U.S. Small Business Administration

Opportunities for Success

SBA Fiscal Year 1999 Annual Performance Report

Executive Summary

Creating Opportunities for Success

A successful and vibrant small business sector is inextricably linked to our national and economic well being. America's 25 million small businesses propel our national economy and generate innovation and creativity, all keystones of a free-market system. Small businesses create the majority of the new jobs and employ more than half of the private workforce.

SBA is a voice for small business in FY 1999 and provides access to capital and credit, entrepreneurial development, and Federal government procurement opportunities.

In FY 1999, we achieved 90 percent success or better on 40 of our 59 performance indicators. We are particularly proud of the following:

- Provided capital and credit to 16,144 entrepreneurs to start a business.
- Guaranteed 43,639 general business loans for $10.2 billion.
- Maintained a guaranteed loan portfolio of more than $40.5 billion in loans to 486,000 small firms.
- Helped create 2.3 million of the 15 million new jobs in small businesses between 1993 and 1998.
- Made 3,100 investments worth $4.2 billion through our venture capital program.
- Provided 36,000 disaster loans for $1 billion that saved more than 35,000 jobs.
- Saved $5.3 billion in costs to small business by working with regulatory agencies.
- Doubled our credit availability from $8 billion to $16 billion since FY 1993.
- Cut our loan subsidy cost to taxpayers nearly in half, from $352 million to $160 million.
- Nearly tripled the number of loans to African-Americans and women since 1992; guaranteed 22,371 loans to women and minorities in FY 1999.
- Assisted eight of the *Fortune 100's Fastest Growing Firms* receive equity financing.
- Helped small firms receive 22.4 percent of the $200 billion in Federal contracts.
- Provided management and technical assistance through network of resource partners to more than 1 million prospective and actual small businesses.
- Received an unqualified opinion on out Financial Statement for fourth consecutive year.
- Improved our system of internal controls, loan monitoring, and lender oversight.
- Launched a number of new web applications and won awards for our Internet sites; SBA's web site receives over 6 million accesses per week.
- Implemented a successful asset sales program that sold 4,060 loans and returned $195 million to the taxpayer.

We are excited about our vision for building a new SBA. We are modernizing and cutting costs, while serving millions of small business customers each year. We will offer our customers on-line and real-time services—allowing us to give our customers quicker decisions on their applications and servicing requests. We will be open 24 hours a day, seven days a week. We will do more paperless transactions with our lending partners and our customers, reducing transaction costs and improving customer service.

As a leading edge 21st century institution, SBA will continue to put its customers first, by creating and fostering community-based partnerships to reach out and serve more small firms. We will also continue to invest in our employees, because without their dedication and expertise we cannot achieve our goals and our mission. We are committed to providing all small firms products and services they need to succeed. However, we cannot do it alone. Our lenders, our stakeholders, and our business resource partners must help us fulfill our mission, because our mission is America's mission.

The new economy is complex and changing rapidly, becoming more technological, more global, and more diverse. We at the SBA are contributing where we can, aiding where we can, protecting those small firms least able to protect themselves, and, in the process, benefiting all of America's communities. By strengthening America's small and medium sized enterprises, we fulfill a mission that is creating communities and economic development for our nation.

The SBA Mission: Creating Opportunities for Success

Part I

The U.S. Small Business Administration was created nearly 50 years ago to ensure a strong and vibrant small business sector. Society has changed over those years, and so has the economy and technology, but our core mission has stayed the same: to help small businesses start, grow, and succeed and, in the process, benefit every American family and community. In other words, we at SBA strive to create opportunities for success.

Now, what does "create opportunities for success" mean for the average American? It means better schools, lower crime, more hope for those who have little. Because by helping to create jobs we are strengthening the fabric of society.

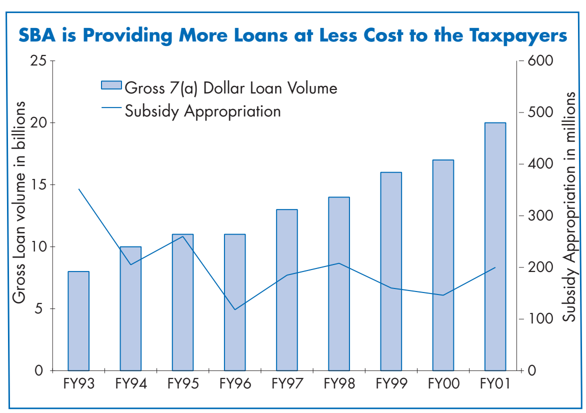
Just take a look at what is happening in America today: We are enjoying one of the most robust economic growth periods of the modern era. The number of small businesses is up 49 percent since 1982, and almost a quarter of U.S. households are either starting a business, nurturing a business, or are investing in someone else's business. More than 20 million new jobs have been created since 1992, with 25 million small-business entrepreneurs representing the majority of all employers and employing 52 percent of the private workforce. This is what we mean when we say "create opportunities for success."

Our Principal Functions

Four themes will continue to shape the SBA for the next decade and beyond.

- We are a **voice** for small businesses. Through our efforts in FY 1999, primarily those of our Office of Advocacy, we estimate that we achieved over $5.3 billion in regulatory savings for small businesses without compromising public policy objectives. We are a member of the President's cabinet and we sit on the National Economic Council. We influence policy at the highest level of government, and break down barriers to success by supporting small businesses in the legislative and regulatory areas.

- We are **bridging the gaps** created by the inequities in the private marketplace. Since 1993, we have nearly tripled the money for loans available for small businesses while cutting the subsidy cost of doing business in half. For example, in 1993, we made available $7.4 billion of capital and credit at a cost of $352 million. In FY 2000, we estimate we will guarantee $17 billion of capital and credit at a cost of only $146 million—while maintaining quality lending and ensuring safety and soundness.



How do we do this? We identify and develop credit opportunities through federal guaranties to those borrowers who would not otherwise have access to private credit and capital on reasonable terms. And we are doing all this while saving the American taxpayer millions of dollars.

For example, since 1992, we have nearly tripled the number of loans to African-Americans and women (i.e., from 739 loans to 2,176 for African-Americans and from 3,588 loans to 10,244 for women). We will continue to increase sharply the amount of financial, business development, and procurement assistance for America's women and minorities, veterans, Native Americans, and smaller businesses located in low and moderate income urban and rural areas.

- We are **breaking new ground** to modernize the SBA. In FY 1999, we began to create an improved system of oversight and internal controls and we have further improved lender oversight and loan monitoring. We have also launched a number of new web applications and won awards for our Internet sites and completed major portions of our plan to transition our workforce.

- We are the **Federal government's primary disaster bank** and help American businesses and families recover from natural disasters. In FY 1999, we provided over 36,000 loans for nearly $1 billion that enabled our communities to retain more than 35,000 jobs. Nearly 75 percent of our direct disaster loans go to individuals to rebuild their homes and get back to work, with the remaining 25 percent to business owners.

The Face of Small Business

- Approximately 25 million Americans filed business tax forms in 1999.
- Nearly 900,000 small businesses start up each year; about 750,000 businesses go out of business each year.
- About 6.5 million businesses have employees .
- Some 10.5 million Americans were self-employed in 1996, up more than 3 million from 1976.
- Home-based businesses represent more than half (52 percent) of all small businesses and provided 10 percent of the total receipts in the economy—about $314 billion in 1992.
- Small businesses employ 53 percent of the private work force, provide 47 percent of sales, 55 percent of innovations.
- Small businesses account for 35 percent of Federal contract dollars, and account for 51 percent of private sector output and 28 percent of jobs in high-technology sectors.

