



United States  
General Accounting Office  
Washington, D.C. 20548

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**Resources, Community, and  
Economic Development Division**

B-277425

July 11, 1997

The Honorable Richard K. Arme  
Majority Leader  
House of Representatives

The Honorable John Kasich  
Chairman, Committee on the Budget  
House of Representatives

The Honorable Dan Burton  
Chairman, Committee on Government Reform  
and Oversight  
House of Representatives

The Honorable Bob Livingston  
Chairman, Committee on Appropriations  
House of Representatives

Subject: Results Act: Observations on the Small Business Administration's  
Draft Strategic Plan

On June 12, 1997, you asked us to review the strategic plans submitted by the cabinet departments and selected major agencies for consultation with the Congress as required by the Government Performance and Results Act of 1993 (the Results Act). This report is our response to your request concerning the strategic plan of the Small Business Administration (SBA).

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**Objectives, Scope,  
and Methodology**

Specifically, you asked us to review SBA's draft plan and assess (1) whether it fulfills the requirements of the Results Act and to provide our views on its overall quality; (2) whether it reflects SBA's key statutory authorities; (3) whether it reflects interagency coordination for crosscutting programs, activities, or functions that are similar or complementary to other federal programs; (4) whether it addresses major management problems that we have previously identified; and (5) the adequacy of SBA's data and information systems for providing reliable information for measuring results.

We obtained the March 5, 1997, draft strategic plan that SBA provided to congressional committees. It is important to recognize that SBA's final plan is not due to the Congress and the Office of Management and Budget (OMB)

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until September 1997. Furthermore, the Results Act anticipated that it may take several planning cycles to perfect the process and that the final plan will continue to be refined as future planning cycles occur. Thus, our comments reflect a snapshot of the plan at this time. We recognize that developing a strategic plan is a dynamic process and that SBA is continuing work to revise the draft with input from OMB, congressional staff, and other stakeholders.

Our overall assessment of SBA's draft strategic plan was generally based on our knowledge of SBA's operations and programs, our reviews of SBA, and other existing information available at the time of our assessment. Specifically, the criteria we used to determine whether SBA's strategic plan complied with the requirements of the Results Act were the Results Act and the Office of Management and Budget's (OMB) guidance on developing the plans (OMB Circular A-11, Part 2). To make judgments about the overall quality of the plan, we used our May 1997 guidance for congressional review of the plans (GAO/GGD-10.1.16) as a tool. To determine whether the plan contained information on interagency coordination and addressed management problems, and whether SBA had adequate systems in place to provide reliable information on performance, we reviewed reports on audits of SBA's fiscal year 1995 and 1996 financial statements and the agency's fiscal year 1996 Federal Managers' Financial Integrity Act (FMFIA) report. We also relied on our general knowledge of SBA's operations and programs and on the results of our previous work. In determining whether SBA's draft strategic plan reflects major statutory responsibilities, as you requested, we coordinated our review with the Congressional Research Service and relied on our independent analysis of the statutory provisions applicable to SBA. Our work was performed in June and July 1997. We obtained comments from SBA on a draft of this report.

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## Background

SBA is an independent agency created in 1953 to aid, counsel, assist, and protect the interests of small businesses. With a permanent staff of about 4,400 employees and an annual operating budget of about \$800 million, SBA administers loan and other programs that annually provide over \$10 billion in small business financing. SBA provides new and established small businesses with financial assistance, including venture capital and financing for long-term assets; provides management training, technical assistance, and procurement opportunities to both small businesses and small businesses owned by disadvantaged individuals; and assists small contractors in obtaining bid, performance, and payment surety bonds for construction and other contracts. In addition, SBA provides financial

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assistance to the owners of homes and businesses that are damaged or destroyed by natural disasters, such as hurricanes and floods.

SBA's March 5, 1997, draft strategic plan defines SBA's mission as follows: "It is the Mission of the Small Business Administration (SBA) to serve America's small businesses to (1) help preserve free competition, (2) contribute to strengthening the Nation's economy, and (3) assist disaster-ravaged communities recover from their losses." SBA's strategic plan presents seven goals for accomplishing the agency's mission. These goals are to (1) improve access to capital for small businesses to start and grow; (2) reduce burdensome regulations and unnecessary paperwork; (3) enhance education, counseling, and information for small businesses; (4) serve as the President's "eyes and ears," reporting back to him on the needs of small businesses, and function as an advocate for small businesses; (5) provide a "lifeline" to disaster-ravaged communities; (6) exercise effective and efficient executive management of the agency's activities; and (7) through the Office of Inspector General (OIG), improve SBA's management. The section of the plan outlining the objectives, strategies, and measures for achieving the last goal is presented as, in effect, a strategic plan for SBA's OIG.

