  Implement SBA programs on-line: e-loans, asset sales, international trade streamlining, disaster help, integrated acquisition portal, etc.  Establish coordinated system for delivering SBA services to small businesses via the Internet that meets private sector quality standards.	CIO, COO

and comply with emergency related OSHA regulations. The tool was developed in partnership with OSHA.

- Contractor versus employee tax filing electronic tool – an expert system that helps a business determine if a prospective new-hire should be considered an employee or a contractor. The tool is being developed in partnership with the IRS.
- Employee bulletin electronic tool – an expert system that helps an employer determine how immigration regulations apply to various employment situations. The tool is being developed in partnership with the INS.
- Auto parts salvage digital guide – an expert tool created by EPA to help users comply with environmental regulations.
- Portal Maximizer – a thematic and semantic search tool that was tested to determine its effectiveness in assisting users to find specific information on laws and regulations.

### ***Resource Partnerships and Crosscutting Issues***

SBA is the managing partner for developing this compliance assistance tool as a further development of BusinessLaw.gov, a site launched in December 2001 by SBA to offer legal and regulatory information to small businesses and the platform for one of the Administration's 24 E-government initiatives. Funding will support pilot efforts to

improve businesses' ability to find the pertinent laws and regulations that apply to them, understand them through plain English guides and 25-30 expert tools and compliance assistance tools, and conduct transactions on-line (including registering a business, obtaining a license or permit, performing credential, and making payments). Along with the other 10 cross-agency E-Government initiatives in SBA, this effort flows from SBA's mission to help small businesses succeed and to reach out to more small businesses with help they want and need.

Through the partnership of nine agencies and six states, the Regulatory Advisor will focus on four critical regulatory areas (environmental, workplace health and safety, taxes and employment) and several highly regulated industries (e.g., transportation—trucking, food, chemicals, and mining). In October 2002, with funding provided in the first year of the three-year effort, SBA launched Phase I. This tool offers an on-line National business registration module for state and business registration, a navigational aid to search large amounts of regulatory content, several digital guides or wizards to learn how to comply, and a start-up module to help entrepreneurs fulfill their dream of starting a business. Funding will also provide a web services portal environment that is accessible, reliable, and secure, as well as complete the development of interactive expert tools and create electronic licensing and permitting for several industries.

**SBA participates in other inter-agency e-Government initiatives as noted in the following table.**

<b>INITIATIVE</b>	<b>DESCRIPTION</b>	<b>SBA'S ROLE</b>
E-loans	The E-loans initiative will create a "one-stop" web based gateway for citizens to locate information about the wide variety of loans available to them throughout the government. Further functionality includes the ability to perform all functions of the loan lifecycle process on-line from a central point of access.	SBA is actively engaged in all meetings and is leading a work group. This initiative holds tremendous promise for SBA as it works side by side with other Federal agencies that have moved ahead with on-line loan functionality.
Disasterhelp.gov	The Disaster Information Portal will provide the public with a "one stop" web-site to obtain disaster information that affects them in an easy to use and customer friendly location. Further, the site will help users obtain disaster related information from the first responders phase to the recovery phase.	FEMA is the lead agency in this initiative; SBA has committed manpower resources for all working groups within this initiative. Currently SBA is actively participating within the Architecture and content work groups with SBA staff.
Federal Asset Sales (FAS)	The Federal Asset Sales (FAS) initiative is being developed to provide a one-stop web based portal for the sale of all agency owned assets; personal property, real property, financial instruments and other (environmentally impaired, etc).	SBA is the Team Leader for the ongoing development of the financial instruments module of the web portal. The Agency has provided all baseline data and template information to date and has scheduled another meeting to go over potential cost benefits to the Agency and the government by using the FAS portal.
Integrated Acquisition Environment (IAE)	The Integrated Acquisition Environment Initiative will deploy a single point of registration and validation of supplier data accessed by all agencies. IAE will implement a central point for the consolidated collection and the access of statistical and management information related to government acquisitions. Among other outcomes, the initiative will reduce the cost of and make transparent the ordering, billing and collections of intergovernmental transactions.	SBA government contracting and business development staff is participating in this initiative. SBA has committed the use of PRO-Net to this initiative.
Expanding Electronic Tax Products for Business	This initiative will reduce burden on businesses, enable the integration of accounting and tax service and systems, and provide for the electronic filing of tax returns and other documents.	SBA is actively engaged in all seven working group projects and has been specifically asked to play a substantial role in three of the projects. At a macro level, SBA is advising the project on how ideas and proposals affect small businesses, cultivating strategies to inform and train small businesses on the tools that will be developed as a result of the project, and facilitating communication between the initiative and the small business community.
USA Services	The purpose of the USA Services initiative is to develop a multi-channel customer relationship management capability for the Federal government. The goal of the project is to route correspondence from a citizen to the proper agency with an integrated case management function to ensure that the correspondence was responded to in a prompt manner.	SBA is actively engaged in work groups and pilot project development. GSA's multi-channel contact center is of tremendous interest to SBA as we continue to transform the agency.
E-Grants	E-Grants is a complete method to electronically handle via the web all aspects of grant making. E-Grants is being designed as an overall E-Government initiative to eventually create a single portal for grant makers and grant applicants/awardees to enter, receive and administer grant related activities.	SBA's program offices and OCIO have been attending the IAEGC meetings, coordinating meetings in-house with program, financial, technical and grants management offices.

**SBA participates in other inter-agency e-Government initiatives as noted in the following table.**

INITIATIVE	DESCRIPTION	SBA'S ROLE
International Trade Process	Streamlining The International Trade Process Streamlining initiative seeks to make it easier for SMEs to obtain the information and documents needed to conduct business abroad. It will work to enhance Export.gov, the government's existing on-line portal for small business export assistance information. Specifically, the initiative will look to identify, consolidate and integrate the export process on-line under Export.gov.	SBA is determining the feasibility of integrating tradenet.gov into export.gov.
On-line Rulemaking	The objective of the on-line rulemaking initiative is to create a single, front-end web application that will make it easier for the public to search for, review and comment on proposed rules.	In addition to participation in planning meetings, representatives from OGC, OA, Size Standards, and OCIO participated in a meeting to identify SBA requirements for the project.

**Resource Requirements**

SBA requests \$5 million to complete the implementation of the Regulatory Advisor (Business Compliance One Stop). The budget request for other IT efforts will be explained in the next chapter and is referenced on page 13. The chart below describes four principal categories in the three-year implementation effort of the Regulatory Advisor: management and oversight, access to laws and regulations, compliance assistance digital guides, and on-line transactions. The principal categories coincide with the three functions of the project—to find, understand, and comply with governmental laws and regulations in four principal areas: environment, workplace health and safety, taxes and employment. SBA will be piloting several navigation aids and search tools to help the user sort through the myriad of laws and regulations affecting him/her. Secondly, the Agency will build up to 30 expert tools (\$80,000 each) to help the user understand what is needed to comply with various laws and regulations. Third, it will develop with the states on-line transactions for all businesses (e.g., national registration, Federal EIN) as well as industry specific licenses, permits, credential, and payments. Finally, funding will support the contractual support to build the technology and oversee the effort, to include building security and privacy into the web services.

The following table presents the details of the E-Government funding request.

**E-Government Funding Request  
(\$ in thousands)**

Business Services/ Products/Deliverables	FY 2002	FY 2003	FY 2004
General Management	\$200	\$540	\$700
Portal Development and Maintenance	\$150	\$1,060	\$350
Legal and Regulatory Information	\$250	\$510	\$550
Compliance Assistance Expert Tools	\$240	\$1,640	\$1,300
Business Registration/ Transactions	\$200	\$1,250	\$2,100
<b>Sum</b>	<b>\$1,040</b>	<b>\$5,000</b>	<b>\$5,000</b>

FY 2002 funds included \$740,000 from OMB, \$100,000 from GSA and \$200,000 from SBA's operating budget.

## Electronic Grants System

A component of E-Government at SBA is the creation of an electronic grant system. The SBA Office of Procurement and Grants Management (OPGM) is committed to using electronic tools to better award and manage grants to help further small business interests. While SBA is obliged to receive grant applications electronically by 2003 (see PL 106-107), work is still needed to convert its grants management system to an electronic-based process. With an electronic grant (eGrants) system, SBA can improve internal operations, focus better on grant results, strategically plan for the ever-evolving needs of the small business community, and decrease the paper-intensive reporting burden placed on grantees. The current system is reliant on manual tracking and reporting and produces a very labor intensive process that results in unnecessary administrative duties that could be better directed to serving SBA's customers – and their customers. An electronic grants process will decrease the average grant payment cycle time for Grants Management Specialists and allow additional time for customer service.

The resources required to implement eGrants software include:

- \$50,000 for an outside consultant for Business Process Reengineering (BPR)
- \$450,000 for the software package; and
- \$100,000 for application implementation.

## Budget and Performance Integration

The President's Budget and Performance Integration initiative requires the SBA to be results oriented. It demands that the Agency allocate resources only to programs that deliver high value at low cost to the American people.

## Outcomes and Indicators

To accomplish this goal, SBA will implement a management process that measures both the performance and cost of all SBA programs. SBA will tie its budget to results promised by program managers in their operational plans. SBA will support budget decisions through estimates of the unit costs for SBA services and products developed by using SBA's Activity Based Costing (ABC) model.

### Strategy

Each program's operational plan is summarized in a scorecard highlighting critical performance measures, cost information, and project milestones. SBA will use the on-line "Execution Scorecard" to assist its senior leadership in tracking progress throughout the year. Quarterly reviews will ensure that SBA makes a systematic assessment of progress and that SBA can take management actions to ensure that it meets planned goals.

SBA will reward managers who produce results by integrating operational plans into each senior manager's performance agreement with the Administrator. SBA will tie performance criteria for all managers directly to the measures and project milestones identified in operational plans. SBA will also tie decisions about funding levels for future years will also be tied to results achieved under the plan.

Improvements in budget and performance integration should place a strong emphasis on IT capital planning processes since IT costs represent a significant portion of SBA's operating budget and since most IT activities require multi-year expense. The strategy for improvement is simple: SBA managers must focus on doing better and with more consistency those things that already define existing rules and policies (Clinger-Cohen Act, OMB Circulars A-130 and A-11, etc.). Strengthened methods for capital project selection, cost control, performance and benefit calculation, project management and post-project evaluation – will enable SBA to wisely invest scarce resources among varied IT proposals in ways that deliver measurable benefits on time and in response to key objectives.

Outcome Goals	Performance Goals	Programs
Performance Plan and Budget Request aligned by program goals with full costing	Annual Performance Plan and Budget Request contained in a single document that shows clearly the performance measures and costs of every SBA program	COO, CFO
Performance Management system provides senior leadership with timely and accurate performance and budget information	Maintain "Execution scorecard" Intranet system to update performance information	

# Inspector General (IG) Management Challenges

The following chart lays out the management challenges pertaining to budget and performance integration that have been identified by the IG and shows the action that SBA has taken.

## IG Management Challenges

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

Action Needed	Activity	Status	Est. Completion
Top management provides a positive and supportive attitude toward performance based management focused on managing for results.	Top management provides leadership to coordinate the Agency's managing for results program and has designated sufficient resources to support the leadership effort.	On-going	
SBA ratifies the Strategic Plan.	Strategic plan with top management's vision and direction.	The Deputy Administrator has taken the lead on developing the Strategic plan. An off-site was held by top mgt Sept ember 3-6, 2002. The Chief Operating Officer has taken the lead implementing the President's Management Agenda.	Mar 03
	A. Appropriate Agency program goals and objective established.	Strategic plan for 2003-2007 and Perf plan/budget is being developed.	Mar 03
	B. Appropriate performance measures and indicators are established.	Will be included in new strategic plan and the OMB budget submission.	Mar 03
	C. Program managers support SBA's strategic plan, performance goals, and objectives.	Will be achieved in 03 through an execution plan	
	D. Training programs are provided to managers and others responsible for implementing the performance results requirements.		
	_ Management provides adequate resources to support processes necessary to have an effective performance-based and results-driven operation.,	Assigned senior staff to develop and implement performance measurement system	

<b>Action Needed</b>	<b>Activity</b>	<b>Status</b>	<b>Est. Completion</b>
SBA analyzes risks associated with achieving objectives.	_ SBA periodically assesses the risk that it may not achieve its goals, and results are used to redirect performance to enhance the successful attainment of goals.	Will be achieved in 03 through an execution plan	
	_ Performance outcomes are regularly measured and reflect results attributable to Agency programs and services delivered.	Will be achieved in 03 through an execution plan	
Policy and procedures provide guidance to ensure consistency among organizational components.	_ Policies and guidelines for developing performance goals, objectives, and measures, and for verifying and validating data are published.	In July 2001, SBA published "Performance Indicators & Data Quality- A Primer". Providing policies and guidelines for developing goals etc. The Agency's FY 2004 budget call document provided additional guidance.	
Information is recorded and communicated to management and others who need it to fulfill their oversight and stewardship responsibilities.	_ Managers have and use operational and financial data to assess their progress in meeting Agency goals, and ensure accountability for effective and efficient use of resources.	COO completed FY 2002 performance reviews with all program offices. Results of meeting used in budget deliberations.	
	_ Performance data are verified and validated.	COO conducting a review of performance data.	Completed
Monitoring of performance occurs and findings of relevant audits and other reviews are promptly resolved.	_ Top level review and tracking of major Agency achievements occurs, and comparisons are made to plans, goals, and objectives.	FY 2003 Execution Plan will achieve this	On going
	_ Feedback process is used to improve performance goals, measures, and accuracy of data.	COO completed FY 2002 performance reviews with all program offices. Results of meeting used in budget deliberations.	

## Chapter Four

# Improving Information Technology Infrastructure

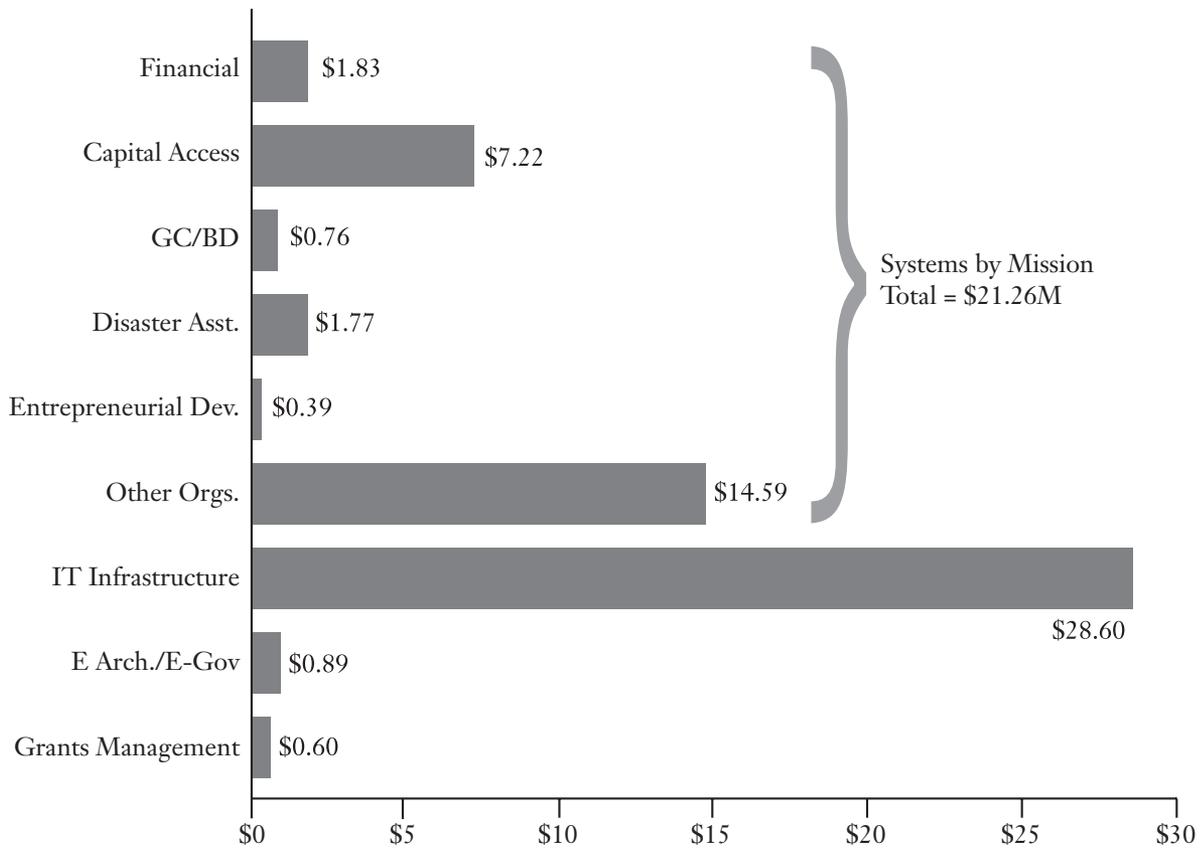
SBA's employs information technology (IT) as a strategic resource to help achieve the Agency's goals. The Information Technology Management and Reform Act of 1996 (Clinger-Cohen Act) created significant new IT management requirements for all agencies. These include the introduction of Enterprise Architecture and Capital Planning and Investment Control processes, as well as the strengthening of Cyber Security management. To meet these responsibilities, the Agency's Office of the Chief Information Officer organization provides policy, technical leadership, and coordination of the Agency's IT investments and operations. The Agency is seeking to firmly connect SBA's business goals and strategic plans with appropriate technologies, enabling SBA programs to achieve their missions by providing innovative, cost effective, proven and secure IT solutions over a sustained period.