Our GPRA Goals

We offer something for each of the 25 million American small businesses. We provide credit/capital assistance (including disaster lending), procurement and government contracting help, entrepreneurial development assistance, and we are a voice for small business amid macro-economic changes, globalization of markets, technology, and legislative and regulatory developments.

In the FY 2001 Performance plan, we revised our logical framework to include two external, more statutorily based, goals (i.e., help small businesses succeed and act as the bank for victims of natural disasters) and a series of corporate management strategies to improve our internal management. This change addresses congressional and GAO concerns that we had included strategies as goals and confused internal management improvement efforts with our primary external goals. Therefore, in our new structure, we no longer include the "welfare to work" activities at the goal level and we now discuss "voice for small business" as a strategy under the goal "Help small businesses succeed" rather than as a goal in itself. Our corporate management strategies now include our FY 1999 goal: "Transform the SBA into a 21st century leading edge institution." This goal has four principal strategies to reinvent and modernize the Agency (i.e., improved internal control and oversight, systems modernization, electronic commerce, and workforce transition).

FY 1999 Goals and Objectives	FY 2001 Goals and Strategies
Goal 1: Increase Opportunities for Success	**Goal 1: Help Small Businesses Succeed**
• Objective 1: Increasing access to Capital and Credit	• Strategy 1: Access to Capital and Credit
• Objective 2: Expanding Procurement Opportunities	• Strategy 2: Access to Procurement Opportunities
• Objective 3: Enhancing Entrepreneurial Development Assistance	• Strategy 3: Access to Business Development • Strategy 4: Serve as a Voice for Small Business
Goal 2: 21st Century leading edge institution	**Corporate Management Strategies: Modernization**
Goal 3: Disaster Assistance	**Goal 2: Disaster Assistance**
Goal 4: Participation in Welfare-to-work	**(No longer included as goal in FY 2001)**
Goal 5: Serve as a Voice for Small Business	**(Included in Goal 1 as strategy 4)**

Our Core Values

SBA is redefining itself in this era of the new economy. We are challenging ourselves to do more with less, and to do it better. We offer new and innovative programs that target those least able to help themselves, and we challenge ourselves to do so with an increased awareness of the global economy and how this new economy affects American businesses. In the new economy, businesses must put their customers first, achieve results through partnerships and strategic alliances, invest in their people, and exploit the technology more effectively. As with the private sector, we in the SBA are committed to the following values in dealing with a more diverse, more global, and more technological world.

- We are **driven by customer demands.** We have different products for different small businesses. We offer solid solutions to complex issues. We offer financial assistance, contract help, access to information, and regulatory redress, all-important remedies for the small business entrepreneur. The number of minority-owned businesses has increased by 168 percent over the past decade, and their revenues have grown by an astonishing 343 percent. Women-owned businesses grew by 89 percent over the past decade, about twice as fast as businesses in general. We are reaching out to these "new markets" firms and responding to their needs.

- We **depend on partnerships** for our success. In FY 1999, we signed more than 70 national and 200 regional agreements. We are moving away from the direct delivery of products and services by using the most extensive grassroots network of business resource partners in the country. More than 7,000 lenders and 1,500 business resource centers in nearly every community in America are positioned to provide small businesses with the help they need. The outcomes have become shared outcomes, and the more we can leverage these partnerships, interagency working relationships, and technology tools, the more successful we will be in achieving our mission.

- We are **performance-based** and measure success through results that small businesses seek, expect, and care most about. We hold ourselves accountable to the Congress and to the public. We create programs that reflect the needs and desires of *all* small businesses, particularly those that need help the most; that is, the "new markets" firms, those firms owned and operated by women, minorities, veterans, Native Americans, and rural- and inner-city–based businesses.

- We **invest in our employees.** Our workforce is our most important asset. It is their expertise, motivation, and talent that has led us this far in our quest to create opportunities for success for all American small firms. It is they who must adapt to the challenges of the new economy and provide guidance to the small business entrepreneur. We must ensure that our staff is well trained, motivated, and positioned to help small businesses.

- We are **moving aggressively into the digital age.** We are committed to offering all of our products and services via the Internet and creating an "electronic SBA" as part of the Administration's vision to give all citizens anytime, anyplace access to Government. We will continue to assist the small entrepreneur in taking advantage of the Internet to compete not only with businesses in the neighborhood or in the state, but also worldwide.

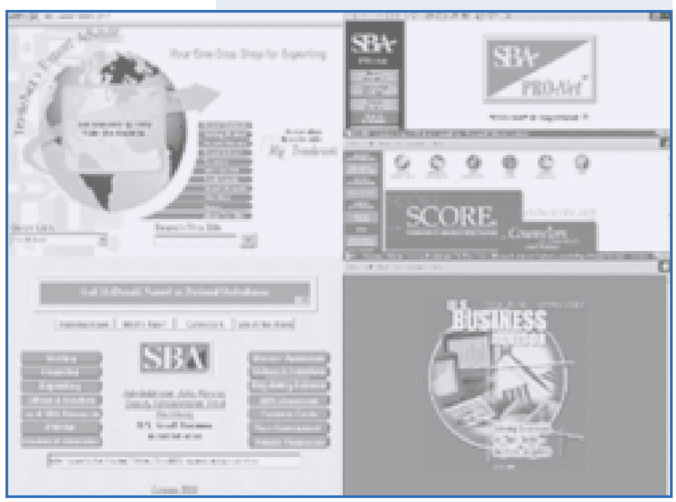
SBA Business Resource Partners

- Approximately 7,000 lenders
- A network of 1,000 Small Business Development Centers (SBDC)
- Nearly 400 chapters of SCORE (Service Corps of Retired Executives)
- Eighty Women's Business Centers
- Twenty One Stop Capital Shops (OSCS)
- More than sixty Business Information Centers (BIC)
- Nineteen U.S. Export Assistance Centers (USEAC)
- Seventeen Tribal Business Information Centers
- Four Veterans Business Outreach Centers
- More than seventy partnership agreements with private sector and non-profit entities

The Face of SBA

- As of January 31, 2000, SBA has a total of 4372 personnel: 3035 regular, 111 Inspector General, and 1226 disaster staff.
- SBA staff work in 109 locations throughout the United States.

SBA is on the Internet.

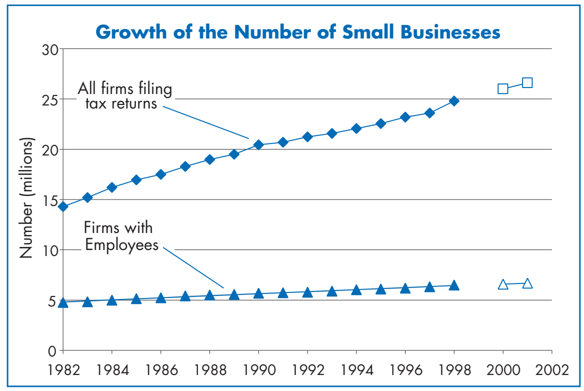


A Decade of Success: Making a Difference

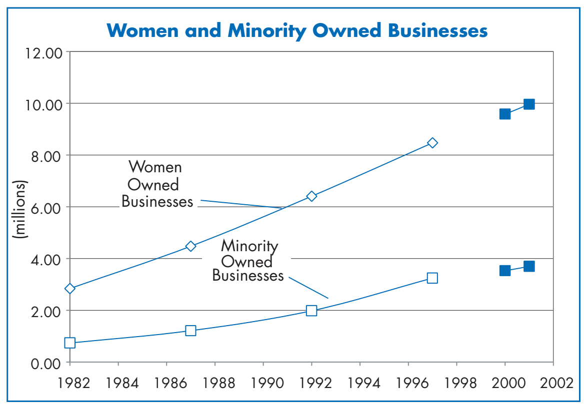
Many factors contribute to the overall growth and vitality of the small business sector: the state of the economy, technological change and globalization, timing, and luck.