In January 1994, OMB designated the entire SBA as a performance planning and reporting pilot under the Results Act (portions of other agencies were also designated). In addition, SBA was required to prepare performance plans for several fiscal years. In March 1994, SBA entered into a performance agreement with the President that set forth the President's policy goals for SBA and established a basis for measuring the agency's progress in achieving those goals. This agreement with the President has played a major role in fashioning the strategic goals in SBA's draft strategic plan. Three of the four policy goals explicitly outlined in the agreement between SBA and the President—to increase capital access, reduce the regulatory burden, and be the President's eyes and ears for small businesses—are among the seven goals in SBA's draft strategic plan.

The Results Act requires that an agency's strategic plan contain the following six critical elements: (1) a comprehensive mission statement; (2) agencywide long-term goals and objectives for all major functions and operations; (3) approaches (or strategies), and the various resources needed, to achieve the goals and objectives; (4) a relationship between the long-term goals and objectives and annual performance goals; (5) identification of key factors, external to the agency and beyond its control, that could significantly affect the achievement of the strategic

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goals; and (6) a description of how program evaluations were used to establish or revise strategic goals and a schedule for future program evaluations.

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## Results in Brief

A significant amount of work remains to be done by SBA before its draft strategic plan can fulfill the requirements of the Results Act. The plan lacks two required critical elements: (1) a discussion of the relationship between the long-term goals and objectives and the annual performance goals and (2) a description of how program evaluations were used to establish or revise strategic goals and a schedule for future program evaluations. Furthermore, the four elements that the plan contains could better conform to the act's requirements and OMB's guidance. Many of the goals and objectives appear less outcome-oriented (directed at the long-term results that SBA wants to achieve), but rather process-oriented, such as serving as the President's eyes and ears. The strategies, which consist entirely of one-line statements, are too vague to enable an assessment of whether they would help achieve the goals and objectives in SBA's plan. Furthermore, because of the way in which the information is presented, the linkage between specific performance measures, strategies, and objectives is not clear. Also, while the plan identifies certain key external factors, it does not yet include a discussion of how the external factors will be taken into account when assessing progress toward goals. Because the plan is incomplete, the Congress may be missing critical information for its consultation with SBA.

SBA's draft strategic plan reflects consideration of the key statutory provisions authorizing SBA's programs and activities. The plan could benefit from more explicit references to the agency's major statutes and a clearer linkage between the authorities and the agency's mission, goals, and objectives.

SBA's draft strategic plan does not explicitly address the relationship of SBA's activities to similar activities in other agencies and provides no evidence that SBA coordinated with other agencies in developing its plan. For example, the plan does not identify how SBA's programs are coordinated with the Department of Commerce's Minority Business Development Agency (MBDA), even though MBDA offers the same types of assistance as SBA to clients (minority small businesses) that are often the prime focus of SBA's assistance. In addition, SBA's strategic plan might benefit by an explicit acknowledgement of the extent to which SBA must rely on other federal agencies in carrying out its federal

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procurement-related responsibilities, such as the 8(a) minority enterprise development program.

Because the plan's strategies are vague, the extent to which the plan addresses management problems that we have previously identified is unclear. For example, we have identified problems with SBA's liquidation of guaranteed loans and of small business investment companies (SBIC). SBA's plan proposes improving its liquidation processes, but it does not describe the specific strategies that will help achieve the objectives. The plan also does not directly address other identified problems. For example, independent audits of SBA's financial statements have identified internal control weaknesses, including SBA's failure to reconcile certain fund balances with those of the Treasury Department.

SBA's capacity to provide reliable information on the achievement of strategic goals is uncertain. Not all of the goals and objectives in the plan are stated in a manner that is measurable. Therefore, it is unclear as to what information will be needed and how SBA will assemble and store the information. However, the plan identifies a number of potential performance measures for which obtaining reliable and accurate data could be difficult, expensive, or both. Also, the plan does not clearly address how to correct problems with existing information systems that have been identified by SBA and its independent auditors, nor does it identify the sources of other information that would logically be needed for the identified performance measures.