The Agency's FY 2004 IT budget proposal comprises IT projects of varied sizes and is divided into standard types in accordance with OMB guidance: Mission Area Support, E-Grants, Enterprise Architecture and Planning, and IT Infrastructure/Office Automation. The chart below shows total funding requirement for all projects, from all funding sources.

**OMB Exhibit 53: IT Capital Budget Summary**  
**FY 2004 Budget Request**  
**Millions of Dollars (000)**

**Total FY 2004 Request = \$56.65M**

Exhibit 53 Category:

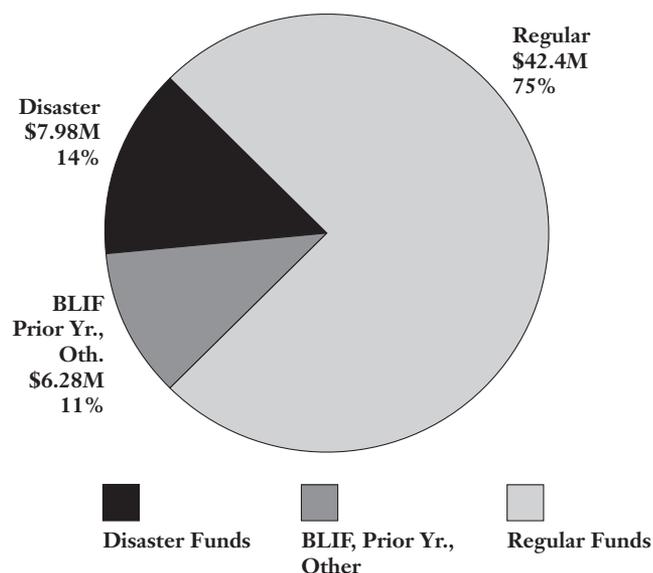


## IT Capital Planning

SBA is committed to a program of sustained progress in its Capital Planning and Investment Control process, both to improve the quality of overall IT management and as a means to exercise better cost control and budget discipline over its portfolio of IT investments. For the FY 2004 budget, SBA was one of only five agencies – and the only small agency to successfully transmit its IT budget to OMB using the Information Technology Investment Portfolio System (ITIPS).

SBA expects to fund information technology investments from three sources in FY 2004. The chart below shows the projected allocation of funds from these sources in support of planned IT investments.

**FY 2004 IT Capital Budget & Sources  
in Millions (000)  
Total = \$56.66M**



## Building the Virtual SBA – SBA's E-Government Strategy

SBA is committed to full participation and success in realizing the objectives of the President's Management Agenda and in implementing a broad and comprehensive e-gov strategy. The Agency has identified six IT focus areas essential to transforming SBA into an e-Government institution providing high quality services to four critical customer groups. These six focus areas are:

- Customer Relationship Management
- Resource Partner Relationship Management
- Employee Relationship Management
- IT Security and Privacy
- Organizational Capability/Internal Management
- Enterprise Architecture

The four critical customer groups are:

- Citizens (G2C or Government to Citizens)
- Small Businesses (G2B or Government to Businesses)
- Government entities (G2G or Government to Government)
- Employees (G2E or Government to Employees).

Information technology selection and management decisions will be driven by the Agency's general goals and business processes addressed to those four customer groups and emphasizing a streamlined work force, re-engineered work processes, centralized processing, and more effective ways of doing business. Using best industry practices and contemporary but proven technologies, SBA will lay the foundation to become an "anywhere, anytime" service provider – the Virtual SBA. Using contemporary technologies, predominately via the Internet, SBA will be able to inform, assist and nurture more small businesses, in more ways, on an anytime-anywhere basis. The Virtual SBA will be more customer-centric, highly responsive and oriented toward performance and results.

This conceptual frame of reference Customers, Focused I, and "Virtual Agency" — will guide SBA's processes for planning, selecting, and managing its portfolio of IT investments.

## E-Government Technology Foundation

Within the reference frame of "Customers, Focused IT and Virtual Agency," SBA must maintain an infrastructure that supports the seamless, secure, and reliable interface between the Agency, its resource partners and the public. SBA's IT capital plans will continue to examine and support essential infrastructure projects, both internally and with other agencies where possible (see OMB Exhibit 53: IT Capital Budget Summary). This family of investments is a critical enabler of the comprehensive, mission-specific investments that comprise the Administration's e-gov initiatives. Infrastructure investments will focus on network capacity and efficiency, reliability, scalability and measurement.

## Security and Privacy

SBA fully understands that it must ensure that all data it collects and maintains is safeguarded. Successfully implementing e-government entails creating and maintaining a level of trust among all transacting parties. Each one must have confidence in the use of electronic means to carry out private, sensitive transactions such as applying for a business loan or a grant or determining eligibility in an SBA program. SBA's IT capital investments in security and privacy feature an integrated planning framework and a unified approach to developing and implementing necessary security policies, components, and practices. These actions protect and defend both private data and information systems by ensuring confidentiality, availability, integrity, authentication, and non-repudiation.

SBA's strategic security plan will identify the processes, resources, responsibilities, and issues associated with these key components:

- Security and Privacy Policy and Guidance
- Risk Management
- Contingency Planning
- Incident Reporting and Response
- Vulnerability Analysis and Penetration Testing
- Computer Security Awareness and Training

The security plan and its supporting budget will provide the framework for establishing an SBA-wide information security program and ensure that broader e-Government activities occur within a secure yet unobtrusive customer environment.

Starting in FY 2002, SBA identified IT security requirements and costs as a separate budget activity within its IT portfolio. SBA views these activities as necessary costs that must be an integral part of all IT projects and plans but which are especially critical to the evolving family of Internet driven e-gov and e-commerce initiatives. The Agency's FY 2004 security budget supports the expected introduction of Public Key Infrastructure (PKI) technologies and the Agency's sustained effort to mitigate or eliminate the risks associated with IT security vulnerabilities identified in GISRA and OIG reviews.

Amount	Security Budget %	Description
\$1,260,000	29%	Recurring certification and accreditation, new and existing systems
\$502,500	12%	Develop required IT security procedures: Presidential Decision Directives 63/67, the Government Information Security Reporting Act, etc.
\$65,000	2%	Maintain SBA computer security awareness training program including executive training.
\$240,800	5%	Maintenance of IT security and anti-viral programs, including Internet usage monitoring, anti-virus program, and security testing.
\$360,600	8%	General IT security program support including contractor background investigations, IV&V, security consulting services, security software licenses, security related training and travel, etc.
\$1,875,000	44%	Administration of centralized authentication & ID/Password systems plus PKI/Digital Certificate program. Cost based on estimated need to issue up to 20,000 business resource partner certificates for lenders and similar entities.

# Inspector General (IG) Management Challenges

## GAO Recommendations

The following chart lays out the management challenges GAO recommendations pertaining to this area that the IG and GAO have identified through reviews they conducted and show the actions that SBA has taken.

### FY 2002 GAO RECOMMENDATIONS

#### GAO-02-188 Loan Monitoring System

Rec.	Recommendations	*Status of Recommendation	Est. Date of Completion
	<p>The GAO recommended that the Administrator direct the Chief Information Officer take actions necessary to bring the LMS project in compliance with the Small Business Reauthorization Act and with SBA's agreement with the House Committee on Small Business. Such actions should include an evaluation of prototype software and documentation in accordance with SBA's system development methodology and generally accepted system development practices. The evaluation should consider the extent to which the software satisfies requirements already identified for electronic processing of loan guarantee applications; the potential impact of changes in requirements, as business processes and requirements of lender oversight and risk management are identified; and the cost and benefits of alternative course of action: whether the software should be:</p> <ol style="list-style-type: none"> <li>1. Separated from LMS and implemented</li> <li>2. Separated from LMS and further modified to meet mission needs, or</li> <li>3. held in suspense until all LMS requirements and plans have been implemented.</li> </ol>	<p>GAO recommended that the evaluation should consider the extent to which the software satisfies requirements already identified for the electronic processing of loan guarantee applications; the potential impact of changes in requirements, as business processes and requirements of lender oversight and risk management are identified; and the costs and benefits of alternative courses of action: whether the software should be separated from LMS and implemented, separated from LMS and further modified to meet mission needs, or held in suspense until SBA has completed all LMS requirements and plans.</p> <p>A joint OFA and OCIO evaluation team conducted the evaluation of the PIMS system. The team prepared an evaluation report that recommends that the PIMS system be separated from the LMS project and implemented immediately. There is no FY 2002 cost associated with immediate implementation.</p> <p>Grant-Thorton, the LMS IV &amp; V contractor, conducted and recommended that SBA separate the prototype from the LMS project, make some changes, and then implement. The evaluation report also lists optional action items including addressing OLO's concerns that the prototype does not have functionality to update loan application data after the loan is approved.</p> <p>The CIO forwarded the evaluation reports with a recommendation to the LMS steering committee. The Administrator has also identified an LMS management team to oversee the re-scoped LMS project.</p>	<p>COMPLETED</p> <p>Documents submitted to GAO to close recommendation.</p>

## IG Management Challenges

### Challenge 3. Information systems security needs improvement.

Activity	Status	Est. Date of Completion
The Chief Information Officer (CIO), in conjunction with appropriate program offices, develops and implements procedures for monitoring, assessing and measuring security program effectiveness.	Finalized the security program metrics. On-going refinements. Prepared first metric on virus detection. Information security vulnerabilities tracking data base has been developed.	Completed 8/30/02
The CIO develops procedures to require review and approval of all proposed changes to server configurations.	Revised draft under review	1/15/03
The CIO, in conjunction with appropriate program offices, identifies and eliminates incompatible duties, responsibilities and functions.	Revised draft under review	1/15/03
The CIO, in conjunction with appropriate program offices, develops a disaster recovery and contingency test plan and expedites a review for storing backup and recovery tapes.	On-going agency-wide process. Received draft HQ COOP and BRP.	6/31/03
The CIO develops a multi-year funding plan.	Completed as part of FY03 and FY 04 budget requests.	Annually, in 4th quarter
The CIO includes infrastructure assurance functions in the strategic planning and performance measurement framework.	Included information technology planning documents for FY 2003 (OMB 300Bs)	Completed
The Chief Information Assurance Officer coordinates physical infrastructure protection efforts with the General Services Administration.	Working with the OIG and Office of Administration to resolve issues regarding the responsibilities of the organizations involved in this process	1/30/2003
The CIO completes risk assessments and security plans for SBA's high-priority and cyber-based systems. Once the vulnerabilities are identified in the risk assessments, the system owner should accept, correct, or mitigate the risk to SBA systems.	On-going; C&A reviews are a continuous process and each system must be reviewed at least every three years. Status is provided in monthly letter to Senator Bond and in the GISRA quarterly updates.	C&A reviews are conducted year-round. Reports are provided to system owners.
The CIO completes a formalized management control process to formally act on risks identified from risk assessments. The management control process includes a schedule to correct identified deficiencies, date for completion and funding requirements.	Information security database developed as of 7/31/02. Undergoing beta testing.	Completed
The CIO develops a program to perform Security Test & Evaluation (ST&E) reviews on all of SBA's high-priority computer systems.	The ST&E testing has been integrated with the certification and accreditation process	Completed
The CIO identifies Agency personnel who should be required to undertake security training as end-users, Designated Security Officers (DSO), Information Resource Managers (IRM), and back-up personnel; and requires those individuals to take the course on DSO/IRM security training.	On-going , annual process	2/28/03
SBA remedies a number of security vulnerabilities identified in the audit of SBA's UNIX servers. These include password vulnerabilities, non-review of system audit logs and configuration files, and a lack of adequate system patching	Completed	7/30/2003

## **Part II**

### **RESOURCE REQUEST**



## **Chapter Five**

### **Budget to Program Crosswalk**

The budget crosswalk table that follows shows how the goals relate to specific and general program areas. Activities performed by an office often support the achievement of more than one goal. This is particularly true for support organizations such as executive direction and administrative offices. To present the full cost of achieving a particular goal, the table allocates costs of support offices to each goal. This crosswalk summarizes the results of an activity-based costing model as the basis for these cost allocations.

#### **Explanation of Budget Crosswalk**

The first column of the crosswalk details SBA's offices and programs categorized by the goal that best relates to that office or program's mission. The offices and programs listed in this column devote the majority of their effort toward the goal under which they are listed. The non-credit program column shows resources specifically appropriated to SBA for these activities. The loan subsidy column shows the amount of budget authority used to subsidize loans. The Agency support column reflects the operating funds estimated to be used in support of these activities.

#### **Cost Allocation Methodology**

The estimated allocation of resources presented in the crosswalk is based on the results of the SBA's FY 2002 cost allocation study. The SBA's cost allocation model provides an estimate of the resources consumed to produce key outputs. The first step in developing a cost allocation model is to identify the Agency's key activities. Through the budget formulation process, each office identifies the key activities that they perform to produce outputs. An activity is a process that converts resources (materials, labor, and technology) into outputs. Agency Support costs such as rent and telecommunications are allocated to activities based upon "drivers" such as the square feet of space occupied by program offices.

Personnel costs are assigned to specific activities through the use of a detailed survey instrument. SBA employees are asked in an on-line survey to estimate the amount of time that they spend on SBA's key activities, including those outside of their particular organization. This data is used to compute an estimate of the personnel costs for each activity.

**FY 2004 BUDGET**

*(Dollars in Thousands)*

Description	Total	Special Invest- ments	Loan Subsidy	Field Offices
<b>ADVOCACY</b>				
Advocacy	\$ 11,239	\$ 1,100	\$ 0	\$ 8
Business.gov	282	0	0	227
BusinessLaw.gov	431	0	0	337
Disability Initiative	122	0	0	94
National Women's Business Council	1,208	750	0	8
Ombudsman/Regulatory Fairness Board	2,993	500	0	64
<b>ACCESS TO CAPITAL</b>				
Loan Making — 7(a) – Regular	127,058	0	94,860	24,908
Loan Making — 504 CDC Loans	17,472	0	0	13,875
Loan Servicing — 7(a) – Regular	59,795	0	0	44,200
Loan Servicing — 504 CDC Loans	11,122	0	0	8,450
Microloan Technical Assistance Program	17,729	15,000	1,910	379
Asset Sales Program	10,920	0	0	2,438
International Trade Promotion	2,333	0	0	77
Lender Oversight/Risk Management	10,530	0	0	5,065
New Markets Venture Capital	1,519	0	0	537
Prime Technical Assistance	379	0	0	233
SBIC Program	16,798	0	0	187
Surety Bond Program	4,870	0	0	2,308
US Export Assistance Centers	4,235	3,100	0	310
<b>PROCUREMENT PROGRAMS</b>				
7(j) Program	4,912	3,600	0	660
8(a) Program	45,538	0	0	29,394
Businessline Assistance	269	0	0	161
Certificate of Competency	2,066	0	0	276
Contract Bundling Reviews	901	0	0	19
HUBZone Program	7,259	2,000	0	3,062
Natural Resource Sales	1,769	0	0	33
Non-manufacturing Rule	485	0	0	16
Prime Contracting Program	7,880	0	0	673
PRO-Net	500	500	0	0
Size Standards Program	3,591	0	0	444
Small Disadvantaged Businesses	4,567	1,500	0	1,695
Subcontracting Program	4,426	0	0	355
Technology Fast Program	3,453	3,000	0	22
Technology Rural Outreach Grants	820	500	0	7
Technology SBIR Program	994	0	0	191
Technology STTR Program	497	0	0	33
Veterans Contracting Program	777	0	0	358
Women-Owned Small Business Contracting	2,471	0	0	874
<b>ENTREPRENEURIAL DEVELOPMENT</b>				
Business Information Centers	12,774	475	0	8,511
Native American Affairs	333	0	0	64
Service Corps of Retired Executives	13,678	5,000	0	4,948
Small Business Development Centers	97,883	88,000	0	5,667
Drug-Free Workplace	3,000	3,000	0	0
Women's Business Ownership	16,524	12,000	0	1,737
Veterans Business Development	2,692	750	0	691
<b>OTHER</b>				
Special Projects	21,075	0	0	0
Reimbursements/Collections	280	280	0	0
<b>Disaster Assistance</b>	231,937	0	89,109	93,616
<b>Office of the Inspector General</b>	17,771	0	0	121
<b>GRAND TOTAL</b>	<b>\$ 812,668</b>	<b>\$ 141,055</b>	<b>\$ 185,879</b>	<b>\$ 257,896</b>

## REQUEST CROSSWALK

Exec Offices	Mgmt & Admin	Gov Contr Bus Dev	Capital Access	Entrep Dev	Agency-Wide	Other
\$ 7,887	\$ 932	\$ 0	\$ 0	\$ 0	\$ 1,281	\$ 0
15	20	0	0	0	21	0
30	32	0	0	0	33	0
11	9	0	0	0	9	0
208	108	0	0	0	134	0
1,680	216	0	0	0	533	0
1,607	2,263	0	769	0	2,652	0
850	1,222	0	234	0	1,290	0
3,131	4,265	0	3,580	0	4,618	0
640	785	0	386	0	861	0
60	286	0	6	0	88	0
1,411	1,007	0	5,068	0	996	0
161	218	0	1,533	0	344	0
780	757	0	2,966	0	961	0
205	126	0	472	0	179	0
21	88	0	3	0	34	0
1,733	1,312	0	11,294	0	2,272	0
241	370	0	1,370	0	579	0
200	295	0	151	0	179	0
107	176	223	0	0	145	0
2,797	3,703	5,682	0	0	3,961	0
19	62	0	0	0	26	0
180	181	1,258	0	0	171	0
71	87	629	0	0	95	0
500	564	474	0	0	659	0
157	184	1,148	0	0	247	0
49	50	303	0	0	67	0
555	765	5,234	0	0	654	0
0	0	0	0	0	0	0
473	321	1,906	0	0	447	0
432	356	213	0	0	371	0
289	402	3,007	0	0	373	0
35	87	239	0	0	70	0
28	34	182	0	0	48	0
101	116	448	0	0	138	0
51	52	284	0	0	76	0
40	62	254	0	0	63	0
153	242	996	0	0	206	0
767	965	0	0	927	1,129	0
54	41	0	0	127	46	0
521	661	0	0	1,835	713	0
572	821	0	0	1,783	1,039	0
0	0	0	0	0	0	0
743	549	0	0	860	634	0
852	144	0	0	10	245	0
0	0	0	0	0	0	21,075
0	0	0	0	0	0	0
32,639	10,613	0	1,647	0	4,312	0
826	1,236	0	119	0	469	15,000
<b>\$ 63,886</b>	<b>\$ 36,788</b>	<b>\$ 22,480</b>	<b>\$ 29,596</b>	<b>\$ 5,541</b>	<b>\$ 33,471</b>	<b>\$ 36,075</b>

## Chapter Six Summary of Resource Request

### FINANCIAL RESOURCES

This section presents a detailed comparison of the FY 2002 Estimate, FY 2003 Request, FY 2004 Congressional Budget Submission, and the Increases or Decreases in FY2004 versus the FY 2003 Request. The purpose of each Table is briefly described in a footnote at the bottom of the page.