But one of the most important factors is what government does—Federal, state, and local—to create an environment for business growth. Government must establish the rules on how firms compete, offset failure in the marketplace, and, perhaps what is most important, protect those least able to protect themselves by offering a helping hand.

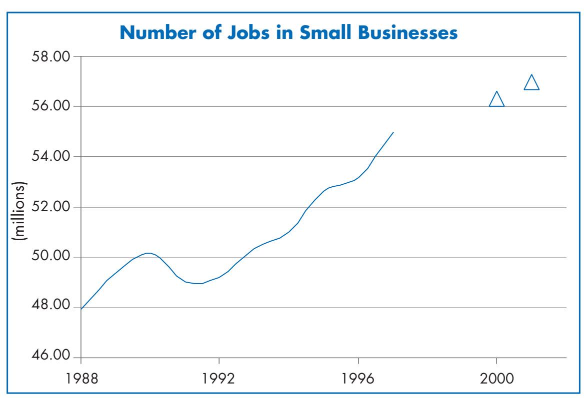
This is where the SBA comes in. We are the Agency that can guide and assist. We are convinced that with our help the American economy has thrived, Americans have more jobs, and the playing field of the American economy is leveling. We do *contribute* to the growth in the economy. The following indicators reflect social outcomes where we are making a difference:



- **More small firms created.** There are now more than 25 million small businesses in the United States, 5 million more than in 1990 and the largest number of small businesses ever. Growth has been steady between 1982 and 1999.

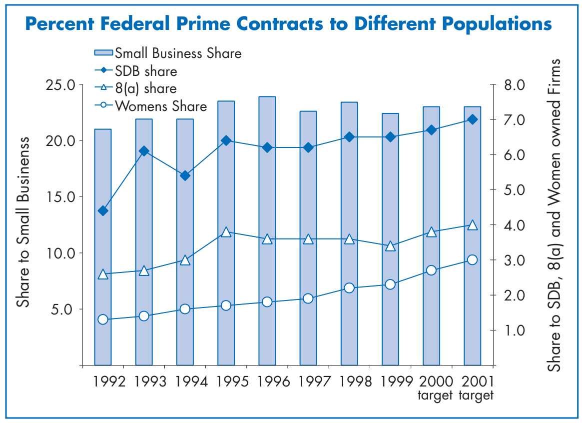


- **More businesses owned by women and minorities.** We made 22,371 loans to women and minorities in FY 1999, a slight increase over the 21,981 loans from the previous year. Over the last decade, business ownership has grown even more rapidly for Hispanics, African-Americans, Asians, and for women. Those firms owned by Hispanics have increased 232 percent, firms owned by African-Americans by 108 percent, and firms owned by Asian American and Pacific Islanders by 180 percent. The number of firms owned by women has almost doubled to an estimated 9.1 million in the last ten years. Women entrepreneurs now own about 40 percent of all firms and employ 27.5 million people. These women-owned companies generated \$3.1 trillion in revenue in 1997, more than triple the amount from a decade earlier.



- **More jobs created by small businesses.** Of the 20 million new jobs created between 1993 and 1998, our capital access and SBDC business development programs contributed to creating about 14 percent of those new jobs (i.e., 2.7 million jobs). Small firms remain the job creators. The number of jobs have increased by over 6 million between 1991 and 1997. We estimate that the 7(a), CDC, and Small Business Investment Company (SBIC) capital access programs in FY 1999 contributed to creating more than 400,000 new jobs in small businesses.

- **Larger percentage of procurement going to small businesses.** In FY 1999, we achieved 22.4 percent of total Federal procurement for small businesses and 2.3 percent for women-owned business. The Federal government spends nearly \$200 billion for goods and services each year. This is a tremendous marketplace for America's small businesses. SBA works with the major Federal agencies to identify procurement opportunities and to create innovative strategies and programs to reach the small business community. It has become increasingly difficult to maintain the level of contracting opportunities for small businesses. Over the past ten years, agencies increasingly rely on contract bundling, which unfortunately tends to limit procurement opportunities available to small businesses.



Each year we have achieved the government-wide small business procurement goal, recently increased to 23 percent from 21 percent by the Small Business Reauthorization Act of 1997. Since FY 1993, we have achieved the small and disadvantaged business procurement goal of 5 percent. We continue to make progress toward achieving the government-wide, women-owed small business goal of 5 percent.

- **Small Business Regulatory Savings.** In FY 1999, we estimate that our efforts with the regulatory community saved small businesses $5.3 billion, compared to $1.5 billion in FY 1998. As part of our advocacy function we continuously work with the regulatory agencies to show how they can reach their policy objectives without placing an undue burden on small businesses.

- **Jobs saved through disaster recovery.** We made loans to more than 36,000 victims that saved 35,000 jobs and helped rebuild communities throughout the nation. As the disaster bank for both individuals and business owners, our disaster assistance is a critical source of economic stimulation in disaster-ravaged communities. In FY 1999, we provided nearly $1 billion in loans: 29,000 loans to Americans to rebuild their homes and another 7,400 loans to businesses.

A Voice for Small Business: Breaking Down Barriers

The 25 million small businesses in the United States have widely varying needs. Some require access to capital and credit, some need procurement guidance, and some seek management and technical assistance. But what every small business entrepreneur has in common is difficulty in accessing the legislative committees and regulatory agencies that burden him or her with regulations and unnecessary paperwork. This is where the SBA steps in. Especially through our Office of Advocacy we are a voice for small business entrepreneurs, supporting their interests in the Administration and in the Congress and working toward changing the culture of the Federal regulatory agencies. The Office of the National Ombudsman also plays an important role. We are a voice for small businesses in the following ways:

We are a voice for the small business entrepreneur

- We are a member of the President's Cabinet and we participate in the National Economic Council.
- We monitor, evaluate and rate agency regulatory initiatives to ensure compliance with the law, as well as agency efforts to implement our suggested reforms.
- We track economic trends affecting small business and the contribution small firms make to the economy.
- We review market imperfections and barriers that hinder small business growth.
- We report regulatory, enforcement, and compliance problems faced by small firms.

In FY 1999, we achieved significant results for the small business entrepreneur and for the American taxpayer.

We worked actively with the various agencies in FY 1999 to reduce the cost of complying with the regulatory proposals by $5.3 billion—without compromising public policy objectives.

- **Regulatory Savings.** Twenty years ago, Congress passed the Regulatory Flexibility Act, amended in 1996 by the Small Business Regulatory Enforcement Fairness Act, to ensure regulatory fairness and equity for small businesses. We worked actively with the various agencies in FY 1999 to reduce the cost of complying with the regulatory proposals by $5.3 billion—without compromising public policy objectives.

- **Economic Research.** In FY 1999, we developed a new database, called the Business Information Tracking System, or BITS, to provide policy makers more accurate statistics on job creation by small firms, information on women and minorities in business, statistics on mergers and acquisitions, data on employment change and survival, and data on the creation of hi-tech industry in rural areas.