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## **SBA's Strategic Plan Does Not Yet Fulfill the Requirements of the Results Act**

SBA's draft strategic plan does not reflect the six requirements of the Results Act, and a significant amount of work remains to be done by SBA before its draft strategic plan can fulfill those requirements.

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## **SBA's Plan Does Not Contain All Critical Elements**

SBA's draft plan does not discuss the relationship between strategic goals and annual performance goals. While strategic plans are not required to identify specific performance measures, OMB Circular A-11 recommends that the plans briefly outline (1) the type, nature, and scope of the performance goals to be included in subsequent annual performance plans; (2) the relationship between the performance goals and the general goals and objectives; and (3) the relevance and use of the performance goals in helping determine the achievement of goals and objectives.

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Furthermore, SBA's draft strategic plan does not describe how program evaluations were used to establish or revise strategic goals or include a schedule for future program evaluations to help measure progress toward strategic goals, as required by the Results Act. The section of the plan concerning the SBA's OIG references future audit work and evaluations that will be done by that office to help improve SBA's management, but this information does not appear to meet the Results Act's requirements for substantive program evaluations.

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**Observations on the Overall Quality of SBA's Plan**

Overall, SBA's draft strategic plan is not yet sufficient to achieve the purposes of the Results Act and improve management and make programs more effective. Our specific observations are discussed in the following sections.

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**Mission Statement**

SBA's mission statement is results-oriented in that it articulates the intended results of SBA's efforts to assist small businesses: preserving free competition, strengthening the nation's economy, and helping disaster-ravaged communities. In accordance with the guidance in OMB Circular A-11, the mission statement could be improved by more directly incorporating key aspects of SBA's legislative mandate to aid, counsel, assist, and protect the interests of small businesses. In addition, because it mentions assisting only small businesses, the mission statement does not encompass one significant activity of SBA's—making loans to individuals who have suffered disaster losses. As of May 1997, disaster loans to individuals accounted for more than 50 percent of the \$767 million in disaster loans made by SBA during fiscal year 1997.

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**Strategic Goals/Objectives**

OMB Circular A-11 suggests that strategic plans should set out the long-term programmatic, policy, and management goals of the agency and that the goals and objectives should elaborate on how the agency is carrying out its mission.

SBA's draft strategic plan lists seven strategic goals for accomplishing its mission. In addition, the plan lists from two to four policy or program objectives for each goal—a total of 24 objectives for the seven goals. Generally, the goals cover the major functions and operations of SBA. However, not all of the goals elaborate on how SBA carries out its mission. Only the first and third goals in SBA's plan—to improve access to capital for small businesses to start and grow and to enhance education,

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counseling, and information for small businesses—describe outcomes logically linked to fulfilling SBA’s statutory mission. The remaining goals are expressed as processes—reducing burdensome regulations and unnecessary paperwork, serving as the President’s eyes and ears, providing a lifeline to disaster-ravaged communities, exercising efficient executive management, and improving SBA’s management through the OIG’s operations—rather than as long-term results that SBA wants to achieve.

Similarly, some of the objectives associated with the goals are expressed more as processes than as results, making linkage to mission less clear. For example, the objectives listed under the fifth goal—to provide a lifeline to disaster-ravaged communities—describe the characteristics of the assistance (“customer-focused” and “cost-efficient”) rather than a result that SBA intends to achieve.

Some of the goals and objectives lend themselves to performance measurement; that is, data could be gathered that would allow SBA and/or the Congress to assess the extent to which the goals or objectives are being achieved. However, the plan does not clearly indicate how progress would be measured. It could be difficult, for example, to measure a real reduction in the paperwork burden on small businesses. Moreover, some objectives are not outcome-oriented and do not imply a target that might be measured. (As discussed below, the Results Act does not require that strategic plans identify specific performance measures; however, in accordance with the guidance in OMB Circular A-11, plans should briefly describe the type, nature, and scope of the performance goals to be included in subsequent annual performance plans and recognize the relevance and use of performance goals in helping determine the achievement of goals and objectives.) For example, the first goal—to improve access to capital—includes the objective “offer specialized capital access by providing bonding opportunities, venture capital, and export financing.” Because SBA currently offers these services to small businesses, the plan might more usefully state their intended outcome in a way that is directed at achieving the goal.

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## Strategies to Achieve Goals and Objectives

Under the Results Act, the strategic plans’ sections on strategies are to briefly describe the operational processes; the technologies; and the human, capital, information, or other resources needed to achieve goals and objectives. Additionally, OMB Circular A-11 recommends that strategies outline how agencies will communicate strategic goals throughout the organization and hold managers and staff accountable for achieving these

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goals. With the exception of the plan dealing with the OIG's efforts, SBA's plan does not meet these requirements.