#### SUMMARY OF NEW BUDGET AUTHORITY<sup>1</sup>

*(Dollars in Thousands)*

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
<b>New Budget Authority</b>				
Salaries and Expenses	\$ 338,476	\$ 362,106 <sup>2</sup>	\$ 360,155	\$ (1,951)
Disaster Administration	122,354	122,141 <sup>3</sup>	118,354	(3,787)
Disaster Loan Subsidy	87,360	76,140	79,109	2,969
Business Loan Administration	129,000	129,000	129,000	0
Business Loan Subsidy	79,860	89,086	96,770	7,684
Inspector General	11,464	15,011 <sup>4</sup>	14,500	(511)
Surety Bond Guarantee	0	0	0	0
Subtotal	\$ 768,514	\$ 793,484	\$ 797,888	\$ 4,404
<b>Supplementals:</b>				
Disaster Loan Subsidy	\$ 75,000	\$ 0	\$ 0	\$ 0
Business Loan Subsidy	75,000	0	0	0
Subtotal	\$ 150,000	\$ 0	\$ 0	\$ 0
<b>Rescinded Appropriation</b>	\$ (485)	\$ 0	\$ 0	\$ 0
<b>Total</b>	<b>\$ 918,029</b>	<b>\$ 793,484</b>	<b>\$ 797,888</b>	<b>\$ 4,404</b>

<sup>1</sup> This Table summarizes the new annual appropriated amounts for the major program accounts.

<sup>2</sup> Includes \$9,138 in retirement annuitant benefits.

<sup>3</sup> Includes \$3,787 in retirement annuitant benefits.

<sup>4</sup> Includes \$511 in retirement annuitant benefits.

## SUMMARY OF FINANCING

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
<b>Salaries and Expenses</b>				
New Budget Authority	\$ 338,476	\$ 362,106	\$ 360,155	\$ (1,951)
Transfer from Business	129,130	129,261	129,000	(261)
Fee Income and Gainsharing	3,200	6,000	3,280	(2,720)
Transfer from Disaster	12,354	9,854	9,854	0
Carryover from Prior Year	34,635	0	0	0
Carryover into Next Year <sup>1</sup>	(29,617)	0	0	0
Reimbursable Expenses	2,805	1,500	1,500	0
Lapsed Funds	(477)	0	0	0
Rescinded Funds	(315)	0	0	0
<b>Total</b>	<b>490,191</b>	<b>508,721</b>	<b>503,789</b>	<b>(4,932)</b>
<b>Disaster Assistance</b>				
<b>Administrative Expenses</b>				
New Budget Authority	\$ 122,354	\$ 122,141	\$ 118,354	\$ (3,787)
Carryover from Prior Year	42,989	0	0	0
Carryover into Next Year <sup>2</sup>	(25,667)	0	0	0
Transfer to Disaster Loan Program	(2,500)	0	0	0
Transfer to Inspector General	(500)	(500)	(500)	0
Transfer to Salaries & Expenses	(12,354)	(9,854)	(9,854)	0
Lapsed Funds	(3,294)	0	0	0
Rescinded Funds	(164)	0	0	0
<b>Total</b>	<b>120,864</b>	<b>111,787</b>	<b>108,000</b>	<b>(3,787)</b>
<b>Direct Loans Program</b>				
New Budget Authority	\$ 87,360	\$ 76,140	\$ 79,109	\$ 2,969
Emergency Appropriation	75,000	0	0	0
Carryover from Prior Year	90,603	41,816	0	(41,816)
Carryover into Next Year	(71,025)	0	0	0
Transfers from Disaster	2,500	0	0	0
Recoveries from prior years	32,617	0	10,000	10,000
<b>Total</b>	<b>217,055</b>	<b>117,956</b>	<b>89,109</b>	<b>(28,847)</b>

<sup>1</sup> Carryover in the amount of \$29.6 million is for the New Markets Venture Capital Program and is not available for general financing of other operations, programs and services.

<sup>2</sup> Carryover in the amount of \$25.7 million is for the Sept. 11, 2001 Disaster Assistance Program and is not available for other administrative operations, programs and services.

## SUMMARY OF FINANCING

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
<b>Business Loans</b>				
New Budget Authority — Administration	\$ 129,000	\$ 129,000	\$ 129,000	\$ 0
New Budget Authority— Loan Subsidies	79,860	89,086	96,770	7,684
Supplementals	75,000	0	0	0
Carryover from Prior Year	54,399	69,347	0	(69,347)
Carryover into Next Year	(70,669)	(13,489)	0	13,489
Rescinded Funds	(5,500)	0	0	0
Transfer to Other Accounts	(129,130)	(129,261)	(129,000)	(261)
<b>Total</b>	<b>132,960</b>	<b>144,683</b>	<b>96,770</b>	<b>(47,913)</b>
<b>Inspector General</b>				
New Budget Authority	\$ 11,464	\$ 15,011	\$ 14,500	\$ (511)
Carryover from Prior Year	494	25	0	(25)
Carryover into Next Year	(25)	0	0	0
Transfer from Disaster	500	500	500	0
Rescinded Funds	(6)	0	0	0
<b>Total</b>	<b>12,427</b>	<b>15,536</b>	<b>15,000</b>	<b>(536)</b>
<b>Surety Bond Guarantee Program</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Total</b>	<b>\$ 973,497</b>	<b>\$ 898,683</b>	<b>\$ 812,668</b>	<b>\$ (86,015)</b>
<b>Summary:</b>				
New and Supplemental Budget Authority	\$ 918,514	\$ 793,484	\$ 797,888	\$ 4,404
Carryover from Prior Year	223,120	111,188	0	(111,188)
Carryover into Next Year	(197,003)	(13,489)	0	13,489
Fee Income, Gainsharing, Reimbursables	6,005	7,500	4,780	(2,720)
Recoveries	32,617	0	10,000	10,000
Lapsed/Rescinded Funds	(9,271)	0	0	0
Rescinded Funds	(485)	0	0	0
<b>Total</b>	<b>\$ 973,497</b>	<b>\$ 898,683</b>	<b>\$ 812,668</b>	<b>\$ (86,015)</b>

## SUMMARY OF ADMINISTRATIVE OPERATING EXPENSES

*(Dollars in Thousands)*

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
<b>Executive Direction</b>				
Administrator	\$ 4,292	\$ 2,920	\$ 3,916	\$ 996
General Counsel	8,279	8,438	8,808	370
Congressional and Legislative Affairs	1,125	1,011	1,167	156
Hearings and Appeals	1,044	1,196	1,163	(33)
Communications and Public Liaison	2,714	2,513	2,820	307
Field Operations	1,598	1,438	1,501	63
EEO and Civil Rights Compliance	1,820	1,907	1,960	53
Advocacy	3,924	5,642	6,831	1,189
Veterans Business Development	625	592	679	87
Chief Financial Officer	8,719	8,768	9,175	407
Subtotal	34,140	34,425	38,020	3,595
<b>Management and Administration</b>				
Immediate Office	1,171	594	1,287	693
Chief Operating Officer	0	0	886	886
Human Resources	5,029	5,427	5,720	293
Administration	7,519	7,867	8,243	376
Chief Information Officer	23,751	24,472	20,652	(3,820)
Subtotal	37,470	38,360	36,788	(1,572)
<b>Gov Contr/Business Development</b>				
Immediate Office	877	457	757	300
Operations & Program Support	1,066	1,077	1,180	103
Planning & Policy Liaison	1,859	1,809	1,835	26
Business Development	3,593	3,815	3,942	127
Government Contracting	13,240	14,749	14,766	17
Subtotal	20,635	21,907	22,480	573
<b>Capital Access</b>				
Immediate Office	804	654	895	241
Lender Oversight	1,517	2,317	2,716	399
Financial Assistance	11,825	12,223	12,562	339
Investment Division	9,802	9,696	10,578	882
Surety Guarantees	1,079	1,222	1,251	29
International Trade	1,764	992	1,594	602
Subtotal	26,791	27,104	29,596	2,492

## SUMMARY OF ADMINISTRATIVE OPERATING EXPENSES

(Dollars in Thousands)

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
<b>Entrepreneurial Development</b>				
Immediate Office	840	896	1,088	192
Small Business Development Centers	1,772	1,802	1,969	167
Business Initiatives	1,383	1,381	1,464	83
Native American Affairs	106	279	135	(144)
Women's Business Ownership	1,011	878	886	8
Subtotal	5,112	5,236	5,542	306
<b>Regional and District Offices</b>	140,031	150,384	151,299	915
<b>Agency-wide Costs</b>				
Operating Expenses	42,481	64,869	57,934	(6,935)
Special Investments	0	17,400	21,075	3,675
Subtotal - Agency-wide Costs	42,481	82,269	79,009	(3,260)
<b>Total Operating Budget</b>	306,660	359,685	362,734	3,049
<b>Non-Credit Programs &amp; Special Investments</b>	183,531	149,036	141,055	(7,981)
<b>TOTAL SALARIES AND EXPENSES</b>	<b>\$ 490,191</b>	<b>\$ 508,721</b>	<b>\$ 503,789</b>	<b>\$ (4,932)</b>

**ON-BOARD POSITIONS AND FTE**

	<b>FY 2002 Actual</b>	<b>FY 2003 Request</b>	<b>FY 2004 Request</b>	<b>Increase/ (Decrease) vs. FY 2003 Request</b>
<b>On Board Positions</b>				
Regular	2,696	2,605	2,605	0
Disaster	1,060	1,168	1,168	0
Special Initiatives	29	29	29	0
Inspector General	108	125	125	0
<b>Total</b>	<b>3,893</b>	<b>3,927</b>	<b>3,927</b>	<b>0</b>
<b>FTE</b>				
Regular	2,737	2,605	2,605	0
Disaster	1,076	1,168	1,168	0
Special Initiatives	30	29	29	0
Inspector General	108	125	125	0
<b>Total</b>	<b>3,951</b>	<b>3,927</b>	<b>3,927</b>	<b>0</b>

## SUMMARY OF AGENCY-WIDE COSTS<sup>1</sup>

*(Dollars in Thousands)*

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
<b>Operating Expenses</b>				
Centralized Training	\$ 997	\$ 2,675	\$ 2,675	\$ 0
Credit Reports	376	420	412	(8)
Oracle GL Maintenance	0	1,800	2,417	617
FECA Liability	0	9,138	0	(9,138)
PMAS	3,179	2,594	2,575	(19)
Postage	479	1,500	618	(882)
Printing	504	690	618	(72)
Reasonable Accommodation	17	103	103	0
Relocations	490	5,151	1,236	(3,915)
Rent	31,486	32,152	35,670	3,518
Telecommunications	3,037	4,000	4,861	861
Transit Subsidy Program	787	1,000	1,030	30
Undistributed Expenditures	(955)	0	1,900	1,900
Workers & Unempl Compensation	2,084	2,146	2,319	172
Financial Advisor - Asset Sales	0	1,500	1,500	0
<b>Subtotal</b>	<b>\$ 42,481</b>	<b>\$ 64,869</b>	<b>\$ 57,934</b>	<b>\$ (6,935)</b>
<b>Investment Initiatives</b>				
Human Capital Planning	0	0	1,325	1,325
Space Restructuring	0	2,500	2,750	250
Program Reviews/Evaluations	0	850	850	0
E-Gov One Stop Regs	0	5,000	5,000	0
IT Security & Maint. Enhancement	0	2,800	4,300	1,500
Electronic Grants	0	0	600	600
Competitive Sourcing	0	2,500	500	(2,000)
E Tran Gateway	0	0	330	330
District Pilot Costs	0	0	600	600
Surety Bond Web Application	0	0	340	340
Business Process Change	0	0	2,300	2,300
Infrastructure Change	0	0	1,720	1,720
E-Business Institute	0	0	260	260
8(a) Internet Application	0	0	200	200
E-Doc Records	0	750	0	(750)
Ship Field Files	0	1,000	0	(1,000)
Purchase and Deploy Technology	0	2,000	0	(2,000)
<b>Subtotal</b>	<b>\$ 0</b>	<b>\$ 17,400</b>	<b>\$ 21,075</b>	<b>\$ 3,675</b>
<b>TOTAL</b>	<b>\$ 42,481</b>	<b>\$ 82,269</b>	<b>\$ 79,009</b>	<b>\$ (3,260)</b>

<sup>1</sup> This table details the agency-wide costs and new Special Projects that are included in the FY 2003 Budget Request and FY 2004 OMB Budget Submission.

## NON-CREDIT PROGRAMS AND INITIATIVES<sup>1</sup>

*(Dollars in Thousands)*

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
<b>Executive Direction</b>				
Advocacy Database and Analysis	\$ 1,095	\$ 1,100	\$ 1,100	\$ 0
National Ombudsman	362	500	500	0
National Women's Business Council	729	750	750	0
Veterans Outreach	617	750	750	0
Veterans Business Corporation	0	0	0	0
White House Conference	0	1,500	0	(1,500)
<b>Gov. Contracting/Business Development</b>				
7(j) Technical Assistance Program	3,189	3,600	3,600	0
BusinessLINC	1,800	0	0	0
Pro-Net	160	500	500	0
SBIR Technical Assistance	450	500	500	0
SBIR - FAST	2,700	3,000	3,000	0
Small Disadvantaged Businesses	1,127	1,500	1,500	0
HUBZones Program	1,618	2,000	2,000	0
<b>Entrepreneurial Development</b>				
SBDC Grants	90,100	88,000	88,000	0
Drug-Free Workplace	2,718	3,000	3,000	0
SCORE Program	5,010	5,000	5,000	0
Business Information Centers	462	475	475	0
One Stop Capital Shops	11	0	0	0
Native American Outreach	0	1,000	0	(1,000)
Women's Business Centers	12,000	12,000	12,000	0
Women's Business Census	694	0	0	0
<b>Capital Access</b>				
US Export Assistance Centers	2,691	3,100	3,100	0
Microloan Technical Assistance	17,742	17,500	15,000	(2,500)
PRIME Technical Assistance	4,500	0	0	0
New Market Venture Cap. Tech. Asst.	3,756	0	0	0
Microloan Training	0	261	280	19
Gainsharing	0	3,000	0	(3,000)
Congressional Initiatives	30,000	0	0	0
<b>Total</b>	<b>\$ 183,531</b>	<b>\$ 149,036</b>	<b>\$ 141,055</b>	<b>\$ (7,981)</b>

<sup>1</sup> This table details the funding for counseling, training, and developmental programs that support full access to and utilization of the business loan programs

**FY 2004 BUDGET REQUEST BY OBJECT CLASS**  
**(Excluding Disaster Assistance and Office of Inspector General)**

*(Dollars in Thousands)*

	<b>FY 2002 Actual</b>	<b>FY 2003 Request</b>	<b>FY 2004 Request</b>	<b>Increase/ (Decrease) vs. FY 2003 Request</b>
<b>Salaries and Expenses</b>				
Compensation & Benefits	\$ 226,172	\$ 241,753	\$ 248,453	\$ 6,700
FECA Liability	0	9,138	0	(9,138)
Overtime and Awards	3,724	2,962	3,038	76
Workers & Unemployment Compensation	2,084	2,146	2,319	173
Travel & Transportation of Persons	3,896	4,086	3,772	(314)
Rental Payments to GSA	31,319	32,185	35,670	3,485
Communications & Utilities	4,663	4,000	5,505	1,505
Postage and Printing	2,256	2,749	2,913	164
Information Technology Support	16,417	17,938	14,292	(3,646)
Relocation	490	3,853	1,236	(2,617)
Other Services	15,639	21,475	24,461	2,986
Investment Initiatives	0	17,400	21,075	3,675
<b>Subtotal - Operating Budget</b>	\$ 306,660	\$ 359,685	\$ 362,734	\$ 3,049
<b>Non-Credit Program Investment Initiatives</b>	183,531	149,036	141,055	(7,981)
<b>Total Salaries and Expenses</b>	\$ 490,191	\$ 508,721	\$ 503,789	\$ (4,932)

## **FY 2004 BUDGET REQUEST BY OBJECT CLASS**

*(Reasons for Increases/(Decreases))*

**Compensation & Benefits** — The \$6.7 million increase is for all incremental changes in pay anticipated for FY 2004.

**FECA Liability** — The \$9.1 million decrease represents the Salaries and Expenses portion of the \$18.2 million that was not included due to a change in policy regarding pension and health benefits allocations to Federal Agencies from the funds now centrally managed by the Office of Personnel Management.