- **Legislative Changes.** In FY 1999, we analyzed legislative proposals as well as identified problems with existing laws. Successes in working with Congress and the regulatory agencies were many and varied:

  - Increased restrictions on "bundling" of contracts.
  - Simplified pension (401)k plans through administrative changes.
  - Secured a more liberal time frame for small business reorganization filings.
  - Limited the adverse impact of laws to equalize U.S. patent laws with worldwide procedures.
  - Adopted a model exemption for state equity investments.

Bridging the Gap: Leveling the Playing Field

Our programs have a social as well as an economic purpose. In helping small entrepreneurs start and grow their businesses, we not only benefit the firm but we also help create communities and foster economic development. To accomplish our mission, we reach out to segments of the population that have experienced barriers in the marketplace and yet possess great untapped potential.

We define these customers—or New Markets—as minority-, women-, and veteran-owned businesses; businesses in rural and inner city communities including HUBZones; and newer, smaller businesses. These small entrepreneurs have been generally ignored or under-served by the marketplace. This is where we bridge the "gap," particularly for those individuals who are viewed as "higher risk" borrowers, those who are lacking in business know-how, are unable to take advantage of the Federal government procurement marketplace, and are without easy access to government information and services.

In comparison with private sector loans, SBA loans support borrowers who do not have credit history, do not have standard collateral, or who are higher-risk borrowers. Our credit may be extended for longer periods or at a lower cost to the borrower, and, in that sense, we are a "gap lender."

Providing Growth in Capital and Credit

We estimate that our credit programs provide approximately 10 percent of outstanding loan dollars to small businesses nationwide. We also see a gap in the market for equity or venture capital needs. We estimate that we filled about 45 percent share of the *number* of the venture capital financings in 1998 and about 20 percent of the dollar volume.

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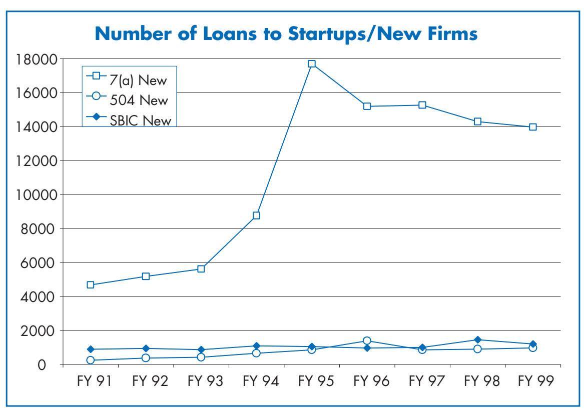
We have a number of different loan products to meet the different capital access needs of small businesses. These include Microloans (loans of $25,000 or less), LowDoc and SBA Express (loans of up to $150,000), and regular 7(a) loans (loans of up to $750,000 in SBA guaranty). In addition, there are export working capital loans, international trade loans, and Certified Development Company loans through the 504 program.

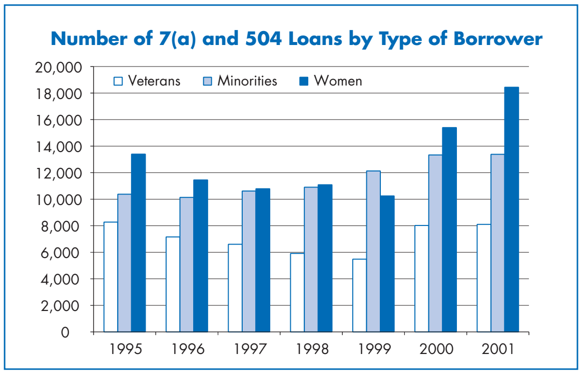
We contribute significantly to economic development by providing access to capital and credit for startup firms (i.e., firms less than or equal to 24 months old). The 7(a) program has provided a large number of the loans to startups beginning in FY 1994 and peaking in FY 1995. This was in large part due to the introduction of the LowDoc program in FY 1994 that provided guaranteed loans of up to $100,000 through a simple one page application form.



The 504 program and the SBIC program have had a slow increase in the number of loans to startups. In FY 1999, 32 percent of 7(a), 19 percent of the 504, and 42 percent of SBIC financings went to startups.

Because of efforts by SBA and our resource partners, the number of 7(a) and 504 loans to minorities have increased in FY 1999 and will continue to increase in FY 2000 and 2001, with particular focus on outreach and lender relationship management.

Loans to women-owned small businesses have been stable for the last three fiscal years and are expected to increase in the future. We have nearly tripled both the number and the dollar value of approved loans to women entrepreneurs since FY 1992. Since FY 1992, we have backed more than 69,440 loans amounting to $10.7 billion for women-owned small businesses. In FY 1999 alone, our 10,244 loans were worth $1.9 billion to women-owned small businesses.



We are proud of our efforts in FY 1999 to manage our general business loan programs better:

- We implemented a new Small Business Lending Center examination program to assure safety and competency.
- We established an Office of Lender Oversight to assess risks of the loan portfolio and to take early remedial action.
- We established a risk management committee with broad Agency representation.
- We implemented a successful asset sales program.
- We established a Preferred Lenders Program review program to verify that lenders are in compliance with our regulations.
- We developed regulations to monitor securitization of the unguaranteed portion of guaranteed loans.
- We restructured our SBAExpress Program to tighten controls.
- We centralized processing of our LowDoc applications to improve turnaround, completing the application in less than 36 hours, which is down from as long as two weeks.
- We designed a database to rate Certified Development Companies and identify possible weaknesses in their loan portfolio including currency rate and acceleration rate.

On the equity side, Small Business Investment Companies (SBICs) were established to fill the need for investments in the range of $350,000 to $5 million. SBICs, which are licensed, regulated, and partly financed by the SBA, are privately owned and managed investment firms that provide venture capital financing to promising small businesses. Small businesses qualifying for assistance from an SBIC are able to receive equity capital, long-term loans, and expert management assistance.

In 1998, we licensed three women-managed venture capital companies. Those venture companies base their investment strategies on helping women-owned companies. To date, the three companies have invested in almost thirty women-owned or women-managed businesses.

We are proud of our SBIC achievements:

- Tax revenues generated each year from successful SBIC investments more than cover the cost of the program. The American taxpayer's share of the profits totaled $180 million.
- In FY 1999 SBICs provided $4.2 billion in financing to small businesses.,
- SBICs, with one-tenth the capital of their larger counterparts, made 53 percent of all venture capital deals.
- The SBICs programs mix changed significantly during FY 1999. The total committed capital resources of bank SBICs grew by 35 percent, participating securities grew by 58 percent, and debenture SBICs by 12 percent, but SSBICs decreased by 22 percent.

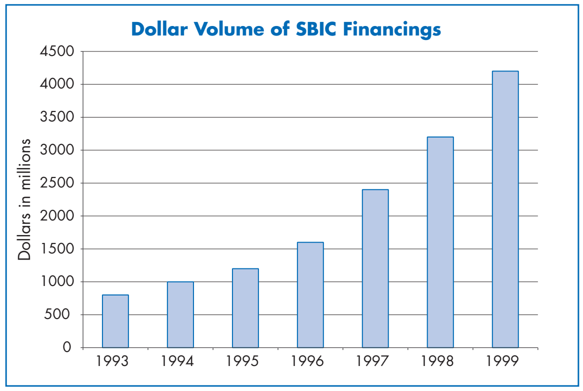
SBA's Credit Program: Dream Come True

"We wouldn't be here today without the help of the SBA and our local bank," Fred Macdonald of Hestia Products was saying. "Those loans," especially SBA's Seasonal Line of Credit program, "enabled us to keep going until we found our niche. The loans gave us some breathing room."