The strategies outlined in SBA's draft plan consist entirely of one-line statements. Because they lack detail, most are too vague or general to enable an assessment of whether or not they would help achieve the goals and objectives in the plan. For example, it is unclear from SBA's plan how establishing a risk management database or completing a Certified Development Company loan liquidation pilot will help SBA to improve small businesses' access to credit.

OMB Circular A-11 states that strategies should include schedules for initiating or completing "significant" actions. Because of their brevity, it is difficult to assess whether the proposed strategies in SBA's plan might be considered significant. However, those that might be deemed significant in terms of the time and resources required—for example, developing and expanding on-line services for small businesses or implementing a small and disadvantaged business procurement reform program—lack schedules as well as resource estimates.

SBA's plan could also be improved by making the linkage between the strategies and goals/objectives more explicit. In SBA's draft plan, the objectives are listed as a group, followed by the strategies, which are also listed as a group. While the objectives and strategies may be linked, the linkage is not easy to follow, which reduces the plan's value to users in SBA, the administration, and the Congress. One way that SBA could improve the linkage would be to clearly describe the key strategies, objective by objective, that it intends to use to accomplish each of its goals. This structure would help make the plan meaningful to employees throughout the agency, including those delivering services.

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## Relationship Between General and Annual Performance Goals

Under the Results Act, each general goal must be linked to annual performance goals. A performance goal is the target level of performance expressed as a tangible, measurable objective against which actual achievement is to be compared. An annual performance goal is to consist of two parts: (1) the measure that represents the specific characteristic of the program used to gauge performance and (2) the target level of performance to be achieved during a given fiscal year for the measure. While strategic plans are not required to identify specific performance measures, OMB Circular A-11 recommends that the plans briefly relate general goals and objectives to annual performance goals.

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While SBA's draft strategic plan lists 66 potential performance measures (excluding those for the OIG), it does not appear to meet the guidance set forth in the circular. Examples of target levels for some performance measures and a brief explanation of how achieving those target levels will help achieve the strategic goal could help to meet these requirements.

In addition, SBA's strategic plan could be improved by making the linkage between the proposed performance measures, strategies, and objectives more explicit. In the draft plan, the performance measures are listed as a group following the strategies (which, as noted above, are also listed as a group following the objectives). Consequently, the plan is unclear as to which of the measures SBA proposes to use to assess its progress in achieving each of the objectives. Such a linkage is important because it will allow the Congress and SBA to judge whether or not the agency is achieving its goals.

The annual performance plans required by the Results Act should help the Congress and the executive branch make informed decisions by providing a simple, straightforward linkage between plans, budgets, and performance results. The Results Act attempts to establish this linkage by requiring agencies to base the goals in their annual performance plans on the program activity structures used in their budget submissions. SBA's draft plan does not explicitly recognize the need to link the identified objectives or measures in the plan to the program activity structure in SBA's budget.

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## Key External Factors

OMB Circular A-11 recommends that strategic plans briefly describe each key external factor—economic, demographic, social, or environmental conditions—and how each may influence the achievement of goals and objectives. SBA's draft plan lists a number of such factors associated with each strategic goal. But the plan does not yet include a discussion of how the external factors will be taken into account when assessing progress toward goals. Furthermore, as discussed below, the plan does not make clear the extent to which the success of many SBA programs depends on the actions of other federal agencies.

## The Plan Reflects SBA's Key Statutory Authorities

SBA's draft strategic plan reflects consideration of the key statutory provisions authorizing SBA's programs and activities. However, while not required by the Results Act, the plan might benefit from a discussion that explicitly references SBA's major statutes and links the authorities to the agency's goals and objectives.<sup>1</sup> This linkage is provided, for example, under the goal of being a lifeline to disaster-ravaged communities: The plan discusses SBA's role under section 7(b) of the Small Business Act in providing financial assistance to victims of natural disasters. The other six goals do not explicitly reference a statutory authority. Such express linkage throughout the strategic plan would help to ensure that the agency's stated goals and objectives include consideration of the entire spectrum of the agency's key statutory authorities.

The draft plan does not discuss mandated programs or duties that either are ancillary functions for key program responsibilities (such as SBA's adjudicative functions that support its key contracting and loan programs) or that potentially are subsumed under other key program functions in the plan. The plan should mention these activities if their resource requirements will affect the achievement of goals and objectives in the plan.