**Overtime and Awards** — The \$76 thousand increase includes a 3 percent inflationary increase for agency-wide PMAS awards offset by decreases in overtime and awards allocations to individual program offices.

**Workers & Unemployment Compensation** — The \$173 thousand increase is based on estimates provided by the Department of Labor.

**Travel** — The \$314 thousand decrease reflects increased efficiencies to offset anticipated increases in fixed costs, i.e. rent.

**Rental Payments to GSA** — The General Services Administration estimates the \$3.5 million increase.

**Communications & Utilities** — The \$1.5 million increase is for telecommunications costs required to implement the government-wide Telecommuting Initiative.

**Postage and Printing** — The \$164 thousand increase is for general inflationary increases.

**Information Technology Support** — The \$3.6 million decrease reflects plans to increase efficiency in information technology support costs.

**Relocation** — The \$2.6 million decrease is due to the increased amount included in FY 2003 to support the Workforce Transformation initiative.

**Other Services** — The \$2.9 million increase reflects inflationary costs for general operating expenses for various program offices.

**Investment Initiatives** — The detail for the \$3.7 million increase is shown in the exhibit for Agency-wide Costs.

	Program Level			Increase/ (Decrease) vs FY 2003 Request
	FY 2002 Actual	FY 2003 Request	FY 2004 Request	
Microloan Direct Program	\$ 16,460	\$ 26,553	\$ 20,000	\$ (6,553)
Total	16,460	26,553	20,000	(6,553)
Guaranteed Loans Budget Authority				
Section 7(a) Guaranty	\$ 9,286,636	\$ 4,850,000	\$ 9,300,000	\$ 4,450,000
Section 7(a) Guaranty-STAR	1,779,057	2,544,382	0	(2,544,382)
Section 7(a) Guaranty-DELTA	983	20,000	0	(20,000)
Section 504 CDC Guaranty	2,466,993	4,500,000	4,500,000	0
Section 504 CDC Guaranty - DELTA	0	2,955	0	(2,955)
Microloan-Guaranty	453	2,000	2,000	0
New Market Venture Capital Program	18,749	63,997	0	(63,997)
SBIC-Participating Securities	1,300,145	4,000,000	4,000,000	0
SBIC-Debentures	411,150	3,000,000	3,000,000	0
Total	\$ 15,264,166	\$ 18,983,334	\$ 20,802,000	\$ 1,818,666
Total Business Loans	\$ 15,280,626	\$ 19,009,887	\$ 20,822,000	\$ 1,812,113
Disaster Loan Program				
Disaster Assistance-Regular	\$ 844,383	\$ 544,635	\$ 760,317	\$ 215,681
Disaster Assistance – 9/11 Economic	374,892	169,142	0	(169,142)
Disaster Assistance – 9/11 Physical	43,347	18,420	0	(18,420)
Total Disaster Loans	\$ 1,262,622	\$ 732,197	\$ 760,317	\$ 28,119
Surety Bond Guarantees	\$ 1,672,000	\$ 1,672,000	\$ 1,672,000	\$ 0

**CREDIT PROGRAMS**

*Thousands)*

Budget Authority				Subsidy Rate			
FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs FY 2003 Request	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs FY 2003 Request
\$ 1,116	\$ 3,465	\$ 1,910	\$ (1,555)	6.78%	13.05%	9.55%	(3.50)%
1,116	3,465	1,910	(1,555)	6.78%	13.05%	9.55%	(3.50)%
\$ 99,367	\$ 85,360	\$ 94,860	\$ 9,500	1.07%	1.76%	1.02%	(0.74)%
29,710	45,290	0	(45,290)	1.67%	1.78%	0.00%	(1.78)%
17	480	0	(480)	1.73%	2.40%	1.56%	(0.84)%
0	0	0	0	0.00%	0.00%	0.00%	0.00%
0	26	0	(26)	0.84%	0.88%	0.86%	(0.02)%
37	168	0	(168)	8.17%	8.42%	8.66%	0.24%
2,713	9,894	0	(9,894)	14.47%	15.46%	16.05%	0.59
0	0	0	0	0.00%	0.00%	0.00%	0.00%
0	0	0	0	0.00%	0.00%	0.00%	0.00%
\$ 131,844	\$ 141,218	\$ 94,860	\$ (46,358)				
\$ 132,960	\$ 144,683	\$ 96,770	\$ (47,913)				
\$ 123,871	\$ 76,140	\$ 89,109	\$ 12,969	14.67%	13.98%	11.72%	(2.26)%
86,825	39,241	0	(39,241)	23.16%	23.20%	0.00%	(23.20)%
6,359	2,575	0	(2,575)	14.67%	13.98%	0.00%	(13.98)%
\$ 217,055	\$ 117,956	\$ 89,109	\$ (28,847)				
\$ 0	\$ 0	\$ 0	\$ 0	N/A	N/A	N/A	N/A

**MICROLOAN DIRECT PROGRAM**  
*(Dollars in Thousands)*

	<b>FY 2002 Actual</b>	<b>FY 2003 Request</b>	<b>FY 2004 Request</b>	<b>Increase/ (Decrease) vs. FY 2003 Request</b>
New Budget Authority	\$ 1,860	\$ 3,726	\$ 1,910	\$ (1,816)
Carryover from prior fiscal year	0	0	0	0
Carryover into next fiscal year	(614)	0	0	0
Expired Funds	0	0	0	0
Transfer to Other Accounts	(130)	(261)	0	261
<b>Total Budget Authority</b>	<b>\$ 1,116</b>	<b>\$ 3,465</b>	<b>\$ 1,910</b>	<b>\$ (1,555)</b>
Subsidy Rate	6.78%	13.05%	9.55%	(3.50%)
Program Level	\$ 16,460	\$ 26,553	\$ 20,000	\$ (6,553)

**7(a) LOAN PROGRAM**  
(Dollars in Thousands)

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
<b>7(a) GENERAL BUSINESS</b>				
New Budget Authority	\$ 78,000	\$ 85,360	\$ 94,860	\$ 9,500
Carryover from prior fiscal year	22,075	0	0	
Carryover into next fiscal year	(708)	0	0	
Total Budget Authority	\$ 99,367	\$ 85,360	\$ 94,860	\$ 9,500
Subsidy Rate	1.07%	1.76%	1.02%	(0.74%)
Program Level	\$ 9,286,636	\$ 4,850,000	\$ 9,300,000	\$ 4,450,000
<b>7(a) -STAR PROGRAM</b>				
New Budget Authority	\$ 75,000	\$ 0	\$ 0	\$ 0
Carryover from prior fiscal year	0	45,290	0	(45,290)
Carryover into next fiscal year	(45,290)	0	0	0
Total Budget Authority	\$ 29,710	\$ 45,290	\$ 0	\$ (45,290)
Subsidy Rate	1.67%	1.78%	0.00%	(1.78%)
Program Level	\$ 1,779,057	\$ 2,544,382	\$ 0	\$(2,544,382)
<b>7(a) DELTA</b>				
New Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Carryover from prior fiscal year	4,479	2,462	0	(2,462)
Carryover into next fiscal year	(2,462)	(1,982)	0	1,982
Rescinded Funds	(2,000)	0	0	0
Total Budget Authority	\$ 17	\$ 480	\$ 0	\$ (480)
Subsidy Rate	1.73%	2.40%	1.56%	(0.84%)
Program Level	\$ 983	\$ 20,000	\$ 0	\$ (20,000)

**SECTION 504 DEVELOPMENT COMPANY & DELTA LOAN PROGRAM**  
(Dollars in Thousands)

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
<b>504 CDC</b>				
New Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Total Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Subsidy Rate	0.00%	0.00%	0.00%	0.00%
Program Level	\$ 2,466,993	\$ 4,500,000	\$ 4,500,000	\$ 0
<b>504 CDC DELTA</b>				
New Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Carryover from prior fiscal year	1,047	547	0	(547)
Carryover into next fiscal year	(547)	(521)	0	521
Rescinded Funds	(500)	0	0	0
Total Budget Authority	\$ 0	\$ 26	\$ 0	\$ (26)
Subsidy Rate	0.84%	0.88%	0.86%	(0.02%)
Program Level	\$ 0	\$ 2,955	\$ 0	\$ (2,955)

## MICROLOAN GUARANTY PROGRAM

(Dollars in Thousands)

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
New Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Carryover from prior fiscal year	2,445	908	0	(908)
Carryover into next fiscal year	(908)	(740)	0	740
Rescinded Funds	(1,500)	0	0	0
Total Budget Authority	\$ 37	\$ 168	\$ 0	\$ (168)
Subsidy Rate	8.17%	8.42%	8.66%	0.24%
Program Level	\$ 453	\$ 2,000	\$ 2,000	\$ 0

## NEW MARKET VENTURE CAPITAL PROGRAM

(Dollars in Thousands)

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
New Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Carryover from prior fiscal year	21,952	19,239	0	(19,239)
Carryover into next fiscal year	(19,239)	(9,345)	0	(9,345)
Rescinded Funds	0	0	0	0
Total Budget Authority	\$ 2,713	\$ 9,894	\$ 0	\$ (9,894)
Subsidy Rate	14.47%	15.46%	16.05%	0.59%
Program Level	\$ 18,749	\$ 63,997	\$ 0	\$ (63,997)

**DISASTER LOAN PROGRAM<sup>1</sup>***(Dollars in Thousands)*

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
<b>Loan Program-Regular</b>				
New Budget Authority	\$ 87,360	\$ 76,140	\$ 79,109	\$ 2,969
Carryover from prior fiscal year	30,603	0	0	0
Transfer from Administrative expenses	2,500	0	0	0
Carryover into next fiscal year	(28,797)	0	0	0
Recoveries from prior years	32,205	0	10,000	10,000
Subsidy Budget Authority	\$ 123,871	\$ 76,140	\$ 89,109	\$ 12,969
Subsidy Rate	14.67%	13.98%	11.72%	(2.26%)
Program Level	\$ 844,383	\$ 544,635	\$ 760,316	\$ 215,681
<b>Loan Program-Economic</b>				
New Budget Authority	\$ 66,066	\$ 0	\$ 0	\$ 0
Carryover from prior fiscal year	60,000	39,241	0	(39,241)
Carryover into next fiscal year	(39,241)	0	0	0
Subsidy Budget Authority	\$ 86,825	\$ 39,241	\$ 0	\$ (39,241)
Subsidy Rate	23.16%	23.20%	0.00%	(23.20%)
Program Level	\$ 374,892	\$ 169,142	\$ 0	\$ (169,142)
<b>Loan Program-Physical</b>				
New Budget Authority	\$ 8,934	\$ 0	\$ 0	\$ 0
Carryover from prior fiscal year	0	2,575	0	(2,575)
Carryover into next fiscal year	(2,575)	0	0	0
Subsidy Budget Authority	\$ 6,359	\$ 2,575	\$ 0	\$ (2,575)
Subsidy Rate	14.67%	13.98%	0.00%	(13.98%)
Program Level	\$ 43,347	\$ 18,420	\$ 0	\$ (18,420)
<b>Loan Program-Total</b>				
New Budget Authority	\$ 162,360	\$ 76,140	\$ 79,109	\$ 2,969
Carryover from prior fiscal year	90,603	41,816	0	(41,816)
Transfer from Administrative expenses	2,500	0	0	0
Carryover into next fiscal year	(70,613)	0	0	0
Recoveries from prior years	32,205	0	10,000	10,000
Subsidy Budget Authority	\$ 217,055	\$ 117,956	\$ 89,109	\$ (28,847)
Subsidy Rate	17.19%	16.11%	11.72%	(4.39%)
Program Level	\$ 1,262,622	\$ 732,197	\$ 760,316	\$ 28,119

<sup>1</sup> The Disaster Assistance appropriation includes the Subsidy for the Loan Program plus the Disaster Loan Making and Loan Servicing administrative costs that are shown on page 114.

## SMALL BUSINESS INVESTMENT COMPANY PROGRAMS

*(Dollars in Thousands)*

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
<b>SBIC – Participating Securities</b>				
New Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Total Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Subsidy Rate	0.00%	0.00%	0.00%	0.00%
Program Level	\$ 1,300,145	\$ 4,000,000	\$ 4,000,000	\$ 0
<b>SBIC Debentures</b>				
New Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Carryover from prior fiscal year	2,401	901	0	(901)
Carryover into next fiscal year	(901)	(901)	0	901
Rescinded Balance	(1,500)	0	0	0
Total Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Subsidy Rate	0.00%	0.00%	0.00%	0.00%
Program Level	\$ 411,150	\$ 3,000,000	\$ 3,000,000	\$ 0

## SURETY BOND GUARANTEE FUND ACCOUNT

*(Dollars in Thousands)*

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) FY 2003 Request
New Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Carryover from prior fiscal year	0	0	0	0
Carryover into next fiscal year	0	0	0	0
Rescinded Funds	0	0	0	0
Recoveries	0	0	0	0
Total Budget Authority	\$ 0	\$ 0	\$ 0	\$ 0
Subsidy Rate	N/A	N/A	N/A	N/A
Program Level	\$ 1,672,000	\$ 1,672,000	\$ 1,672,000	\$ 0

**DISASTER LOAN MAKING<sup>1</sup>***(Dollars in Thousands)*

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
Personnel Compensation	\$ 45,323	\$ 38,785	\$ 42,511	\$ 3,726
Civilian Personnel Benefits	10,172	12,749	10,202	(2,547)
Overtime and Awards	5,807	6,355	4,297	(2,058)
Workers & Unempl Compensation	1,469	1,157	1,978	821
Travel and Transportation of Persons	12,638	12,241	9,341	(2,900)
Transportation of Things	61	42	0	(42)
Rental Payments to GSA	4,887	4,632	4,853	221
Rental Payments to Others	259	0	0	0
Communications, Utilities & Misc.	1,400	1,253	1,013	(240)
Postage	1,055	570	1,121	551
Printing and Reproduction	106	35	168	133
Other Services	11,192	3,274	4,516	1,242
<b>Total</b>	<b>\$ 94,369</b>	<b>\$ 81,093</b>	<b>\$ 80,000</b>	<b>\$ (1,093)</b>

<sup>1</sup> This Table details the administrative costs for the Disaster Loan Making Program.

**DISASTER LOAN SERVICING<sup>1</sup>****Summary of Requirements by Object Class***(Dollars in Thousands)*

	FY 2002 Actual	FY 2003 Request	FY 2004 Request	Increase/ (Decrease) vs. FY 2003 Request
Personnel Compensation	\$ 10,524	\$ 111,363	\$ 10,604	\$ (759)
Civilian Personnel Benefits	3,252	4,067	2,545	(1,522)
Overtime and Awards	225	292	273	(19)
Workers & Unempl Compensation	37	194	181	(13)
Travel and Transportation of Persons	77	36	34	(2)
Transportation of Things	59	17	16	(1)
Rental Payments to GSA	2,455	3,081	2,875	(206)
Communications, Utilities & Misc.	257	447	417	(30)
Postage	927	1,720	1,605	(115)
Printing and Reproduction	2	0	0	0
Other Services	8,679	9,477	9,450	(27)
<b>Total</b>	<b>\$ 26,495</b>	<b>\$ 30,694</b>	<b>\$ 28,000</b>	<b>\$ (2,694)</b>

<sup>1</sup> This Table details the administrative costs for the Disaster Loan Servicing Program.

# U.S. SMALL BUSINESS ADMINISTRATION OFFICE OF THE INSPECTOR GENERAL

## FY 2004 BUDGET JUSTIFICATION CONGRESSIONAL SUBMISSION

### EXECUTIVE SUMMARY

The following budget justification for FY 2004 for the U.S. Small Business Administration's (SBA) Office of the Inspector General (OIG) links needed resources with anticipated outcomes. By using OIG's five-year strategic plan as the basis for this request, OIG was able to align resources to each of its five strategic goals. This new process is evident in the format and content of this budget justification.

Using its experience over the last few years, OIG estimated the total resources needed to fulfill its statutory requirements. Concurrently, OIG developed a list of proposed projects to address various strategies within each goal. After assessing each project's anticipated impact, OIG ranked each in order of priority. The projects with the highest priority and highest anticipated impact comprise this justification.

#### **OIG Mission**

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

#### **OIG Vision for FY 2003 through FY 2007**

SBA will have efficient, effective, results-oriented, integrity-based programs that maximize use of safe and secure information technology in its operations, and will have minimal losses from fraud, abuse, erroneous payments, and inadequate processes. OIG will be an effective catalyst to help SBA achieve this goal.

#### **Budget in Summary**

OIG is requesting a total of \$15 million for FY 2004, a decrease of \$0.51 million or 3.8 percent below the FY 2003 request. This amount funds our mandatory functions and includes a limited variety of pro-active projects to address growing concerns voiced by the Agency and its stakeholders. Specifically, OIG is requesting \$14.5 million in direct appropriations and \$0.5 million to be transferred from SBA's Disaster Loan Program account for work on disaster programs.

Rather than applying an inflation factor to the FY 2002 operating budget (i.e., baseline budgeting), OIG instead utilized the zero-based budgeting method, examined its mandatory requirements, and assigned necessary resources to each. By utilizing discretion to achieve efficiencies where possible, OIG was then able to choose high priority and high impact proactive projects to further achieve its strategic goals.