In 1986, Linda and Fred Macdonald of Marblehead, Massachusetts, decided to go into business for themselves, forming Hestia Products. Linda is an artist and created original Christmas ornaments that were sold locally. The company, though, lost money or barely broke even in those early years.

With no access to conventional modes of credit, the Macdonalds turned to the SBA. Because Hestia is largely a seasonal business, they applied for SBA's Seasonal Line of Credit program where the SBA guarantees a loan for up to three years, and with this new line of credit the Macdonalds were able to pump the needed capital into their business. Today Hestia is flourishing. In 1998, it exceeded $1 million in sales.

- SBICs invested $55 million in equity capital for women-owned small businesses.
- SBICs invested in eight of *Fortune* Magazine's 1999 100 fastest growing firms at some point in their development: Labor Ready, Veritas Software, Vitesse Semiconductor, i2Technologies, Cutter & Buck, Quintiles Transnational, Hanger Orthopedic Group, and Sylvan Learning Systems.



Surety Bond Program

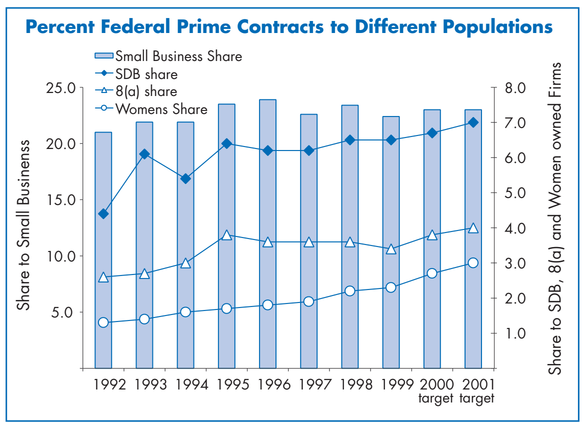
Since 1992, we have provided small contractors with 123,221 opportunities to bid on contracts in the public and private sectors by leveraging over $20.8 billion in bid bond guarantees. The result: we guaranteed 36,310 final bonds for small contractors who secured contracts with a final bond guarantees for $6,001,487,955.

Procurement Assistance

As part of our congressional mandate, we also strive to ensure that a fair share of the nearly $200 billion annual Federal government purchases—about 23 percent—go to small businesses. This task is made more difficult by streamlining of government procurement regulations, bundling, and large "off the shelf" contracts. We have built online tools to increase our outreach to small firms (e.g., PRO-Net) and have signed agreements with public and private organizations to increase their contract activity with small firms.

We work with Federal agencies in setting up SBA programs that benefit the small business entrepreneur when it comes to procuring Federal contracts, and we work with the small business entrepreneur in getting those contracts.

The chart shows a steady positive trend in Federal procurement prime contract dollars awarded to small firms, small and disadvantaged, 8(a) firms, and women-owned businesses.



We estimate that we will achieve our FY 1999 procurement goals, based on preliminary FY 1999 data. We currently are missing the Department of Energy's contract data, which will increase our preliminary estimates. The final FY 1999 data will be available later in this year (FY 2000) and for HUBZones next year.

	FY 1999 Goal	Estimate
Share to small business	22.7%	22.4%
Share to women-owned firms	2.5%	2.3%
Share to 8(a) firms	6.5%	6.1%
Share to HUBZone firms	1.0%	not available

In FY 1999, our accomplishments were many:

- We launched the HUBZone Empowerment Contracting Program.
- We exceeded $7 billion in purchases from minority-owned business subcontractors through our agreement with GM, Ford, and Daimler-Chrysler.
- We signed agreements with ten Federal agencies to increase government contracting opportunities for women business owners.

- We provided more than $1 billion in contracts to small firms as a result of reviewing sixty cases of contract bundling worth more than $5 billion in procurement.
- We conducted outreach and training to more than 6,500 small and disadvantaged businesses, prime contractors, and Federal contracting officials on the certification requirements and procurement benefits relating to the SDB program.
- We worked with the Treasury Department to launch BusinessLINC (Learning, Investment, Networking, and Collaboration) to build mentor business relationships with small businesses, especially those in low and moderate income areas. We launched the mentor–protégé program to provide assistance to eligible 8(a) program participants to enhance their capacity to compete for Federal contracts.
- We increased 8(a) applications by 35 percent when compared with FY 1998.
- We provided $1 million in grants to twenty-five states and territories to increase the participation of small rural technology firms in the Small Business Innovation and Research program.
- We directed the National Y2K Outreach program that attracted over 1.1 million small businesses to more than 1,300 events nationwide.

SBA's Minority Business Development Program: Ambition Achieved

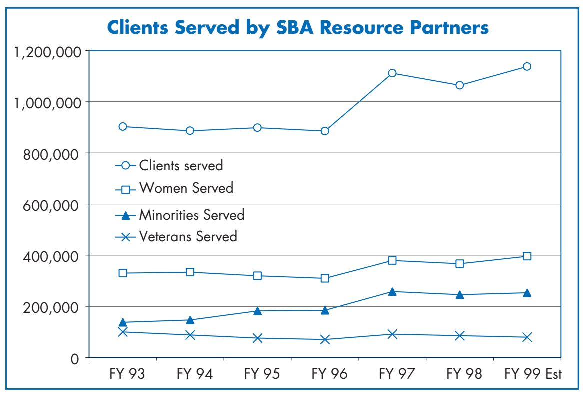
In 1991 Gonzalo Corvera started Corvera Abatement Technologies, Inc., in St. Louis, Missouri, as a hazardous material clean-up firm, and was an immediate success. But Gonzalo wanted to expand his little company, so he contacted the SBA.

SBA's 8(a) Business Development program is designed to assist small disadvantaged businesses in getting easier access to Federal procurement programs. Soon, Gonzalo was able to win lucrative Federal contracts. He signed a prestigious contract with the U.S. State Department to take care of asbestos in various embassies and other housing in Haiti, Rwanda, Liberia, France, Turkey, Philippines, Kazakhstan, Laos, and Western Samoa.

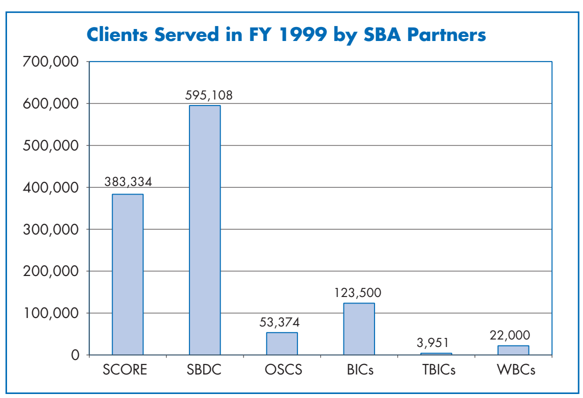
Entrepreneurial Development

Besides inadequate access to capital and credit, perhaps the single most important impediment to starting or expanding a small business is lack of access to information. To succeed, entrepreneurs need training and technical assistance in financial management, bookkeeping, and marketing, among other skills, to start or expand their business.