## Crosscutting Program Activities Are Not Sufficiently Identified

SBA's draft strategic plan does not explicitly address the relationship of SBA's activities to similar activities in other agencies and provides no evidence that SBA coordinated with other agencies in developing its plan. For example:

- The Minority Business Development Agency, located in the Department of Commerce, operates a network of centers throughout the country that provide management and technical assistance to minority businesses. There is no mention of coordination with MBDA in SBA's draft strategic plan, even though MBDA offers the same type of assistance as SBA, and to clients (minority small businesses) that are often the prime focus of SBA's assistance.
- The Federal Emergency Management Agency (FEMA) is the lead federal agency for assisting victims of hurricanes, floods, and other natural disasters. As described, the SBA plan includes in the mission statement "assist disaster-ravaged communities recover from their losses" and has as one its strategic objectives to "provide a 'lifeline' to disaster-ravaged communities." While SBA's plan briefly mentions promoting better

<sup>1</sup>OMB Circular A-11 suggests that an agency's mission statement may include a brief discussion of the agency's enabling or authorizing legislation; this suggestion, however, does not extend to the statement of goals and objectives.

cooperation with FEMA and other agencies, the plan does not indicate how SBA's efforts relate strategically to those of FEMA.

- There is no mention in SBA's plan of the "harmonization" efforts for the export program activities of SBA and the Export-Import Bank. In 1993, the Trade Promotion Coordinating Committee, an interagency group, recommended that the bank and SBA harmonize their working capital guarantee programs to make them more customer-focused and take advantage of the agencies' respective strengths. As we recently reported, the harmonization efforts between these two agencies are not complete.<sup>2</sup> Among other things, the lack of harmonization has caused increased paperwork and processing delays for lenders and exporters.

In addition, SBA's strategic plan might benefit by an explicit acknowledgement and discussion that the agency must, by necessity, rely on other federal agencies in carrying out much of its federal procurement-related activities. For example, SBA's 8(a) minority enterprise development program provides procurement opportunities to businesses that are owned and controlled by disadvantaged individuals, and one performance measure listed by SBA is the increase in the number of 8(a) firms with developmental experiences. However, SBA must depend on the other federal agencies to award contracts and, usually, to select the contractors.

A similar situation exists with SBA's Small Business Innovation Research (SBIR) program, under which small businesses propose innovative ideas that meet the specific research and research and development (R&D) needs of the federal government. A performance objective of SBA is to increase the commercialization of research and ensure that small businesses participate in federal R&D efforts. Because the SBIR program is administered by other federal agencies, SBA's ability to achieve this performance objective will not be solely in the control of SBA.

## Plan Does Not Clearly Address Previously Identified Management Problems

Two of the goals in SBA's draft plan are directed at better managing the agency. For example, the plan outlines actions by the OIG to improve the accuracy of SBA's accounting and management information. The plan also acknowledges the challenge of managing a growing workload with fewer employees. However, the plan is vague on how SBA intends to correct specific problems that we and others have previously identified. For example:

<sup>2</sup>See *Export Finance: Federal Efforts to Support Working Capital Needs of Small Business* (GAO/NSIAD-97-20, Feb. 13, 1997).

- In 1991, we reported that SBA was incurring significant losses on liquidated loans in the agency's 7(a) program, in part because of overvalued or nonexistent collateral and a failure to make the most of recoveries when collateral existed.<sup>3</sup> We noted that at the time of our report, SBA's monitoring of private lenders' liquidation activities was limited. One of the draft strategic plan's objectives is to improve the loan liquidation process and rely on lenders to assist in liquidation activities, and the plan identifies "recoveries on defaulted loans" as a performance measure. However, the plan does not describe a strategy that will help achieve the objective.
- In 1995, we testified that weaknesses in SBA's management and oversight had contributed to losses in the liquidation of SBICs, which obtain funds through SBA-guaranteed loans and/or selling preferred stock to SBA.<sup>4</sup> While SBA's draft plan calls for improving the SBIC liquidation process, it does not describe the actions that SBA plans to take to achieve the objective.
- Over the past few years, we have reported and testified often on the difficulties that SBA has had in implementing many of the changes to the 8(a) minority business development program mandated by the Congress.<sup>5</sup> Among other things, we reported that SBA had not developed an information system able to provide the basic data needed to manage the 8(a) program and—of particular relevance to the Results Act—to evaluate its effectiveness. A September 1995 report by SBA's Inspector General also concluded that SBA could not determine whether the 8(a) program was accomplishing its intended purpose. One strategy in SBA's draft plan calls for improving the automated tracking system for the 8(a) program, and the plan identifies as a potential performance measure "increased numbers of disadvantaged firms helped by the 8(a) program." However, the plan is not clear on the specific actions SBA intends to take in order to obtain the information needed for the performance measure.
- The 1996 independent audit of SBA's financial statements identified a number of internal control weaknesses, including one deemed to be a material weakness. The material weakness related to SBA's failure to reconcile certain fund balances with those of the Treasury Department.