## Achieving OIGs Vision (FY 2003 – 2007 Strategic Goals)

The table below shows, for each strategic goal, the resources needed in FY 2004 to achieve the anticipated outcomes over the next five years.

Strategic Goal	Anticipated Outcomes	FY 2004 Funding Request
<b>Goal 1:</b> Prevent fraud and unnecessary losses in SBA programs	<ul style="list-style-type: none"> <li>• Fraud and unnecessary losses are reduced (stratified by types of loans)</li> <li>• SBA internal control environment is strengthened and appropriately structured</li> </ul>	\$8.2 million
<b>Goal 2:</b> Improve the accuracy of and the security over SBA accounting and management information, including performance data	<ul style="list-style-type: none"> <li>• SBA has more effective operations and improved decision-making</li> <li>• Improved ability to monitor and evaluate SBA performance</li> <li>• Improved public confidence in SBA's operations</li> </ul>	\$2 million
<b>Goal 3:</b> Assist SBA in improving its small business development programs	<ul style="list-style-type: none"> <li>• Improved public confidence in SBA's Government Contracting and Business Development programs and services</li> <li>• Improved efficiency and effectiveness in SBA's delivery of entrepreneurial assistance to small businesses</li> </ul>	\$1 million
<b>Goal 4:</b> Assist SBA management in identifying and resolving persistent and emerging management issues	<ul style="list-style-type: none"> <li>• Management challenges identified by OIG are addressed and resolved by SBA management</li> <li>• New risks are identified as they emerge and resources are devoted to addressing them</li> </ul>	\$1 million
<b>Goal 5:</b> Strengthen our ability to identify and have maximum impact on the most significant SBA issues	<ul style="list-style-type: none"> <li>• Improved timeliness leading to greater impact</li> <li>• Greater sharing of information within OIG</li> <li>• IT investments fully support operations and facilitate communications, data analysis and knowledge management</li> <li>• Organizational structure that provides best utilization of OIG resources</li> </ul>	\$2.8 million
<b>Total</b>		<b>\$15.0 million</b>

### BUDGET HIGHLIGHTS

<i>(\$ in Millions)</i>	FY 2002 Estimate	FY 2003 Request*	FY 2004 Request	Difference from FY 2003	
Total Budget Authority (BA)	\$12.45	\$15.51	\$15.00	-\$0.51	-3.3%
Mandatory Projects/Functions	N/A	N/A	\$12.31	N/A	N/A
Proactive Projects/Functions	N/A	N/A	\$2.69	N/A	N/A
Full-Time-Equivalents (FTE)	108	125	125	0	0

\* Amount includes \$511,000 for accrual and pension benefits but does not include estimated \$25,000 in carryover balances from FY 2002.

The funding levels for each strategic goal are divided into two main categories: mandatory projects or functions as prescribed by various statutes; and proactive projects or functions that will further OIG's achievement of that goal. Funding for each project or function includes FTE costs as well as necessary travel, supplies, contracts, etc. required for completion. The cost per FTE assumes a three percent pay raise effective in January 2004 and does not include funding for accrual and pension benefits.

## **Goal 1: Prevent fraud and unnecessary losses in SBA programs**

Funding for Mandatory Projects/Functions	\$7.72 million
Funding for Proactive Projects/Functions	\$0.48 million
Total for Goal 1	\$8.20 million

Goal 1 has the most mandatory projects/functions – attributable mainly to OIG’s statutory focus on the detection and prevention of fraud, waste, and abuse. Included in this amount is \$660,000 for the name check program to verify the character of borrowers and other program participants; \$5,720,000 for the investigations of and prosecutorial support for cases alleging criminal and civil violations; and \$530,000 for audits of SBA programs and participants requested by the Agency, Congress, or other stakeholders.

Among the proactive projects included in the request for Goal 1 are audits of Section 7(a) loans that have defaulted early. OIG will work to determine if loans defaulted due to (a) lender non-compliance with SBA’s policies and procedures; (b) borrower non-compliance with the loan authorization agreement; or (c) misrepresentations by the borrower. Historically, OIG has achieved recoveries averaging in excess of \$200,000 per loan from at least 50 percent of loans

reviewed. It has also led to identifying opportunities for better processes and monitoring by SBA and helped to identify erroneous or improper payments.

Along the same lines, OIG will begin work in FY 2003, to be continued in FY 2004, on a project to sample Section 7(a) loan files to look for incidents of undisclosed criminal histories, citizenship ineligibility, and inappropriate use of funds. This initiative is meant to increase the opportunities for finding otherwise undisclosed fraud and other vulnerabilities leading to improper payments and will help OIG in planning future proactive work.

In response to the terrorist attacks in New York and Virginia, OIG assigned agents to support the FBI Terrorism Task Force and to augment the Federal Air Marshal program. In an effort to support the war on terrorism, OIG will continue to investigate allegations relating to diversion of funds and agency vulnerabilities to terrorist activities.

## **Goal 2: Improve the accuracy of and the security over SBA accounting and management information, including performance data**

Funding for Mandatory Projects/Functions	\$1.05 million
Funding for Proactive Projects/Functions	\$0.95 million
Total for Goal 2	\$2.00 million

SBA’s FY 2003 Financial Statement Audit, costing around \$742,000, is the largest mandatory project in Goal 2. Other statutorily mandated audits include the Government Information Security Reform Act (GISRA) annual evaluation and the Federal Information Systems Control Audit Manual (FISCAM) Review. Proactive projects include audits to assess the controls and security of SBA’s computer operating system and network and a review to identify ways to improve the quality of data collected through the loan accounting and loan application tracking systems. Both systems play a key role in SBA oversight of its \$50 billion portfolio as well as provide information for performance measurement.

Also included is approximately \$300,000 to determine the validity of performance data for the myriad of Entrepreneurial Development (ED) programs and the Disaster Loan program. Specifically, Audit staff will sample the most critical data for all ED programs and determine if the data is supported and is accurate. For the Disaster project, staff will work to identify any weaknesses in the Office of Disaster Assistance’s methods of verifying and validating a key Government Performance and Results Act (GPRA) performance measure of the number of "Homes Restored to Pre-Disaster Condition."

### **Goal 3: Assist SBA in improving its small business development programs**

Funding for Mandatory Projects/Functions	\$0.65 million
Funding for Proactive Projects/Functions	\$0.35 million
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Total for Goal 3	\$1.00 million

The Small Business Act currently requires that each Preferred Surety Bond Company (PSB) be audited at least once a year. While OIG is seeking legislation to reduce the audit rate, this function will require \$365,350 to audit all nine sureties in FY 2004.

One of the most significant proactive projects proposed for FY 2004 is the assessment of the Agency's work on and use of the Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART). While OMB is working with SBA to complete PART's for 20 percent of SBA's programs, the Agency plans to utilize the tool to make

budgetary and management decisions for all programs. Using OIG findings from past audits, investigations, inspections, and evaluations, OIG can provide invaluable assistance to the Agency and OMB to allow for more informed decision making.

Another proactive project is an inspection to evaluate the Small Business Development Center (SBDC) program is operating efficiently and effectively. The project will focus on monitoring and oversight of SBA's largest non-credit business assistance program.

### **Goal 4: Assist SBA management in identifying and resolving persistent and emerging management issues**

Funding for Mandatory Projects/Functions	\$0.38 million
Funding for Proactive Projects/Functions	\$0.62 million
<hr/>	
Total for Goal 4	\$1.00 million

The Reports Consolidation Act of FY 2000 required each IG to identify and report the most significant management challenges facing an agency and to recommend corrective actions. This effort cuts across all of the OIG divisions and is the cornerstone for achieving this strategic goal. OIG proposes to add to this effort with an audit of SBA's efforts to improve lender oversight and an inspection of the SBA Express program (particularly in light of the Agency's recent expansion of the program).

In addition, OIG is requesting \$185,000 for an audit of the Small Business Investment Company (SBIC) program's licensing process. The objective of the project will be to determine if policies and procedures for licensing SBICs ensure selection of qualified applicants, an equitable evaluation of applicants, and that selected applicants meet program needs.

OIG is requesting \$138,000 for an audit to review the Section 7(a) equity injection requirement. Most SBA loans to startup businesses and to some established businesses require an equity injection by the principal prior to the first disbursement of the loan proceeds. The theory behind equity injection is that if the borrower(s) have invested sufficient equity of their own in the business, then the borrowers will be more motivated to follow through to ensure the success of the business and ultimately maintain a current SBA loan. OIG will focus its efforts on ensuring that (1) lenders require an appropriate amount of equity injection to keep the borrowers committed to the loan; (2) borrowers commit real equity (e.g., not borrowed funds); and (3) equity injection is verified before disbursement of the loan proceeds.

**Goal 5: Strengthen our ability to identify and have maximum impact on the most significant SBA issues**

Funding for Mandatory Projects/Functions	\$2.51 million
Funding for Proactive Projects/Functions	\$0.29 million
<b>Total for Goal 5</b>	<b>\$2.80 million</b>

The IG Act requires each IG to report semiannually on the activities of the office. A significant number of the mandatory projects and functions in this goal are to fulfill this requirement. Specifically, the costs include the FTE to compile and write the report, the management information systems used to collect the data, and the review process to ensure privacy and accuracy of information. Over \$734,000 of the funds requested are for training for staff to maintain mandatory professional certifications such as fire-arm, audit, and human resource certifications. This amount includes estimated staff salaries, tuition, and travel expenses.

One of the proactive projects in Goal 5 is the implementation of the OIG Workforce Transformation Plan. Included in this project is funding to address training and development needs, succession planning, and a skills analysis to ensure the OIG organizational alignment supports effective and efficient achievement of its mission.

**Potential Outcomes**

During FY 2002, OIG's efforts resulted in over \$81.8 million in cost avoidances and potential recoveries and fines. Using approximately \$12.4 million (i.e., the OIG FY 2002 operating budget), that shows an impact of \$6.60 for every \$1 spent on OIG operations.

During FY 2004, OIG anticipates:

- 48 indictments, 40 convictions, and \$7.5 million in potential investigative recoveries and fines,
- Reviewing over 4,000 name check requests and approximately 110 background/security checks, resulting in nearly \$24 million of loans not approved due to the name check program,
- \$6,500,000 in potential savings from disallowed costs agreed to by Agency management,
- \$8,000,000 in potential savings from recommendations that funds be put to better use agreed to by Agency management,
- 92 percent of all recommendations agreed to by Agency management within six months of report issuance, and
- 75 percent of recommendations implemented or final actions taken on OIG recommendations by Agency management within the timeframe agreed by OIG and management.

	<b>Resources</b>			
	<b>FY 2002 Actual</b>	<b>FY 2003 Estimate*</b>	<b>FY 2004 Request</b>	<b>Inc/(Dec) vs. FY 2003 Estimate</b>
New Budget Authority	\$11,464,000	\$15,011,000	\$14,500,000	\$(511,000)
Carryover from Prior Fiscal Year	\$494,562	\$25,000	\$0	\$(25,000)
Carryover into Next Fiscal Year	\$(25,000)	\$0	\$0	\$0
Transfer from Disaster	\$500,000	\$500,000	\$500,000	\$0
Recoveries	\$0	\$0	\$0	\$0
Balance Expired	\$0	\$0	\$0	\$0
Rescinded Funds – Appropriation	\$(5,568)	\$0	\$0	\$0
<b>Total Budget Authority</b>	<b>\$12,427,994</b>	<b>\$15,536,000</b>	<b>\$15,000,000</b>	<b>\$(536,000)</b>
Full-Time Equivalent (FTE)	108	125	125	0

\* New Budget Authority amount includes \$511,000 for funding accrual and pension benefits.

## HIGHLIGHTS OF FY 2002 ACCOMPLISHMENTS

As noted in the previous section, from October 1, 2001, through September 30, 2002, OIG's efforts resulted in over \$81.8 million in cost avoidances and potential recoveries and fines. The table below shows further details.

### Office-wide Dollar Accomplishments

#### from October 1, 2001, through September 30, 2002

Potential Investigative Recoveries and Fines	\$17,571,031.00
Loans Not Made as Result of Investigations and Name Checks	\$63,420,121.00
Disallowed Costs Agreed to by Agency Management	\$102,312.36
Recommendations that Funds Be Put to Better Use Agreed to by Agency Management	\$742,600.47
<b>Total</b>	<b>\$81,836,064.83</b>

OIG efforts can generally be broken down into two main categories: Efficiency and Effectiveness of SBA Programs and Fraud Deterrence and Detection in SBA Programs, as detailed below.

### Efficiency and Effectiveness of SBA Programs

In FY 2002, OIG issued 35 reports that identified over \$2.8 million of recommended funds for better use and other non-monetary recommendations to improve controls over SBA programs and operations. Six audits addressed erroneous payments by a large Small Business Loan Company (SBLC) involving the Section 7(a) business loan program. Other reports addressed controls over processes to detect ineligible borrowers and the need for improvements in SBA follow-up actions to address findings of the SBLC exams.

### Efficiency and Effectiveness Activities

#### from October 1, 2001, through September 30, 2002

Reports Issued	35
Recommendations Issues	121
Dollar Value of Costs Questioned	\$13,822.35
Dollar Value of Recommendations that Funds be Put to Better Use	\$2,812,367.65

### Follow-up Activities from October 1, 2001, through September 30, 2002

Recommendations Closed	131
Disallowed Costs Agreed to by Agency Management	\$102,312.36
Dollar Value of Recommendations that Funds Be Put to Better Use Agreed to	\$742,600.47
Unresolved Recommendations	124

OIG also issued reports initiated by special requests involving sensitive payments, the sponsorship activities at one of SBA's district offices, and travel of a former regional administrator.

All of these reports identified weaknesses in SBA's procedures and internal controls. The recommendations for corrective action addressed specific and systemic problems which the Agency can apply Agency-wide.

OIG also reviewed SBA's human capital resource delivery system recommending improvements which will assist the Agency in improving its management of human capital.

### Fraud Detection and Deterrence in SBA Programs

OIG manages a nationwide program whose mission is to prevent and detect illegal and/or improper activities involving SBA programs, operations, and personnel. This function is fulfilled through the performance of criminal, civil, and administrative investigations. OIG staff utilizes a full range civil, administrative, and criminal investigative techniques including executing arrest warrants, search warrants, and electronic monitorings. OIG also performs a deterrent function through its educational outreach to lenders and employees.

### Fraud Detection and Deterrence Activities from October 1, 2001, through September 30, 2002

Total Cases	*489
Closed Cases	157
Pending Cases	16
Open Cases	316
Subjects Currently Under Investigation	1,709

\* OIG converted to a new Investigations MIS system. Based on numbers generated by this system, there is a discrepancy in the total cases for the full-year.

### Summary of Indictments and Convictions from October 1, 2001, through September 30, 2002

Indictments from OIG Cases	42
Convictions from OIG Cases	47

### Summary of Recoveries and Management Avoidances from October 1, 2001, through September 30, 2002

Potential Recoveries and Fines as a Result of OIG Investigations	\$17,571,031.00
Loans/Contracts Not Approved as a Result of OIG Investigations	\$27,658,669.00
Loans/Contracts Not Approved as a Result of the Name Check Program	\$34,732,914.00
<b>Total</b>	<b>\$80,991,152.00</b>

In addition to its regular investigative case load, OIG special agents participated on the Federal Bureau of Investigations (FBI) Terrorism Task Force in New York City. Additional OIG agents were tasked with special assignments as work developed throughout the nation. OIG also detailed an employee to the Federal Aviation Administration (FAA) to augment the Federal Air Marshal program.

## **RESOURCES AND OPERATIONAL RESPONSIBILITIES**

OIG is composed of the Immediate Office of the Inspector General, and the Auditing, Investigations, Inspection and Evaluation, Counsel, and Management and Policy Divisions. In addition to Headquarters staff, OIG currently has audit staff in Atlanta, Dallas, and Los Angeles, and investigative staff in Atlanta, Chicago, Dallas, San Francisco, Denver, Houston, Kansas City, Los Angeles, New York, Philadelphia, Seattle, Syracuse, and Puerto Rico.

The Auditing Division performs financial and performance audits of SBA programs to promote their economy, efficiency, and effectiveness. This division performs both internal audits of the Agency's management of programs and external audits of its program participants.

The Inspection and Evaluation Division conducts analyses to assess the impact, effectiveness, and related performance issues of SBA programs and supporting activities. This division also performs "best practices" studies, management reviews, and respondent surveys to assist SBA in improving its program efficiency and oversight.

The Investigations Division conducts financial, program, and personnel investigations involving SBA employees and service recipients, and maintains the OIG Fraud Hotline. The results of these investigations frequently provide the basis for civil or criminal prosecution by the Department of Justice or, as an alternative, administrative action by the Agency. The security operations branch within this division administers the background and name check program for the Agency.

The Counsel Division provides independent legal advice to OIG staff; provides subpoena and litigation assistance for all OIG activities; provides training and guidance to OIG staff on Government-wide ethics and SBA-specific standards of conduct; and processes Freedom of Information/Privacy Act requests relative to OIG activities.

The Management and Policy Division supports office operations through internal planning, budget formulation and execution, information resources management, personnel, and other administrative services.

## **APPROPRIATIONS LANGUAGE** **(Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriation Act)**

### **SMALL BUSINESS ADMINISTRATION** **OFFICE OF INSPECTOR GENERAL**

*For necessary expenses of the Office of Inspector General in carrying out the provisions of the Inspector General Act of 1978, as amended(5 U.S.C. app.), \$14,500,000.*

The budget proposes \$14.5 million in new budget authority and \$500 thousand transferred from the Disaster Loans Program account for a total of \$15 million for the Office of the Inspector General (OIG) for 2004. This appropriation provides funds for agency-wide audit, investigative, and inspection/evaluation functions to promote economy and efficiency in agency operations and to prevent and detect fraud, waste, and abuse.