We fill gaps in the area of training and technical assistance, reaching out to new and nontraditional markets through our Small Business Development Centers (SBDCs), Service Corps of Retired Executives (SCORE), One Stop Capital Shops (OSCS), Tribal Business Information Centers (TBICs), Women's Business Centers, and U.S. Export Assistance Centers (USEAC). Our small business counseling and technical assistance programs provided help to almost 1.2 million entrepreneurs in FY 1999—many of them also loan customers. We have created online education, training, and counseling tools (e.g., Women's online Business Information Center, SCORE online counseling, *US Business Advisor* web site, SBA Classroom) to expand our outreach and offer anytime-anyplace service to complement the substantial network of business resource partners around the nation. In FY 1999, approximately 275,000 users took classes at SBA's Online Classroom.



Our entrepreneurial development programs complement one another and are integrated with our financial assistance and contract support programs. This approach allows us to deliver our programs in a more comprehensive and cost effective way, moving us toward becoming a full-service organization.



The SBDCs provide a high volume of counseling and training reaching 50 percent of SBA's entrepreneurial clients. SCORE and Business Information Centers reach approximately 30 percent and 10 percent, respectively. Our resource partners in the specialized markets complement these delivery systems. These partners are

Women's Business Centers, Enterprise Communities, Tribal Business Information Centers, Veteran's Business Outreach Centers, and One Stop Capital Shops in Empowerment Zones.

The Women's Business Center Program is a unique public-private partnership providing business and technical assistance to women in eighty centers nationwide. Women's Business Centers offer long-term training, counseling, networking, and mentoring to potential and existing entrepreneurs with special emphasis on socially and economically disadvantaged women. Last year, the women's business centers contacted more than 30,000 clients. We also support the Online Women's Business Center, a free, multi-lingual, interactive Web site offering information on best business practices, management techniques, networking, counseling, industry news and research, and other useful information to women who want to start or grow a business. It was mentioned as one of the best sources for information on services available to women entrepreneurs in *Forbes Magazine* February 2000 issue in which the SBA-sponsored Web site was included in the magazine's "Best of the Web" list.

SBA's Minority Business Development Programs: Leveling the Playing Field

Fred Pierre-Louis started Computer Resources, a computer consulting firm, in 1993 out of his home in Stamford, Connecticut. As his business grew, so did his challenges – and his problems.

So Fred turned to the SBA. He got assistance from the 8(a) program, designed to assist small business owners that may be socially or economically disadvantaged in the marketplace and level the playing field by making it easier to procure Federal contracts. As Fred's small business is in an economically distressed area of the city within an SBA-designated HUBZone (Historically Underutilized Business Zone), he qualified for the HUBZone contracting program. In addition, he registered with SBA's PRO-Net, an electronic database of more than 175,000 small, disadvantaged, 8(a), and women-owned businesses wanting to sell to Federal and state government agencies as well as helping prime and other contractors find small business partners or subcontractors.

"I have a vision to take my company national," Fred said. "I know this will work, and I have a good and viable plan to make it happen."

The Modern SBA: Breaking New Ground

SBA has changed greatly over the past several years and will continue to change to keep abreast of the shifting needs of our customers and to face the challenges of the new economy.

- We are increasing electronic access to SBA products and services.
- We are improving and modernizing information systems.
- We are improving our financial management, to include improved internal controls.
- We are creating systems of program oversight to ensure safety and soundness.
- We are transitioning our workforce to ensure that the right number of staff are in the correct locations with the appropriate skills to guide and assist our customers.

Electronic Government

SBA was among the first government agencies to create an online presence. Six years ago we began to build a web site to provide our information and services electronically. Today we have grown from no businesses served on the Internet to over 6 million accesses each week. We expect that number to double in FY 2000.

SBA's small business customers cannot afford to overlook or fail to take advantage of the opportunities and efficiencies created by new technologies. And if technology is going to revolutionize the way small companies communicate and do business, then SBA must increase its own digital dexterity to offer its programs online and to help firms utilize this medium.

Accordingly, we are creating an electronic SBA, one that can bridge the "digital divide" and help small firms take advantage of the technological advances. The electronic SBA will feature:

- **Electronic lending.** In FY 1999, we continued to build online tools to offer lenders and borrowers the ability to apply for small loans, perform front-end credit risk assessments, process paperless disaster home loan application, create online export credit risk analysis, and broker equity lending matchmaking.

- **Electronic procurement.** In FY 1999, we offered small firms a virtual marketplace to find solicitations, reply to bids, get contracts, and track invoices. We also included in our web sites expert guidance on how to sell to government, partnering with state procurement agencies, and creation of a "bulletin board" to support small firm bundling and links to mentoring services.

- **8(a) and SDB eligibility.** We continue to develop an Internet-based 8(a) and Small and Disadvantaged Business eligibility and certification process for contract preferences, expansion of HUBZone and New Market outreach services, and create a virtual One Stop Capital Shop.

- **Online education, training, and counseling.** We created online classrooms, e-mail counseling through SCORE volunteers, and web-based tutorials to an estimated 330,000 clients.

- **Expert tools.** We established an electronic answer desk and offered small firms access to regulatory expert tools. We also continue to sponsor analytic tools to help a business find a law, interpret a regulation, get a contract, develop a business plan, start a business, or perform an export transaction.

- **Access to networks and matchmaking.** The new SBA is creating markets, fixing market imperfections where possible, and/or providing a platform for "buyers and suppliers" to connect and transcend the boundaries of time and distance. Some call this role electronic brokering for venture capital (ACE-Net), procurement marketing (PRO-Net), export assistance (TradeNet), innovation and technology grants (Tech-Net), procurement set-aside eligibility assessment (HUBZones), and subcontracting opportunities (Sub-Net).

- **One Stop Shop for government information.** SBA continues to provide anytime, anyplace access to government information and services through its own web site and in FY 1999 sponsored cross-agency gateways and portals, such as U.S. Business Advisor, TradeNet's Export Advisor, and Women's Online Business Center.

Information Systems Modernization

In the not too distant past, our field offices reviewed the creditworthiness of each loan before guaranteeing it, and then serviced and liquidated each loan that went into default. Today, we have centralized many loan processing and servicing functions, a trend that is expected to expand in the future. With little or no credit review, our lending partners made about 75 percent of all of our business loans in FY 1999, as well as serviced and liquidated them. We have also out-sourced 30 percent (or about $1 billion) of our disaster home loan servicing.

As more of the loan-making process is delegated to the private sector, SBA's exposure on the loan guaranties becomes increasingly subject to the credit policies and actions of the participating lenders. To protect the taxpayer's interests, we must have a system that allows us to identify, understand, and respond to the lender's behaviors so that we can ensure the long-term viability of SBA's lending programs.

Therefore, we are creating the Loan Monitoring System (LMS) as the core of our information systems modernization initiatives. The LMS is Phase I of a three-phase, multi-year overall program. Phase II contains both the core accounting and the disaster home loan system, which will allow us to produce timely financial statements and expedite the disbursement of disaster funds to those who need to start rebuilding. Phase II is also critical to the LMS because we must account for the loan portfolio in our financial statements, and the LMS will service loans made in the disaster program. Phase III will modernize the systems used for the remainder of our programs.

Systems Modernization	1998	1999	2000	2001	2002
Phase 1- Loan Monitoring System					
Phase 2- Financial Mgt and Disaster Assistance					
Phase 3- GC/MED/ED					
Total Appropriations (in millions)	**$8.0**	**$8.0**	**$8.0**	**$13.0**	**TBD**

Once completed, the LMS will offer us the following benefits:

Why Systems Modernization?