<sup>3</sup>Small Business: Improving SBA Loan Collateral Liquidations Would Increase Recoveries (GAO/RCED-92-5, Dec. 19, 1991).

<sup>4</sup>Small Business Administration: Status of Small Business Investment Companies (GAO/T-RCED-95-145, Mar. 28, 1995) and Small Business Administration: Better Oversight of SBIC Programs Could Reduce Federal Losses (GAO/T-RCED-95-285, Sept. 28, 1995).

<sup>5</sup>For example, see Small Business: Status of SBA's 8(a) Minority Business Development Program (GAO/T-RCED-96-259; Sept. 18, 1996); Small Business Administration: 8(a) Is Vulnerable to Program and Contractor Abuse (GAO/OSI-95-15, Sept. 7, 1995); Small Business: SBA Cannot Assess the Success of Its Minority Business Development Program (GAO/T-RCED-94-278; July 27, 1994); Small Business: Problems Continue With SBA's Minority Business Development Program (GAO/RCED-93-145; Sept. 17, 1993); and Small Business: Problems in Restructuring SBA's Minority Business Development Program (GAO/RCED-92-68, Jan. 31, 1992).

Without accurate and complete reconciliations, SBA can neither fully support its fund balances with Treasury or ensure proper asset accountability and control and proper matching of revenues and expenses.

In addition, SBA—like many federal agencies—faces a major challenge in managing information resources to ensure that information technology tools and resources are consistent with the agency’s mission. While SBA’s draft plan cites information technology initiatives as part of the strategies for achieving several objectives, the plan does not yet contain a discussion of SBA’s information technology strategy. This strategy should include how SBA plans to address the “year 2000 problem,” which involves the need for computer systems to be changed to accommodate dates beyond 1999, as well as any significant information security weaknesses—two issues that we have identified as high risk across the government. (The report on the audit of SBA’s fiscal year 1995 and 1996 financial statements cited the agency’s failure to provide adequate protection of computer users’ security codes, which negates the control of separation of duties and provides an opportunity for unauthorized transactions.) In addition, the information technology strategy should contain information on how SBA plans to comply with the Clinger-Cohen Act of 1996. The act calls for agencies to implement a framework of modern technology management based on the practices followed by leading private-sector and public-sector organizations that have successfully used technology to dramatically improve performance and meet strategic goals.

## SBA’s Capacity to Provide Reliable Information on the Achievement of Strategic Goals Is Uncertain

To measure progress in achieving goals, SBA needs reliable data. SBA’s draft strategic plan has not yet been developed sufficiently to identify all of the data needed to measure performance because not all of the goals and objectives in the plan are stated in a manner that is measurable. However, the plan identifies a number of performance measures for which obtaining reliable and accurate data could be difficult, expensive, or both because of weaknesses with SBA’s current information systems.

A number of problems have been identified with SBA’s existing information systems:

- According to an assessment by SBA’s Office of Information Resources Management, in addition to developing new systems to meet the needs of evolving program operations, SBA needs to resolve problems with incompatible systems and data and inadequate access to data in order for the information systems to adequately support the management of

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program operations. Our past work has shown that in some cases SBA has not established the controls to ensure that information systems contain timely and accurate information.<sup>6</sup>

- SBA received an unqualified audit opinion on its fiscal year 1996 financial statements. Notwithstanding this, as previously mentioned, a number of internal control weaknesses continued to be reported by the auditors. For example, the auditors found that SBA did not maintain comprehensive inventory records of acquired property and noted that complete and reliable data were difficult to obtain from SBA's loan accounting databases.
- SBA's Federal Managers' Financial Integrity Act reports have cited weaknesses with the agency's data systems. For example, the agency's fiscal year 1996 FMFIA report cited as a material weakness the data system for SBA's surety bond guarantee program, noting that the system "is outdated and does not meet the needs of management" and that its reports "are inaccurate and unreliable." The report also noted a need for an improved system for tracking the lenders participating in the agency's lending programs.