## **APPENDICES**

## Appendix A

### Data Validation

SBA strives to maintain the highest standards of data quality possible. SBA uses data from its own systems, from resource partners (such as SBDCs, SCORE, WBCs), and from other Federal and local governments to assess its accomplishments and effectiveness. Limitations such as the lack of relevant data for measures, the accuracy and currency of data, the reporting capacity of quality data remain major issues for the Agency. Improving data quality will continue to be a high priority for SBA.

SBA continues to pursue the following strategies to address the shortcomings of its data quality:

- Ensuring the validity of performance measures and data. SBA does this through assessing the relevancy of performance measures and data.
- Fostering organizational commitment and capacity for data quality. Achieving data quality through (1) training our managers to make sure they understand the need for quality data, how to develop valid performance measures and how to ensure data quality, and (2) managers attesting to the quality of the data under their management.
- Assessing the quality of existing data. Audits and reviews ensure the quality of our financial data systems.
- Responding to data limitations. SBA is working to improve quality areas that have been identified as weak.
- Building quality into the development of performance data. The design process for new IT systems will include the requirements for developing and maintaining performance data. The new systems and upgrades will make sure that only correct data is entered into the systems and that data is stored with stringent verification and change rules.

The following pages provide for each performance indicator a definition, source, validity statement and discussion of limitations.

#### Office of Advocacy

**Measure Total Cost Savings achieved as a result of changes in Federal agency rules or actions prompted by Office of Advocacy interventions on behalf of small business.**

**Definition** Letting costs of Agency action or rule prior to Advocacy intervention be represented by X, and the revised cost estimates following Advocacy intervention by Y, total cost savings equal X - Y. Cost savings will be calculated on a rule-by-rule (action-by-action) basis using cost estimates provided by the Federal agency or other reliable source. Cost savings will be reported by Advocacy at the time the change is made public.

**Source** Federal agency initiating the rule or action affecting small business or other reliable source.

**Validation** The Office of Advocacy will review the cost estimates in the Federal agencies' economic analyses accompanying the rule or action.

**Limitations** The Office of Advocacy can analyze each agency's costs estimates and underlying assumptions; however, for consistency, the costs savings attributed to each rule or action will generally be calculated using the Federal agency's own numbers.

**Remedies for Limitations** Where there are data gaps, the Office of Advocacy can look for alternate sources of data, which can be used to present alternative approaches for the agency's consideration.

**Verification** The Office of Advocacy can compare the Federal agencies' cost estimates with its own calculations based on the availability of agency data and outside data sources.

#### Capital Access Programs

**Measure 7(a) Loans to start-ups approved**

**Definition** Number of 7(a) approved loans to firms which have been in business less than two years.

**Source** SBA Loan Approval Database (TTS001)

**Validation** Start-up firms often have difficulty getting access to capital. The measure shows to what extent SBA is assisting start-up firms to obtain capital and thereby the potential for survival and growth as well as the potential for job creation.

**Limitations** The measure is based on the number of approved loans.

**Remedies for Limitation** SBA could use disbursed loans, however the disbursement period on some loans can be two years or longer. Less than half of the loans are disbursed in the year of approval.

**Verification** The borrower indicates on the loan application form the date the firm was established.

**Measure 7(a) Loans to established firms approved**

**Definition** Number of 7(a) approved loans to firms that have been in business longer than 2 years.

**Source** SBA Loan Approval Database (TTS001)

**Validation** Established firms often have difficulty getting access to traditional bank financing without the SBA guaranty. The measure shows to what extent SBA is assisting established firms obtain capital and thereby the potential for job creation.

**Limitations** The measure is based on the number of approved loans.

**Remedies for Limitations** SBA could use disbursed loans, however this would create a reporting delay as loans are not always disbursed immediately after approval.

**Verification** The borrower indicates on the loan application forms the date the business was established. SBA does not independently verify this data.

#### **Measure Loans 7(a) to Emerging Market Firms**

**Definition** Number of 7(a) approved loans to Emerging Market Firms. "Emerging Market" loans include those markets with the most potential for growth – and which are currently the fastest growing segment of small business – such as underserved, place-based businesses (i.e., those located in the most economically disadvantaged regions of each district office) and are likely to encompass minority and women-owned businesses.

**Source** SBA Loan Approval Database (TTS001)

**Validation** Emerging market firms often have difficulty getting access to traditional bank financing without the SBA guaranty. The measure shows to what extent SBA is assisting emerging market firms obtain capital and thereby the potential for job creation.

**Limitations** The measure is based on the number of approved loans.

**Remedies for Limitations** SBA could use disbursed loans, however the disbursement period on some loans can be two years or longer. Less than half of the loans are disbursed in the year of approval.

**Verification** The information is provided by the borrower on the Application for Business Loan (SBA Form 4).

#### **Measure Loans to 51% veteran-owned, 7(a)**

**Definition** Number of 7(a) approved loans to firms at least 51% veteran-owned.

**Source** SBA Loan Approval Database (TTS001)

**Validation** Veteran-owned firms often have difficulty getting access to capital. The measure shows to what extent SBA is assisting veteran-owned firms to obtain capital and thereby the potential for job creation.

**Limitations** The measure is based on the number of approved loans.

**Remedies for Limitations** SBA could use disbursed loans, however the disbursement period on some loans can be two years or longer. Less than half of the loans are disbursed in the year of approval.

**Verification** The information is provided by the borrower on the Application for Business Loan (SBA Form 4).

#### **Measure Number of jobs created and retained, 7(a)**

**Definition** The number of jobs created and retained by businesses that have received 7(a) loans.

**Source** Borrowers submit a loan application to an SBA approved Lender. The applications include information on jobs created and retained. The Lender submits the

application to SBA and the information is entered into SBA's loan accounting database (mainframe).

**Validation** A coefficient for job creation was developed using historical data. Actual data collected for job creation and retention can be compared to the coefficient.

**Limitations** Job information is not verified by SBA. Job creation and retention information is not a requirement of 7(a) loans.

**Remedies for Limitations** A project is under way with Bureau of Labor Statistics (BLS) to obtain estimates of job creation by SBA loan recipients for firms that have EIN numbers.

**Verification** Not possible until SBA has access to data from BLS or IRS.

#### **Measure 504 Loans to start-up firms**

**Definition** Number of 504 approved loans to "new" businesses defined as having been in existence for 2 years or less or a change-of-ownership. (SOP 50-10, Subpart H, Chapter 13, 1.c.(1))

**Source** Information taken from the 504 loan application and inputted by the SBA district office or PCLP center into SBA's centralized database. The TTS001 is a summary sheet derived from the database.

**Validation** New businesses often have difficulty getting access to capital to finance long-term fixed assets such as owner-occupied land and buildings. The measure shows to what extent SBA is assisting new businesses that create jobs or meet other 504 public policy goals.

**Limitations** The information is derived from loan approval data.

**Remedies for Limitations** Use disbursed loans. However, due to the long-term nature of the period between approval and disbursement (since the 504 loan program is take-out financing), this could be very problematic.

**Verification** The CDC and borrower certify to the accuracy of the application information. SBA does not independently verify this data.

#### **Measure 504 Loans to Established Firms**

**Definition** Number of 504 approved loans to "existing" businesses defined as having been in existence for more than 2 years. (SOP 50-10, Subpart H, Chapter 13, 1.c.(1))

**Source** Information taken from the 504 loan application and inputted by the SBA district office or PCLP center into SBA's centralized database. The TTS001 is a summary sheet derived from the database

**Validation** Existing businesses often have difficulty getting access to long term fixed rate financing without the assistance of an SBA guaranty. The measure shows to what extent SBA is assisting existing businesses to obtain financing for their long-term, fixed asset needs resulting in job creation or other 504 goals.

**Limitations** The information is derived from loan approval data.

**Remedies for Limitations** Use disbursed loans only. However, due to the long-term nature of the period between approval and disbursement (since the 504 loan program is take-out financing), this could be very problematic.

**Verification** The CDC and borrower certify to the accuracy of the application information. SBA does not independently verify this data.

#### **Measure Loans (504) to Emerging Market Firms**

**Definition** Number of 504 approved loans to emerging market firms.

**Source** Information taken from the 504 loan application and inputted by the SBA district office or PCLP center into SBA's centralized database. The TTS001 is a summary sheet developed by the Office of Computer Information derived from the database.

**Validation** Emerging market firms often have difficulty getting access to traditional bank financing without the assistance of an SBA guaranty. The measure shows to what extent SBA is assisting emerging market firms to obtain long-term, fixed asset financing that will assist the business in meeting a 504 public policy goal of assisting businesses owned 51 percent or more by minorities.

**Limitations** The measure is derived from loan approval information.

**Remedies for Limitations** Use disbursed loans only. However, due to the long-term nature of the period between approval and disbursement (since the 504 loan program is take-out financing), this could be very problematic.

**Verification** The CDC and borrower certify to the accuracy of the application information. SBA does not independently verify this data.

#### **Measure Loans to 51% veteran-owned, 504**

**Definition** Number of 504 approved loans to firms at least 51% veteran-owned.

**Source** Information taken from the 504 loan application and inputted by the SBA district office or PCLP center into SBA's centralized database. The TTS001 is a summary sheet developed by the Office of Computer Information derived from the database.

**Validation** Veteran-owned firms often have difficulty getting access to traditional bank financing without the assistance of an SBA guaranty. The measure shows to what extent SBA is assisting veteran-owned businesses to obtain long-term, fixed asset financing that will assist the business in meeting a 504 public policy goal of assisting businesses owned 51 percent or more by veterans.

**Limitations** The measure is derived from loan approval information.

**Remedies for Limitations** Use disbursed loans only. However, due to the long-term nature of the period between approval and disbursement (since the 504 loan program is take-out financing), this could be very problematic.

**Verification** The CDC and borrower certify to the accuracy of the application information. SBA does not independently verify this data.

#### **Measure Number of jobs created and retained (504)**

**Definition** Number of jobs created and retained by the small business borrower as a result of the 504 financing.

**Source** Information taken from the 504 loan application and inputted by the SBA district office or PCLP center into SBA's centralized database. A special report has to be requested from the Office of Computer Information.

**Validation** Capital infusion in a firm will most often lead to growth in jobs, sales and revenue. This measure focuses on the number of jobs estimated to be created and retained as a result of the 504 financing.

**Limitations** CDCs are required to verify the actual number of jobs created and retained two years after the debenture has been disbursed. They report these numbers in their annual reports. However, due to resource limitations, these numbers are not presently put into a computer data base.

**Remedies for Limitations** A method to permit CDCs input into this part of SBA's loan information file needs to be created so that SBA's information is more current.

**Verification** CDCs are currently required to verify and report to SBA the actual number of jobs created and retained.

#### **Measure Microloans to start-ups**

**Definition** Number of microloans made to start-up businesses by intermediary lenders under the Microloan Program.

**Source** Microloan Program Electronic Reporting System

**Validation** Start-up firms in need of very small amounts of capital often experience difficulty accessing capital from traditional sources of financing such as banks. This measure illustrates the extent to which SBA is providing access to capital for the smallest of new business needs and assisting growth at the beginning stages of business development.

**Limitations** The Measure only counts the number of loans to start-ups. It does not count the dollar amount of outflow. Nor does it calculate, or anticipate, return on the government's investment.

**Remedies for Limitations** Count the dollars loaned to start-ups and consider the return on the government's investment for each start-up loan funded.

**Verification** Data is submitted through the Microloan Program Electronic Reporting

**System** It is reported to the system by microlenders. The design of the system self-verifies obtaining data as well as collecting background information, contact data, and loan detail information. Questionable data is verified verbally by SBA staff and system data is scrubbed accordingly.

#### **Measure Number of jobs created and retained (Microloans)**

**Definition** Created jobs include the number of jobs added to a business as a result of a microloan. Retained jobs include the number of jobs maintained in a business as a result of a microloan that may or may not have been lost but for availability of financing.

**Source** Microloan Program Electronic Reporting System

**Validation** Microenterprises tend to create employment opportunities through self-employment and retain employment opportunities through maintenance or growth of the business. Some job retention is achieved when small amounts of capital are used for very short term cash flow crises. It is important to count job creation and retention data as it is a measure of the value of SBA's assistance with access to very small amounts of capital.

**Limitations** The measure counts only jobs created and retained as a result of Microloan Program financing. It does not anticipate the effect of those jobs on families and communities nor does it anticipate the value of the additional jobs in terms of the tax base and ultimate income for the government.

**Remedies for Limitations** Data should allow for a multiplier that anticipates federal tax income and increased local purchasing power.

**Verification** Data is submitted through the Microloan Program Electronic Reporting

**System** It is reported to the system by microlenders. The design of the system self-verifies obtaining data as well as collecting background information, contact data, and loan detail information. Questionable data is verified verbally by SBA staff and system data is scrubbed accordingly.

#### **Measure SBIC Financing to Start-ups**

**Definition** Financings extended to businesses two years of age or less

**Source** Form 1031 filed by SBICs with the Investment Division

**Validation** Start-ups by entrepreneurs are a growth engine for the US economy. Financings provided by SBICs allow the entrepreneur's access to funds necessary to start and grow these high growth businesses.

**Limitations** As investment decisions are made by the SBICs, SBA is unable to control what investments are made or the stage of business in which made.

**Remedies for Limitations** No remedy proposed for who makes the investment decision as that is the nature of venture capital investing and the foundation on which the program is based

**Verification** Presume data is accurate as there is no incentive to report false information.

#### **Measure SBIC Financing to Established Firms**

**Definition** Financings extended to businesses more than two years of age.

**Source** Form 1031 filed by SBICs with the Investment Division.

**Validation** High growth firms need venture capital to accomplish that growth. SBICs are a major source of those funds.

**Limitations** As investment decisions are made by the SBICs, SBA is unable to control what investments are made or the stage of business in which made.

**Remedies for Limitations** No remedy proposed for who makes the investment decision as that is the nature of venture capital investing and the foundation on which the program is based.

**Verification** Presume data is accurate as there is no incentive to report false information.

#### **Measure Number of jobs created and retained (SBIC)**

**Definition** Estimate of number of jobs created by SBIC program.

**Source** Based on a recent (2001) NVCA study which estimated one job created for every \$35,000 of venture capital invested.

**Validation** Venture capital funds are used to grow businesses and invest in the people necessary for that growth.

**Limitations** Information based on study of overall venture capital industry and not just the SBIC program. Is a derived statistic and not an actual one.

**Remedies for Limitations** Are reviewing a project with the Department of Labor to identify employees of portfolio companies based upon EINs. Even this methodology presumes a causation that may not be appropriate. Additionally, venture investments are often made by a syndicate and this methodology has not way of allocating between members of syndicate. Finally, methodology only records at a point in time and does not control for additions or subtractions to database.

**Verification** Both methodologies have significant limitations. The survey approach needs to be updated more frequently while the labor approach only identifies actual employees at a point in time and cannot determine causation for the hiring of the employee.

#### **Measure Licenses issued (SBIC)**

**Definition** Number of SBIC licenses issued.

**Source** Investment Division database.

**Validation** License and associated capital (private and government guaranteed leverage) are basis for all investments.

**Limitations** Number of licenses depends upon number of qualified applicants. SBA can market program but cannot force qualified applicants to apply.

**Remedies for Limitations** More aggressive marketing to potential fund managers and investors.

**Verification** Based upon number of licenses issued. No other verification necessary.

### **Measure Export sales through financing (International Trade & USEAC)**

**Definition** The total dollar volume of sales supported by Export Loans (EWCP, International Trade, and Export Express).

**Source** SBA's Office of International Trade/USEAC records.

**Validation** Export sales represent an economic stimulus to firms. The measure summarizes the increase in export sales achieved by SBA clients getting export finance assistance.

**Limitations** Export loans are often for revolving lines of credit. It is difficult to track all sales made through revolving lines of credit. Consequently, the measure may underestimate the sales volume generated by the line of credit.

**Remedies for Limitations** Improve reporting process to ensure that most export sales achieved by SBA export finance assistance clients are captured.

**Verification** USEACs report and confirm the dollars volume of sales in their monthly report to OIT. USEACs keep documentation of all data reported to OIT. SBA has not yet independently verified this data.

### **Government Contracting/Business Development**

#### **Measure Number of Firms Registered in Pro-Net**

**Definition** The Procurement Marketing and Access Network (PRO-Net) is the authoritative database of firms certified under the 8(a) Business Development and HUBZone Empowerment Contracting Programs, and as small disadvantaged businesses. The Federal acquisition community, state and local governments, and prime contractors use PRO-Net.

**Source** All the information is entered into the PRO-Net System either by the individual firms or by the SBA certification offices (8(a), SDB and HUBZone). The registration process is an on-line process that is accomplished in "real time" 24 hours a day, 7 days a week. A firm can register with PRO-Net by entering data at the PRO-Net website <http://pro-net.sba.gov/pro-net/register.html> or <http://pro-net.sba.gov/pro-net/signon.html>. Other sources of data are from the 8(a) Program office, HUBZone Program office and SDB Program office.

**Validation** This process is done when small firms enter their company information through the PRO-Net Registration website. No validity checks are in place to determine if information being captured is valid. However, the Pro-Net System does "duplicates detection" checks for profiles already entered into the system. SBA reviews an application, and if acceptable, will activate it to become available in searches.

**Limitations** The results or data found in the PRO-Net System are dependant upon what the registrants themselves enter into the system, and what the certification offices (i.e., 8(a), SDB or HUBZone) obtain. Registrants are also responsible for updating their profiles and keeping their information current in the PRO-Net System. All information entered into the PRO-Net System by each firm is based upon a good faith "self-certification" process.