To better serve our customers and the American taxpayer, we must transform ourselves and modernize how we do business. Several important events are forcing us to modernize our core business and technology practices:

- Increased reliance on private sector lenders for delivery of our programs
- Greater use of technological innovation by our private sector partners
- Radical restructuring amid rapid growth of the lending industry
- Our declining staffing levels
- Our non-compliant and inadequate financial accounting system
- Directives set forth by Congress and GAO

Eight Business Process Reengineering Steps

1. Fully define the systems requirements.
2. Identify all inputs and outputs needed for timely report generation.
3. Benchmark loan monitoring business processes and system.
4. Determine data quality standards.
5. Identify acquisition strategy and work increments to completion.
6. Analyze the benefits and costs of alternatives.
7. Ensure that proposed system is consistent with SBA's information architecture.
8. Estimate the cost to system completion, identifying essential cost elements.

- Better analytical tools and real-time access to information
- Electronic processing for shorter turnaround times, better service, electronic fund transfers, and simplified data collection
- Reduced paper, better safeguards, lower costs and shortened delays, and greater compatibility with our lender systems
- More accurate data, which makes back-end functions such as asset sales due diligence and subsidy rate calculations less onerous
- Lessened risk of imprudent lending by a small group of lenders

In FY 1999, we achieved the following results:

- Completed the eight planning steps required by the Congress and GAO. We are confident that we have carefully undertaken the planning necessary to ensure successful implementation.

- Began a series of ten regional training sessions to educate our field staff about business and system changes, as well as created Internet and Intranet web sites to communicate modernization issues to all our employees. The sites permit the dynamic exchange of ideas between internal and external stakeholders.

- Conducted regular briefings for our various trade associations and other stakeholders to discuss proposed process and system changes to ensure "buy-in" of key partners every step of the way.

Improved Financial Management

SBA continues to improve its financial management to maximize the American taxpayers' investment and to enhance the way we do business. With the increased demand for our services and products, we have to do our job smarter and for less money. In FY 1999, we achieved the following results:

- We received an "unqualified" opinion for the fourth year in a row for our financial statements. This is the highest rating possible for an independent audit by outside certified public accountants.

- We incorporated a unified system of internal controls and trained all SBA staff on using COSO (Committee of Sponsoring Organizations of the Treadway Commission) to eliminate material weaknesses. We completed a Management Assessment Program (MAP) for all programs, Regional, and District offices.

- We completed the first version of a cost accounting system. We surveyed program and financial managers to determine approximate time spent on each activity. We then used the survey results to estimate the approximate cost of various SBA programs and activities.

Safety and Soundness

Along with our desire to sustain unprecedented growth and to penetrate new markets is our solid commitment to maintain the financial safety and soundness of our portfolio. We are a financial institution with more than $50 billion in our portfolio. As with financial institutions in the private sector, we have the fiduciary responsibility to make our lending decisions wisely and guard our current investments carefully. Anything else would be a disservice to our borrowers and lenders, as well as to the American taxpayer.

Committee of Sponsoring Organizations of the Treadway Commission (COSO)

The Committee of Sponsoring Organizations of the Treadway Commission set guidelines and standards as a way to manage risk. COSO steps include:

- Set tone through control environment
- Assess the risk
- Ensure control activities are followed
- Use information and communication
- Monitor quality of performance over time

In 1999, our lending partners originated approximately 75 percent of all business loans with no or limited credit review by SBA. The lenders also serviced and liquidated those loans. In accordance with congressional direction, SBA has also out-sourced 30 percent (or about $1 billion) of disaster home loan servicing. This outsourcing trend is expected to increase in the future.

As more of the loan-making, servicing and liquidation processes are delegated, SBA's exposure on the loan guaranties becomes increasingly subject to the credit policies and actions of the participating lenders. To protect the taxpayer's interests, and to ensure the long-term viability of our lending programs, we have begun to build a system to identify, understand, and respond in a timely way to adverse lender behaviors. The Congress and GAO also required the SBA to increase its role in lender oversight. To that end, we

- Instituted—for the first time—a safety and soundness examination program for the Agency's Small Business Lending Companies and examined all fourteen of them. We expect to complete a second round of reviews in FY 2000, completing those in September.

- Established the Office of Lender Oversight and a Risk Management Committee.

- Completed our first full cycle of reviews for participants in the Agency's Preferred Lender Program. We expect to complete FY 2000 reviews by the end of the year.

Investing in People

Small business practices, products, and needs have changed greatly over the past ten years, and the SBA has always fine-tuned its products to keep pace with its customers. The Agency recognized, however, that if we were to continue to be a viable organization and an asset to the market we were created to serve, we would need to make marked changes to our emphasis, philosophy, and the way we conduct business. In addition to becoming more technology-driven, the Agency has been re-examining its role and emphasizing its efforts in the areas of business development, oversight, and building individual, personal relationships on the local, community, and neighborhood levels to meet the needs of the small business community better.

During much of FY 1999 and continuing into FY 2000, program managers from across the country have met to evaluate the changes that are occurring, or need to occur, within their program areas; for example, customer services, marketing and outreach, economic development, and lender relations and oversight. These managers worked with the Office of Human Resources and have identified a number of methods to assist their employees in making the successful transition to a full-service, business-assistance resource in the new economy.

Recognizing that such a transition can occur only with the support of its full workforce, SBA has made this a participatory venture with its employees and solicited their opinions and ideas regarding the functions, roles, and needs of the new SBA employee. The Agency operated in full partnership with AFGE, the employee union, to develop its Workforce Transition Outline. During the 1999 Master Agreement negotiations, we forwarded the workforce transition issues to a subcommittee of the SBA/AFGE Partnership Council and, because of the close work that had been done during the planning process, the outline was accepted as presented.

The Workforce Transition Outline has three, interrelated components: establishing competency models to fully define the new or changed functions; training or retraining our staff to ensure competency in each of the defined areas; and hiring for or relocating staff to offices and areas that have the greatest existing or expected demand. In FY 1999, we made progress toward reinventing and transitioning the workforce, as exemplified by the following accomplishments:

- **Competency Modeling** — Developed two competency models in FY 1999, one for leadership and one for marketing and outreach.

- **Leadership Development**

  (1) After extensive research, we adopted the Center for Creative Leadership's competency model and partnered with the Center to develop leadership training for our senior management. The purpose of the course is to assist those senior managers in their role as change agents. We piloted the course in the first quarter of FY 2000. By the end of the second quarter of FY 2000, we will have trained more than 100 senior executives, district directors and other senior managers.

  (2) In addition, the Center worked with a training consultant who developed a companion course, based on the same competencies, for our mid-level managers and supervisors. Provided leadership training for 50 of our mid-level managers and supervisors, *Leading SBA Through Transition* and will continue the training in FY 2000 and 2001.

- **Marketing/Outreach**

  (1) We convened a working group of field managers and program experts to define a marketing/outreach curriculum.

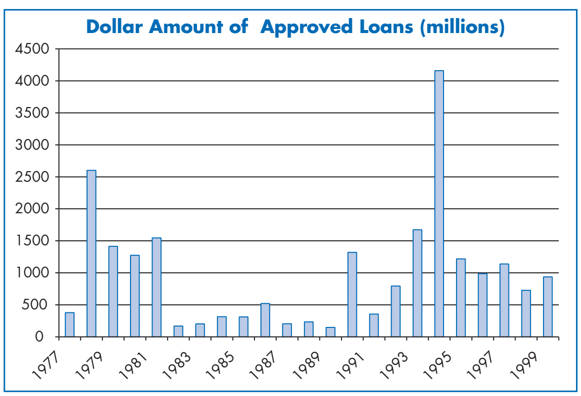
  (2) We contracted for development of the marketing/outreach training course. Training is essential to a new SBA. With fewer staff and fewer resources to support those carrying out critical functions, we have made training central to improving our service to America's small businesses. These accomplishments have established the framework for further implementation of our workforce transition plan in FY 2000 and beyond.