Furthermore, many of the objectives and performance measures cited in the draft plan would require information from sources other than SBA's existing information systems. For example, the plan cites measures such as the increased number of businesses created, maintained, or expanded; the increased numbers of jobs; the increased taxes paid; and the increased sales of client small businesses. In order for these to be effective performance measures for SBA's strategies, SBA would need not only information on the number of businesses, jobs, etc., but also information that would enable it to attribute the changes in these numbers to its programs. SBA's Inspector General has reported on the difficulty of measuring job creation for just one program—the 7(a) guaranteed loan program. In its November 1994 report, the OIG concluded that the more direct the correlations made between the information collected and the success of the program, the greater the need for accuracy and that regardless of the methodology used, the actual number of jobs attributable to a 7(a) loan would be difficult to measure definitively because many other variables can affect job creation.

Because of these factors, SBA's draft strategic plan would benefit from a discussion of (1) what it has done, is doing, or plans to do to address previously cited problems with its existing information systems and (2) the ease or difficulty it foresees in obtaining additional data with which to

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<sup>6</sup>Small Business Administration: Better Planning and Controls Needed For Information Systems (GAO/AIMD-97-94, June 27, 1997).

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measure results. Once SBA develops its final performance measures, it may need to consider appropriate system modifications to capture needed data. Key requirements of the Chief Financial Officers Act of 1990 are the development of cost information to enable the systematic measurement of performance and the integration of systems—program, accounting, and budget systems.

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## Agency Comments

We provided SBA with a draft of this report for review and comment. While SBA agreed with our observations, it pointed out that our report is based on a version of its strategic plan that the agency prepared in March 1997 and that it had made a number of changes to its plan since that time that address issues raised in our report. (See enc. I.)

In addition, SBA outlined a number of other actions that will strengthen the agency's strategic planning process, improve the report that the agency ultimately transmits to the Congress, and go a long way in addressing the issues raised in our report. Among other actions, SBA noted that it will address the management weaknesses not identified in its strategic plan, including improving the agency's internal controls. SBA also noted that program evaluation functions are an important element for effective management of any organization and that it will incorporate program evaluation efforts into its strategic plan. SBA stated that although it has numerous collaborative program efforts ongoing with other federal agencies, it also clearly recognizes that agencies need to coordinate their plans. Therefore, SBA stated it has developed a schedule for ensuring crosscutting reviews of its strategic plan and will share the next draft of its plan and discuss mutual issues with its partner agencies. Finally, SBA stated that management of the agency will be based on strategic objectives and performance goals and that evaluations of senior managers' performances will be based on how well goals in the annual plans are achieved.

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As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this letter until 30 days from its issue date. At that time, we will send copies of this letter to the Minority Leader of the House of Representatives; Ranking Minority Members of your Committees; the Chairmen and Ranking Minority Members of the House and Senate Committees on Small Business; the Administrator, SBA; and the Director, Office of Management and Budget.

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Please call me at (202) 512-7632 if you or any of your staff have any questions about this report. Major contributors to this report include Dave Wood, Stan Ritchick, Scott Riback, and James Hamilton.

A handwritten signature in black ink that reads "Judy A. England-Joseph". The signature is written in a cursive style with a large initial "J" and "A".

Judy A. England-Joseph  
Director, Housing and Community  
Development Issues

Enclosure

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# Comments From the Small Business Administration



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

OFFICE OF THE ADMINISTRATOR

July 10, 1997

Ms. Judy A. England-Joseph  
Director, Housing and Community Development Issues  
United States General Accounting Office  
Washington, D.C.

Dear Ms. England-Joseph:

Thank you for this opportunity to comment on your review of the Small Business Administration's (SBA) March 1997 draft strategic plan that we are preparing in accordance with the Government Performance Results Act (GPRA). I found that the General Accounting Office's (GAO) analysis of the draft plan provided some very useful suggestions.

SBA has taken the GPRA process very seriously. Our plan continues to evolve as we approach the statutory deadline. GAO reviewed a version of the plan that the agency prepared in March. SBA has since made numerous changes to the March draft – including some which address issues you raise in your letter to the Congressional leadership. Since I became SBA Administrator, we have been working to incorporate the objectives that I have developed for my tenure as SBA Administrator. The new version of the plan will reflect my commitment to the GPRA strategic and annual planning process by enhancing the measurements we will use to assess performance. As we continue to refine our analysis, we will certainly use GAO's suggestions to improve our plan. We will complete the next draft in the very near future and have another round of discussions with the Congress and our stakeholders – including the GAO.