**Remedies for Limitations** There is no remedy for this process.

**Verification** SBA does not verify this information other than through the SBA certification processes of the 8(a), SDB, or HUBZone program. The entire registration and/or updates in PRO-Net are the sole responsibility of the vendors under the good faith "self-certification" process.

#### **Measure 7(j) Program Technical Assistance**

**Definition** Number of 7(j) eligible clients assisted via 7(j) funds.

**Source** 7(j) award recipients report.

**Validation** Official documents provided to the Office of Procurement and Grants Management.

**Limitations** The results are dependant upon the award recipient's description of provided services.

**Remedies for Limitations** Enlist the hands-on assistance of local SBA field offices through the naming of local Technical Representatives (COTR).

**Verification** Randomly call 7(j) clients to verify results.

#### **Measure 8(a) Firms Viable Years After Graduation**

**Definition** The percentage of 8(a) firms that are independently operated, have not been sold, or have not gone out of business three years after graduation from the 8(a) program.

**Source** SBA surveys all graduated firms annually.

**Validation** Survey results provide an estimate of the share of viable graduated firms.

**Limitations** The success rate is based on survey results which depend on response rates.

**Remedies for Limitations** Ensure a high response rate by actively encouraging firms to respond.

**Verification** The determination of independently operated firms is checked by personal contact.

#### **Measure Increasing the Commercialization Rates Under the SBIR Program**

**Definition** This indicator measures the commercialization rate of SBIR project technologies. However, the Small Business Act requires the National Research Council (NRC) to conduct a study (to be completed in FY 2003) of the SBIR program and produce program assessment indicators. SBA is working with the NRC to ensure that the proposed indicators used in their study are fair and equitable to small business commercialization efforts.

**Source** Annually, information will be reported by firms (or small businesses) to SBA's new government database required by the SBA Reauthorization Act of 2000. This new government database will be implemented through enhancements to TECH-Net.

**Validation** SBA will work with the reporting firms (i.e. small businesses that have to update the government database in TECH-Net) to validate the data.

**Limitations** SBA will not have significant information on commercialization results until FY 2004 due to the time it takes to ramp up the new database system and allow firms to edit and update their commercialization information.

**Remedies for Limitations** None.

**Verification** SBA will verify the data with the reporting firms.

**Measure Share of Subcontracting Dollars to Small businesses, Women-owned small businesses, small disadvantaged businesses, and Service Disabled Veteran-owned small businesses.**

**Definition** This indicator measures the extent to which these different categories of small business ownership receive subcontracting dollars under Federal Prime Contracts and how those levels compare with the mandated share.

**Source** The Federal Procurement Data System (FPDS) which is the official source for data on Federal procurements.

**Validation** Congress establishes targets for the share of subcontract dollars under Federal prime contracts that should reach the small business sector as well as specified subpopulations. OMB's Office of Federal Procurement Policy (OFPP) in its Policy Letter 99-1 on Small Business Procurement Goals supports SBA's use of FPDS data to measure subcontract dollars received by small businesses, women-owned small businesses, small disadvantaged businesses, and service disabled veteran-owned small businesses, rather than requiring agencies to provide this information on separate reports.

**Limitations** Subcontracting data are reported to the FPDS by March 1 for the preceding Fiscal Year. FPDS has been determined to be the most accurate and verifiable reporting system of contract awards under the procurement preference goal program; however, there are some minor problems with data that are entered incorrectly into FPDS through the SF-295 (Summary Subcontract Report). The final FPDS data are available about six months after the end of the fiscal year.

**Remedies for Limitations** SBA co-chairs the Socio-economic Committee of the Procurement Executives Council and is working to streamline and automate the Subcontract Reporting Forms.

**Verification** SBA does not verify separately the data obtained from FPDS system. The General Services Administration is responsible for working with the agen-

cies on the accuracy of the FPDS database. SBA has not independently verified this data.

**Measure Share of Federal Procurement Prime Contract Dollars to small businesses, women-owned small businesses, small disadvantaged businesses, service disabled veteran-owned small businesses, and certified HUBZone small businesses.**

**Definition** This indicator measures the extent to which these different categories of small business ownership receive Federal Prime Contract dollars compared to the mandated share.

**Source** The Federal Procurement Data System (FPDS) is the official source for data on Federal procurements.

**Validation** Congress establishes targets for the share of Federal procurement dollars that should reach the small business sector as well as specified subpopulations. OMB's Office of Federal Procurement Policy (OFPP) in its Policy Letter 99-1 on Small Business Procurement Goals supports SBA's use of FPDS data to measure Federal contract dollars received by small businesses, women-owned small businesses, small disadvantaged businesses, service disabled veteran-owned small businesses and certified HUBZone small businesses, rather than requiring agencies to provide this information on separate reports.

**Limitations** Prime data are reported to the FPDS on a quarterly basis. FPDS has been determined to be the most accurate and verifiable reporting system of contract awards under the procurement preference goal program; however, there are some minor problems with data that are entered incorrectly into FPDS through the SF-279 (Federal Procurement Data System(FPDS) Individual Contract Action Report (ICAR)) and SF-281 (Federal Procurement Data System (FPDS) Summary Contract Action Report (\$25,000 or Less). The final FPDS data are available about six months after the end of the fiscal year.

**Remedies for Limitations** Through the Procurement Executive Council's Electronic Commerce Committee, GSA is re-engineering the FPDS to improve the accuracy and timeliness of information. This is one of the Administration's e-procurement initiatives.

**Verification** SBA does not verify separately the data obtained from FPDS system. The General Services Administration is responsible for working with the agencies on the accuracy of the FPDS database. SBA does not independently verified this data.

**Measure Cumulative number of HUBZone firms certified**

**Definition** The cumulative number of firms certified as 'qualified HUBZone small business concerns,' less the number of firms decertified or withdrawn since Program inception.

**Source** HUBZone System, HUBZone Program Executive Information System

**Validation** This measure is appropriate as reflects an activity that is authorized and mandated by statute. Information is captured from certification, de-certification, and withdrawal actions in the HUBZone System.

**Limitations** Processing of certification data is entirely electronic. Opportunity for data entry error is relatively limited. Application and continuing eligibility information is entered into the HUBZone Internet Application Form by firms. Processing, analytical, and decision information is entered into the HUBZone Systems by SBA staff and contract staff.

**Remedies for Limitations** Remedies for limitations are logical edits within the HUBZone System, and hierarchical review of the correctness, completeness, and timeliness of data entered during the decision process.

**Verification** The HUBZone System contains logical edits. As the system is developed, additional logical edits are added. Data entered by applicants and certified firms is checked for completeness, correctness, and timeliness by the system. Data entered by staff is checked in the decision process by supervisors.

#### **Measure Small business appointments conducted with procurement officials**

**Definition** Number of actual appointments held between small businesses and buyers from federal, state and local government and large and regional prime corporations.

**Source** SupplierGATEWAY web portal

**Validation** System generated status report of meetings held at procurement matchmaking events

**Limitations** May not completely capture additional "unscheduled" appointments held at the events that have not been pre-scheduled.

**Remedies for Limitations** Results will focus on those appointments that are pre-scheduled and additional "walk-up" appointments that are scheduled on site.

**Verification** System generated status report of meetings held at procurement matchmaking events

#### **Measure Small business assisted via pre-scheduled selling meetings with procurement officials**

**Definition** Number of actual small businesses benefiting from the matchmaking event by having access to procurement officials participating in the event.

**Source** SupplierGATEWAY web portal

**Validation** System generated status report of number of businesses participating at procurement matchmaking events

**Limitations** N/A

**Remedies for Limitations** N/A

**Verification** System generated status report of small businesses participating in procurement matchmaking events

#### **Measure Small business procurement matchmaking events held**

**Definition** Number of actual procurement matchmaking events held.

**Source** SupplierGATEWAY web portal and SBA web site.

**Validation** Completed action

**Limitations** N/A

**Remedies** for Limitations N/A

**Verification** System generated status report of procurement matchmaking events held.

#### **Measure New contract awards resulting from meetings held with procurement officials**

**Definition** Dollar amount of contracts awarded to small businesses participating in the procurement matchmaking events that were awarded as a result of meetings with procurement officials at the event.

**Source** SupplierGATEWAY web portal and surveys to small businesses and contracting officials

**Validation** Input received from buyers

### **Entrepreneurial Development**

#### **Measure Number of clients counseled (BIC)**

**Definition** An ED client is an individual or a business entity who requests and receives counseling pertaining to starting, managing or growing a small business. Counseling is typically provided by BIC Managers, usually SBA district office personnel, is face-to-face augmented with technology, reference materials and Internet access. Counseling is targeted to providing individuals with knowledge of the tools provided at the BIC useful in beginning or managing a business.

**Source** Quarterly reports utilizing SBA MIS system.

**Validation** SBA District Offices provide management and oversight through designated BIC Manager personnel

**Limitations** It is difficult to verify as data ages due to client address and telephone changes.

**Remedies for Limitations** SBA Headquarters program office (OBCI) has management and oversight team which regularly conducts phone and e-mail contact, conducts onsite reviews and provides an extensive program operations manual.

**Verification** Periodic onsite management reviews.

#### **Measure Number of clients counseled (BIC)**

**Definition** An ED client is an individual or a business entity who requests and receives counseling pertaining to starting, managing or growing a small business. Counseling is typically provided by BIC Managers, usually SBA district office personnel, is face-to-face augmented with technology, reference materials and Internet access. Counseling is targeted to providing individuals with knowledge of the tools provided at the BIC useful in beginning or managing a business.

*Source* Quarterly reports utilizing SBA MIS system.

Validation SBA District Offices provide management and oversight through designated BIC Manager personnel

*Limitations* It is difficult to verify as data ages due to client address and telephone changes.

*Remedies for Limitations* SBA Headquarters program office (OBCI) has management and oversight team which regularly conducts phone and e-mail contact, conducts onsite reviews and provides an extensive program operations manual.

*Verification* Periodic oversight management reviews.

#### **Measure Number of clients counseled (BIC)**

*Definition* An ED client is an individual or a business entity who requests and receives counseling pertaining to starting, managing or growing a small business. Counseling is typically provided by BIC Managers, usually SBA district office personnel, is face-to-face augmented with technology, reference materials and Internet access. Counseling is targeted to providing individuals with knowledge of the tools provided at the BIC useful in beginning or managing a business.

*Source* Quarterly reports utilizing SBA MIS system.

Validation SBA District Offices provide management and oversight through designated BIC Manager personnel

*Limitations* It is difficult to verify as data ages due to client address and telephone changes.

*Remedies for Limitations* SBA Headquarters program office (OBCI) has management and oversight team which regularly conducts phone and e-mail contact, conducts onsite reviews and provides an extensive program operations manual.

*Verification* Periodic oversight management reviews.

#### **Measure Number of information transfer contacts (BIC)**

*Definition* Telephone calls, Number of informational packets mailed or faxed, Number of clients who walk in with general questions or receive counseling of 15 minutes or less (SCORE) or 1 hour (SBDC), Number of email responses to web site hits/questions, Number of students or guests receiving a tour of a BIC, WBC or SBDC, Number of International Visitors seeking general information from SBA

*Source* Field staff and Resource Partners

*Validation* SBA Form 2226

*Limitations* Only aggregated data

*Remedies for Limitations* None given level of data and cost to collect individual records

*Verification* Onsite management reviews

#### **Measure Customer Satisfaction (BIC)**

*Definition* Measure attitudinal views of clients served regarding usefulness of service and whether they imple-

mented recommendation into action steps

*Source* BIC Client Satisfaction Survey

*Validation* OMB approved data collection instrument

*Limitations* Stratified Random Sample. Self reported data. No initial coding of sample.

*Remedies for Limitations* Allot budget for extensive testing and use an outside management consulting firm to conduct study.

*Verification* Follow-up phone calls to non respondents

#### **Measure Jobs created and retained (BIC)**

*Definition* Number of jobs created or retained based on assistance

*Source* Pending OMB Entrepreneurial development Impact Survey

*Validation* OMB approved instrument

*Limitations* Sample size and level of analysis

*Remedies for Limitations* Additional funds to expand scope of study and enable higher level analysis

*Verification* Follow-up phone calls to non respondents

#### **Measure Number of information transfer contacts (SCORE)**

*Definition* Telephone calls, Number of informational packets mailed or faxed, Number of clients who walk in with general questions or receive counseling of 15 minutes or less (SCORE) or 1 hour (SBDC), Number of email responses to web site hits/questions, Number of students or guests receiving a tour of a BIC, WBC or SBDC, Number of International Visitors seeking general information from SBA.

*Source* SCORE Members

*Validation* SBA Form 2226

*Limitations* Only aggregated data

*Remedies for Limitations* None given level of data and cost to collect individual records

*Verification* SCORE Management Reviews

#### **Measure Number of Clients Counseled (SCORE)**

*Definition* An ED client is an individual or a business entity who requests and receives counseling, training or information pertaining to starting, managing or growing a small business. Counseling is provided by volunteer SCORE members either face-to-face, on-line or by phone. Face-to-face services are provided at chapter locations, district offices, client's business, an agreed upon site, a BIC, SBDC or WBC location.

*Source* SCORE chapter membership

*Validation* Monthly reporting to SBA via SCORE's MIS system

*Limitations* It is difficult to difficult to verify as data ages due to client address and telephone changes. No SBA field project officer for oversight and monitoring.

**Remedies for Limitations** Focus on most recent data. NSA provides continuous training and guidance to chapter chairs and provides volunteers with a two week chapter orientation including a probationary period as well as comprehensive program delivery manual.

**Verification** Monthly reports are kept electronically at NSA and at SBA (OPGM and OBCI). Hard copies are also available. SBA periodically conducts Quality Service Reviews of field operations, including SCORE chapters and their activities.

#### **Measure Number of Clients Trained (SCORE)**

**Definition** The SCORE training client is an individual or business entity who attends a SCORE workshop, seminar or other type of group training program, to gain experience or information on a business-related subject. Training is provided by SCORE volunteers.

**Source** SCORE chapter membership

**Validation** Monthly reporting to SBA via SCORE's MIS system

**Limitations** Difficult to obtain individual client data in group environment

**Remedies for Limitations** Focus on most recent data. NSA provides continuous training and guidance to chapter chairs and provides volunteers with a two week chapter orientation including a probationary period as well as comprehensive program delivery manual.

**Verification** Monthly reports are kept electronically at NSA and at SBA (OPGM and OBCI). Hard copies are also available. SBA periodically conducts Quality Service Reviews of field operations, including SCORE chapters and their activities.

#### **Measure Customer Satisfaction (SCORE)**

**Definition** Measure attitudinal views of clients served regarding usefulness of service and whether they implemented recommendation into action steps

**Source** Online Customer Satisfaction Survey posted on the SCORE web site. SCORE Email counseling clients

**Validation** CommunityPolls.com

**Limitations** Limited to email counseling clients only

**Remedies for Limitations** Budget increase to provide SCORE program with resources to conduct professional survey or a professional valid, verifiable ED-wide survey

**Verification** CommunityPolls.com conducting some follow-up of non respondents

#### **Measure Number of Clients Counseled (SBDC)**

**Definition** An SBDC counseling client is an individual or business entity who requests and receives counseling pertaining to starting managing or growing a small business. In order to be counted as a counseling client, the client must receive at least one hour of counseling and fill out an SBA form 641.

**Source** SBDC Quarterly Reporting on SBA's EDMIS System

**Validation** SBA Project officer reviews

**Limitations** It is difficult to verify as the data gets older due to changes in address and/or phone number. In addition, SBA Project Officers have limited time available.

**Remedies for Limitations** Focus on most recent data during reviews.

Changes scheduled for SBA field offices (workforce restructuring) should lessen time constraints.

**Verification** See Validation

#### **Measure Number of Clients Trained (SBDC)**

**Definition** An SBDC Training client is an individual or business entity who attends an SBDC training session pertaining to starting managing or growing a small business. In order to be counted as a training client, the training session must have been at least two hours.

**Source** SBDC Quarterly Reporting on SBA's EDMIS System

**Validation** SBA Project officer reviews

**Limitations** This data is difficult to verify as the data gets older due to changes in address and/or phone number. In addition, SBA Project Officers have limited time available.

**Remedies for Limitations** Focus on most recent training during reviews.

Changes scheduled for SBA field offices (workforce restructuring) should lessen the time constraint problem.

**Verification** See Validation

#### **Measure Number of information transfer contacts (SBDC)**

**Definition** The number of individuals or small businesses served by an SBDC excluding counseling or training clients. Examples of information transfers include telephone calls, informational packets mailed/faxed/or emailed, video viewing, use of SBDC library, use of SBDC computers, email response to website questions, individuals seeking general information, training sessions that are less than 2 hours and counseling that is less than 1 hour.

**Source** SBDC Annual Reporting

**Validation** SBA Project officer reviews

**Limitations** It is difficult to verify as the data gets older due to changes in address and/or phone

**Remedies for Limitations** Focus on most recent data during reviews

**Verification** See Validation

#### **Measure Customer Satisfaction (SBDC)**

**Definition** Clients believe that the services they received from the SBDC were beneficial

**Source** The "Economic Impact of Small Business Development Center Counseling Activities in the United States", by James J. Chrisman, PhD. University of Calgary; and SBDC client surveys conducted by the SBDC annually.

**Validation** Project officer review

**Limitations** Project officer time constraints

**Remedies for Limitations** Changes scheduled for SBA field offices (workforce restructuring) should lessen time constraints.

**Verification** Planned SBA Economic Impact Survey

#### **Measure Jobs created and retained (SBDC)**

**Definition** The number of jobs that were created or retained as a result of the services provided by the SBDC.

**Source** The "Economic Impact of Small Business Development Center Counseling Activities in the United States", by James J. Chrisman, PhD. University of Calgary; and SBDC client surveys conducted by the SBDC annually.

**Validation** SBA Project Officer reviews

**Limitations** Time constraints

**Remedies for Limitations** Changes scheduled for SBA field offices (workforce restructuring) should lessen time constraints.

**Verification** Planned SBA Economic Impact Survey

#### **Measure Number of small business establishing Drug-Free Workplace Program**

**Definition** A Drug-Free Workplace Program consists of a written policy, training, drug testing, EAP, and continuing education. A small business can establish a full program or a program containing any of the five elements.

**Source** SBA grantee quarterly reports

**Validation** Site visits

**Limitations** Limited funds to conduct site visits; limited contact with businesses who actually establish programs

**Remedies for Limitations** Increased financial and human resources to improve validation

**Verification** Same as Validation

#### **Measure Total number of firms educated about the benefits of drug-free workplace programs**

**Definition** SBA grantees educate small business employers, supervisors, and employees about the benefits of drug-free workplace programs.

**Source** SBA grantee quarterly reports

**Validation** Site visits

**Limitations** Limited funds to conduct site visits; limited contact with businesses who are educated

**Remedies for Limitations** Increased financial and human resources to improve validation

**Verification** Same as Validation

#### **Measure Number of clients counseled (WBC)**

**Definition** Counseling is individualized one-on-one business assistance, provided either by a staff member, an independent contractor, or a volunteer. It may be provided at the program site, at the client's business, at the site where the contractor or volunteer chooses to meet the client, the telephone or via the Internet.

**Source** The Women's Business Centers count the number of clients counseled and report it to SBA's District Office Technical Representatives (DOTRs), Headquarters Office of Women's Business Ownership and Office of Procurement and Grants Management on a quarterly basis.

**Validation** Quarterly reports are kept electronically at the WBCs and at SBA's District Offices and Headquarters. Hard copies are also available.

**Limitations** WBC staff turn-over is continuous and it is sometimes difficult to provide training to WBC staff member responsible for data collection.

**Remedies for Limitations** SBA provides an annual training for all WBCs which includes information on data collection. It would be helpful to have funding for additional training during the year for SBA to teach new WBC employees.

**Verification** SBA District Office Technical Representatives (DOTRs) perform quarterly site visits which includes checking WBC records. SBA holds monthly conference calls with all WBCs and DOTRs to discuss all issues of program management including data collection.

#### **Measure Number of clients trained (WBC)**

**Definition** A training course is a structured and progressive series of group instructional and learning sessions in business planning, management, and problem solving skills either on a basic or advanced level. It usually involves independent research, written homework, oral presentations, and study of written materials as well as attention to the individual business issues of the participant. A training course aims at bringing participants to at least a minimum level of learning or accomplishment and frequently is focused on the completion of a feasible business plan or a portion of its elements. There may be specific requirements for the award of a certificate of completion or graduation.

**Source** The Women's Business Centers count the number of clients trained and report it to SBA's District Office Technical Representatives (DOTRs), Headquarters Office of Women's Business Ownership and Office of Procurement and Grants Management on a quarterly basis.

**Validation** Quarterly reports are kept electronically at the WBCs and at SBA's District Offices and Headquarters. Hard copies are also available.

**Limitations** WBC staff turn-over is continuous and it is sometimes difficult to provide training to WBC staff member responsible for data collection.

**Remedies for Limitations** SBA provides an annual training for all WBCs which includes information on data collection. It would be helpful to have funding for additional training during the year for SBA to teach new WBC employees. At the annual training, SBA also provides information on training sources, including all SBA resources.

**Verification** SBA District Office Technical Representatives (DOTRs) perform quarterly site visits which includes checking WBC records. SBA holds monthly conference calls with all WBCs and DOTRs to discuss all issues of program management including data collection.

#### **Measure Number of information transfer contacts (WBC)**

**Definition** Contact: An individual whom the WBC has introduced to its services.

**Source** The WBCs collect the number of clients contacted through outreach activities which include training, counseling, mentoring, workshops, conferences, email, using computers at the WBCs, etc.

**Validation** The WBCs keep records on outreach activities. The contact numbers can be validated through files kept at the WBCs on client activity.

**Limitations** It is difficult to get hard-copy information on clients at conferences or from clients that have only brief contact with the WBCs. Additionally, some clients refuse to provide client data information.

**Remedies for Limitations** There is no way SBA can force clients to provide information. WBCs sometimes offer incentives such as a free counseling hour, etc. to clients who fill out information forms.

**Verification** SBA DOTRs (DOTRs) perform quarterly site visits which includes checking WBC records.

#### **Measure Customer Satisfaction (WBC)**

**Definition** All WBC clients are asked at each center to rater on a scale of 0-100, the percent to which the client is satisfied with the assistance he/she received from the WBC.

**Source** The WBC clients provide feedback to the WBCs through methods devised by the WBCs such as evaluations at the end of a training session, written critiques of counselors, etc. The WBCs devise their own format to gather customer satisfaction information.

**Validation** Information on customer satisfaction can be validated by reviewing client files at the WBCs.

**Limitations** Each WBC has its own format to gather client satisfaction information. SBA does not provide the WBCs with a standardized customer satisfaction form.

**Remedies for Limitations** SBA is developing a client satisfaction survey and will go through OMB for clearance.

**Verification** DOTRs perform quarterly site visits which include checking WBC records.

#### **Measure Jobs created and retained (WBC)**

**Definition** The number of jobs created and retained as a result of the assistance provided at the WBC.

**Source** WBCs are required to send in economic impact information annually and one of the questions is how many jobs created.

**Validation** SBA receives and reviews data reports from the WBCs.

**Limitations** Over the years it has been extremely difficult to get economic impact information from WBC clients. Most often, clients refuse to give information on jobs created, income, profits and loss, etc.

**Remedies for Limitations** Some of the WBCs have provided incentives to clients for providing economic impact information such as free counseling hours, etc. Also, some of the WBCs have used interns to make personal contact or phone contact with clients to ascertain the information.

**Verification** DOTRs and SBA Headquarters reviews all data collection information.

#### **Measure Number of clients served, E-Business Institute**

**Definition** Number of clients served is measured by unique visits to the online training site.

**Source** Web Data OCIO

**Validation** As above

**Limitations** Individual client data (name, address, etc.) is not collected at this time.

**Remedies for Limitations** Client registration

**Verification** See source.

## Appendix B

# Appropriations Language

### SMALL BUSINESS ADMINISTRATION

For ~~2003~~ 2004, the Small Business Administration (SBA) budget requests \$798 million in new budget authority. SBA's continuing operations will provide over ~~\$16~~ \$20 billion in new loans to small businesses, funding for non-credit programs, and funding for the disaster loan program. SBA has revised its 7(a) loan subsidy model to more accurately reflect the costs of the program.

#### SALARIES AND EXPENSES

For necessary expenses, not otherwise provided for, of the Small Business Administration as authorized by Public Law 106-554, including hire of passenger motor vehicles as authorized by 31 U.S.C. 1343 and 1344, and not to exceed \$3,500 for official reception and representation expenses, ~~\$362,106,000~~ \$360,155,000: Provided, That the Administrator is authorized to charge fees to cover the cost of publications developed by the Small Business Administration, and certain loan servicing activities: Provided further, That, notwithstanding 31 U.S.C. 3302, revenues received from all such activities shall be credited to this account, to be available for carrying out these purposes without further appropriations: Provided further, That \$88,000,000 shall be available to fund grants for performance in fiscal year ~~2003~~ 2004 or fiscal year ~~2004~~ 2005 as authorized by section 21 of the Small Business Act, as amended. (Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2002; additional authorizing legislation required.)

#### OFFICE OF INSPECTOR GENERAL

For necessary expenses of the Office of Inspector General in carrying out the provisions of the Inspector General Act of 1978, as amended (5 U.S.C. App.), ~~\$15,011,000~~ \$14,500,000. (Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2002; additional authorizing legislation required.)

#### SURETY BOND GUARANTEES REVOLVING FUND

New budget authority is not being requested.

#### BUSINESS LOANS PROGRAM ACCOUNT

For the cost of direct loans, ~~\$3,726,000~~ \$1,910,000, to be available until expended; and for the cost of guaranteed loans, ~~\$85,360,000~~ \$94,860,000, as authorized by 15 U.S.C. 631 note, of which \$45,000,000 shall remain available until

September 30, ~~2004~~ 2005 : Provided, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974, as amended: Provided further, That during fiscal year ~~2003~~ 2004 commitments to guarantee loans under section 503 of the Small Business Investment Act of 1958, as amended, shall not exceed \$4,000,000,000. Provided further, That during fiscal year ~~2002~~ 2004 commitments to guarantee loans for debentures and participating securities under section 303(b) of the Small Business Investment Act of 1958, as amended, shall not exceed \$3,000,000,000.

In addition, for administrative expenses to carry out the direct and guaranteed loan programs, ~~\$133,769,000~~ \$129,000,000, which may be transferred to and merged with the appropriations for Salaries and Expenses.

#### DISASTER LOANS PROGRAM ACCOUNT

For the cost of direct loans authorized by section 7(b) of the Small Business Act, as amended, ~~\$76,140,000~~ \$79,109,000, to remain available until expended: Provided, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974, as amended.

In addition, for administrative expenses to carry out the direct loan program, ~~\$122,141,000~~ \$118,354,000, which may be transferred to and merged with appropriations for Salaries and Expenses, of which \$500,000 is for the Office of Inspector General of the Small Business Administration for audits and reviews of disaster loans and the disaster loan program and shall be transferred to and merged with appropriations for the Office of Inspector General; of which ~~\$111,787,000~~ \$108,000,000 is for direct administrative expenses of loan making and servicing to carry out the direct loan program; and of which \$9,854,000 is for indirect administrative expenses: Provided, That any amount in excess of \$9,854,000 to be transferred to and merged with appropriations for Salaries and Expenses for indirect administrative expenses shall be treated as a reprogramming of funds under section 605 of this Act and shall not be available for obligation or expenditure except in compliance with the procedures set forth in that section.

## Appendix C

# Explanation of SBA Performance Scorecard Goals

### 1.1.1 Cost savings for small businesses due to Advocacy:

The mandated involvement of the Office of Advocacy in the regulatory process helps small businesses to save costs incurred in the compliance process. See Office of Advocacy Resource and Results Table

### 1.2.1 Number of users of BusinessLaw.gov:

BusinessLaw.Gov is a website that provides small businesses with legal and regulatory information. This site educates entrepreneurs about the laws and regulations that affect each phase of the life of the small business. See BusinessLaw.Gov Results and Resources Table.

### 1.2.2 Reduced cost to businesses and regulatory agencies:

Access to legal and regulatory information helps to minimize associated costs incurred by small businesses. See BusinessLaw.Gov Results and Resources Table.

**1.3.1 Increased compliance assistance:** The Office of the National Ombudsman requests a fair review when disputes exist between small business and various federal agencies. See Ombudsman Results and Resources Table.

**1.3.2 Decreased excessive enforcement:** The Office of the National Ombudsman serves as a liaison between small businesses and regulatory bodies. The Office responds to small business issues and concerns.

**2.1.1.1 Number of jobs created and retained by Capital Access programs.** This is the total of the number of jobs created and retained by the 7(a) Loan program, 504 loan program, Microloan, and the SBIC program. See the Results and Resources table for each of these programs. The methodology for each program's estimate is discussed in the Data Validation Appendix.

**2.1.1.2 Number of jobs created by Entrepreneurial Development programs:** The total number of jobs created as a result of the technical assistance provided to entrepreneurs. Currently SBA is only able to develop estimates for the SBDC program. The methodology is explained in the Data Validation Appendix. SBA plans to use survey techniques to estimate the job creation effects of other ED programs.

**2.1.1.3 Number of Jobs created by GC/BD programs:** SBA is developing techniques for measuring the job creation effects of GC/BD programs.

**2.2.1 Startup clients counseled and trained by Entrepreneurial Development partners:** The Office of Entrepreneurial Development aims to equip start-ups with the tools they need to launch successful enterprises. This measure includes assistance to start-ups provided by SBDC, BIC, SCORE and WBC programs.

**2.2.2 Number of small business startups that receive 7(a) loans:** The number of 7(a) approved loans to start-up firms. Start-up firms are 0-24 months old. See "7(a) Loan Program Results and Resources" table and the 7(a) program information in the Data Validation Appendix.

**2.2.3 Number of small business start-ups that receive 504 loans:** The number of 504 approved loans to start-up firms. Start-up firms are 0-24 months old. See the "504 Loan Program Results and Resources" table and the 504 loan program information in the Data Validation Appendix.

**2.2.4 Number of microloans awarded:** SBA makes funds available to nonprofit community based lenders (intermediaries) who, in turn, make loans to eligible borrowers in amounts up to \$35,000. Average size of the loan is \$10,500. The maximum term allowed on a loan is 6 years. See the "Microloan Results and Resources" table and the microloan program information in the Data Validation Appendix.

**2.2.5 SBIC Financing to Start-ups:** SBICs are privately owned and managed investment firms who provide venture capital to small new businesses. See the "SBIC Results and Resources" table and the microloan program information in the Data Validation Appendix.

**2.3.1 Gap Lending and Investment:** Dollar volume of approved loans for 7(a) and 504 programs, and dollar financing provided by the SBIC program. See the "Results and Resources" table for each program the program information in the Data Validation Appendix.

**2.3.2 Established firms counseled and trained by ED resource partners:** Number of established firms (older than 24 months) counseled via entrepreneurial development products and services. See ED programs Results and Resources tables.

**2.3.3 Number of established small businesses that receive 7(a) loans:** Number of established small business that approved for 7(a) loans. See the "7(a) Loan Program Results and Resources" table.

**2.3.4 Number of established small businesses that receive 504 loans:** Number of established small business that approved for 504 loans. See 504 program "Results and Resources" table.

**2.3.5 SBIC Financing to established firms:** SBIC financings to established firms.

**2.3.6 Number of surety bonds guaranteed:** Total number of surety bonds guarantees for the fiscal year.

**2.3.7 Export sales assisted by SBA loans:** Total dollar volume of sales supported by export loans. See the "Results and Resources" table for the international trade program.

**2.4.1 Percent of federal contracts that go to small businesses:** The agency helps to ensure the federal agencies comply with statutory requirements to buy a portion of their goods and services from small businesses.

**2.4.2 Small business appointments conducted with government and private sector procurement officials.** SBA aims to help small businesses identify procurement opportunities via matchmaking events with government and private sector and, small businesses. See the "Results and Resources" table for the GC/BD Procurement Matchmaking program.

**2.5.1 Number of veterans assisted by SBA (all programs).** The total number of veterans assisted by Capital Access, GCBD and Entrepreneurial Development programs. The estimate is developed by SBA's Office of Veterans Business Development.

**2.5.2 8(a) Client success rate after graduation:** The 8(a) Business Development Program assists firms owned and controlled by socially and economically disadvantaged individuals to enter and succeed in the marketplace over a 9 year term. Thus, the SBA tracks the percentage of 8(a) firms 3 years after graduation that are independently operated- businesses that have not been sold or gone out of business. See the "Results and Resources" table for the GC/BD 8(a) program and the GC/BD section of the Data Validation Appendix.

**2.5.3 Federal prime contract dollars awarded to HUBZone firms:** The percentage of prime contract dollars that are awarded to businesses that are located in, and employ residents of "historically underutilized business zones." See the "Results and Resources" table for the GC/BD 8(a) program and the GC/BD section of the Data Validation Appendix.

**2.5.4 Federal prime contract dollars awarded to small disadvantaged businesses (including 8(a) firms):** The percentage of prime contract dollars that are awarded to Small Disadvantaged Businesses (SDB's). SDB certification enables companies to obtain certain procurement preferences. Firms that are 8(a) certified automatically qualify for SDB certification. See the "Results and Resources" table for the GC/BD 8(a) program and the GC/BD section of the Data Validation Appendix.

**2.5.5 Federal prime contract dollars awarded to service disabled veteran-owned small businesses:** The percentage of prime contract dollars that are awarded to veteran owned enterprises. See the "Results and Resources" table for the GC/BD 8(a) program and the GC/BD section of the Data Validation Appendix.

**2.5.6 Federal prime contracting dollars awarded to women-owned small businesses:** The percentage of prime contracting dollars awarded to women-owned businesses. See the "Results and Resources" table for the GC/BD 8(a) program and the GC/BD section of the Data Validation Appendix.

**2.5.7 Loans to emerging market firms (7(a) and 504):** The number of 7(a) and 504 loans awarded to emerging markets. See the 7(a) and the 504 Results and Resources and the Data Validation Appendix.

**2.5.8 Loans to veteran-owned businesses (7(a) and 504):** 7(a) and 504 loans to firms 51% owned by veterans. See the 7(a) and the 504 Results and Resources and the Data Validation Appendix.

**3.1.1 Percentage of applications processed within 21 days:** Efficient processing of loan application is integral to the successful recovery of homes and businesses in disaster-stricken areas. The share of applications where the disaster office has provided applicants with a decision within 21 days of receiving a complete disaster loan application is critical to optimal service delivery. See the Disaster program Results and Resources table.

**3.1.2 Percentage of initial disbursements made within 5 days of loan closing.** Timely loan disbursements are critical to the rebuilding of homes and businesses. See the Disaster program Results and Resources table.