With this letter, I wanted to make you aware of some of the actions that the SBA is taking to strengthen our strategic planning process, to improve the report that we will ultimately transmit to the Congress, and to pave the way for its successful implementation. I believe that many of these ongoing actions already go a long way toward addressing the issues you raise in your letter to Congress.

**SBA will address management weaknesses previously identified by the GAO in the context of its strategic and annual plans.** For example, as you know, one of my objectives as Administrator is to transform the SBA into a 21<sup>st</sup> Century Leading Edge Financial Institution. Successful achievement of this multi-year objective will mean a greater sophistication in the management of the SBA's finance programs. We are developing quantifiable, measurable performance standards for this strategic objective that will include improving SBA loan

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performance, processing loans in a shorter period of time, and managing the programs to reduce the costs to the government of these loan activities.

One of the central strategies for reaching this goal is to improve the agency's internal controls as recommended by the GAO. Along these lines, SBA has already hired Price-Waterhouse to assess the agency's internal control environment and to provide me with a plan for addressing internal control weaknesses. We will certainly move to incorporate specific improvements in internal controls that come out of this process in our annual business plans.

**SBA needs to incorporate program evaluation efforts into the GPRA plan.** I fully agree with this observation. SBA does not currently have an independent capacity for policy development and program evaluation that supports the Administrator's management of the agency. I believe that a program evaluation function is critical for the effective management of any organization. Prior to your report, I had already begun to analyze organizational options to address this shortfall and to recruit a manager who will organize and staff an office of policy for the agency. While our next draft will reflect an increased cognizance of the role of program evaluation in the GPRA process, I believe that only after we develop a team of professionals trained in program evaluation can we fully incorporate program evaluation into the plan and into the operations of the agency.

**SBA actually has numerous formal and informal collaborative efforts ongoing with other complementary federal agencies.** GAO raised the issue that the SBA plan did not explicitly address the relationship of SBA programs with similar programs in other federal agencies. In fact, the SBA has strong, existing cooperative relationships with FEMA in the running of our disaster assistance programs, with EX-IM Bank through the USEAC program, and with the Minority Business Development Agency (MBDA) through our Nationsbank business resource centers. The Administration clearly recognizes that agencies need to coordinate plans and has built a schedule for producing the GPRA plans which includes a cross-cutting review. We will also share the next draft of our plan and discuss mutual issues with these partner agencies. SBA needs to do a better job of describing these relationships in the report and in developing joint objectives, strategies, and performance measures.

**SBA will include in its annual plan many of the specific items that GAO states are omitted from the strategic plan.** For example, the GAO faults the SBA for vague goals with respect to certain priorities – notably our liquidation efforts and technology planning. Both of these elements are very important to the agency, but are part of larger initiatives. For example, improving recoveries at liquidation is part of our overall strategy to improve the management of our credit programs. SBA has developed effective strategies for improving our liquidation efforts and for managing the implementation of our new technological applications. We will do a better job of describing these efforts in our strategic plan. At the same time, we should make GAO and the Congress aware that the SBA is constantly working to improve its loan liquidation function

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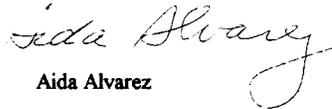
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through our liquidation improvement program. Our Chief Information Officer has developed a 5 year information technology plan and is constantly evaluating the agency's information technology needs. These efforts will be incorporated into the strategic plan and measured as part of the annual performance plans.

**SBA will manage based on the strategic objectives and the performance goals.** I am a strong believer in a management approach that begins with strategic planning directed by the chief executive. At this stage in the GPRA process, my most immediate objective is to ensure that all of the senior program managers are engaged in the process and committed to the objectives in the plan. Several of these senior managers are new to the agency. I am scheduling a retreat with my senior managers to begin a process where the managers have a significant hand in refining the goals, strategies, and performance measures. SBA will then link performance appraisals with performance against the goals in the annual business plan. I am also in the process of engaging a consultant to help SBA in this effort.

As you can see, SBA has already done a great deal of work in preparing its strategic plan and we still have much to do. I believe that the GAO suggestions are helpful and we will take your comments very seriously as we move to the next iteration of our GPRA plan. Again, thank you for this opportunity to comment.

Sincerely,



Aida Alvarez

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