The Government Disaster Bank: Putting a Down Payment on the Future

When a natural disaster strikes we are there to help. SBA offers any individual or business, large or small, direct loans as the primary form of Federal assistance for non-farm, private sector losses. This is our only program not dedicated solely to small businesses.

We are a critical source of economic stimulation in disaster-ravaged communities. Nearly 75 percent of our disaster loans go to Americans to rebuild their homes and lives. By offering victims timely, easy to access, and cost-effective help, we ease their fears and give them hope for the future.

- We successfully responded to more than sixty-nine physical disasters ranging from Hurricane George in Puerto Rico, one of the largest hurricane disasters in Puerto Rico's history, to Hurricane Floyd, which covered ten states along the east coast of the United States.
- We approved 29,000 loans to Americans to rebuild their homes.
- We helped save over 35,000 jobs through 7,400 disaster loans to businesses in FY 1999.
- In FY 1999, we issued initial disaster loan checks within seven days after the disaster declaration in almost all President-declared disasters.
- Since 1992 we have reduced our goal for the time from filing to decision from thirty days to fewer than twenty-one days. We have also substantially reduced the paperwork involved in applying for a disaster loan.



At a Glance

Over the life of the program, we have approved $26.7 billion and 1.4 million loans to individual homeowners, renters, and businesses of all sizes.

SBA's Disaster Lending: Rebuilding Communities

The town of Comfrey, Minnesota, population 427, was simply blown away when a tornado slashed through the southwestern part of the state, shearing off whole towns and mangling lives and property, and shredding hope. The entire infrastructure of the town was disabled.

But the Federal government was there immediately. FEMA coordinated the relief, and SBA arranged loans to rebuild homes and businesses. The Federal Government repaired the infrastructure of the town and built a new city hall, a school, and the library.

Throughout the state, similar towns suffered the same devastating losses and SBA provided 675 loans for a total of $28.2 million.

In short, Comfrey was reborn.

Outcomes

SBA's mission is to maintain and strengthen the nation's economy by aiding, counseling, assisting, and protecting the interests of small businesses. Many factors contribute to the overall growth and vitality of the small business sector. Among these are the state of the economy, technological change, globalization, and efforts by Federal, state, and local governments.

The growth and vitality of the small business sector can be measured by the following variables.

- Increases in the number of small businesses
- Increases in the growth of small businesses measured in terms of jobs, revenue, or taxes paid
- Increases in the diversity of small business ownership
- Increases in the small business activity in Empowerment Zones and HUBZones, and in rural and tribal areas
- Increases in the number of jobs created by SBA clients

In addition to these variables, SBA's outcomes include:

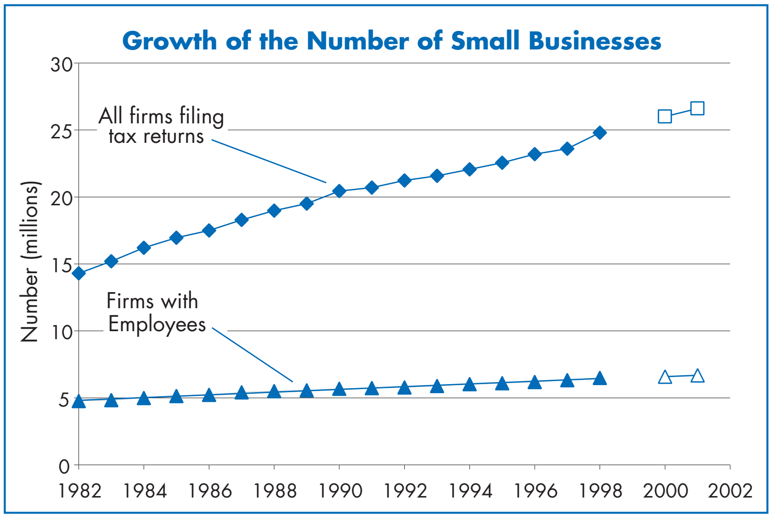
- Increases in the share of Federal procurement going to small businesses, to women-owned businesses and minority-owned businesses, and to businesses in HUBZones
- Increases in the reduction of small businesses' cost for complying with Federal information requirements and other regulations

Though difficult to show a direct causal relationship between SBA programs and changes in these variables, it is important to document how these measures are changing over time, to permit stakeholders to assess how well SBA is succeeding in its mission, and how SBA's programs affect on its clients.

What is a Small Business?

Small businesses are firms with fewer than 500 employees. The number of small businesses can be measured in two ways: by the number of businesses filing tax returns with the IRS (proprietorships, partnerships, corporations, firms with and without employees, and firms where the owner works part-time) and by the number of all firms that have employees (firms with employees are required to file social security, unemployment compensation and income tax withholdings).

Number of Small Businesses



Year	All firms filing tax returns	Firms with employees
2001 projection	26.6	6.7
2000 projection	26.0	6.6
1999	25.6	na
1998	24.8	6.5
1997	23.6	6.3
1996	23.2	6.2
1995	22.6	6.1
1994	22.1	6.0
1993	21.6	5.9
1992	21.2	5.8
1991	20.7	5.7
1990	20.4	5.7
1989	19.5	5.6
1988	19.0	5.5

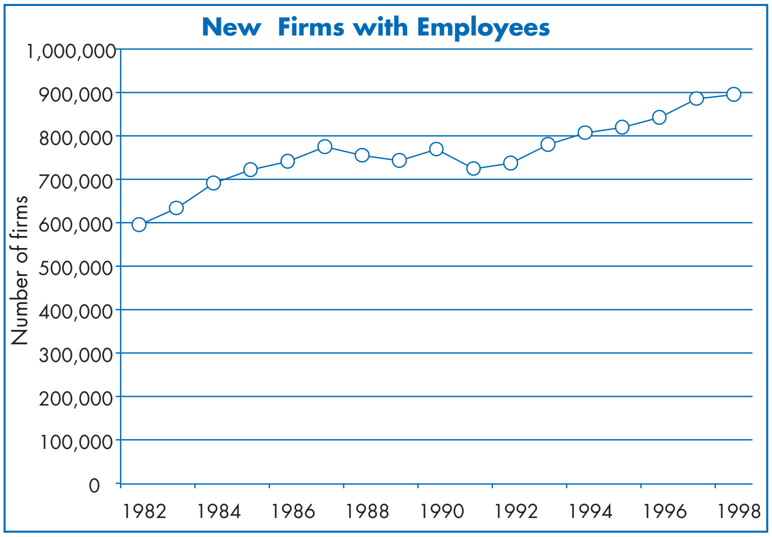
Data: The number of small businesses are measured in two ways: by the number of firms filing tax returns (defined as all firms filing tax returns) and by the number of firms with employees.

Data on firms filing tax returns are obtained from IRS. These tax returns represent corporations, partnerships, and sole proprietorships There is a one year lag in getting this data, so the 1999 data are preliminary. Data for firms with employees are based on firms filing quarterly income tax withholding at the state level. Firms operating in more than one state results in an over-count. Final data are not yet available for 1999. The U.S. Department of Labor, Employment and Training Administration, provides data of firms with employees.

Analysis of Results: The number of business tax returns filed in the United States has increased 20 percent since 1992. More than 99 percent were filed by firms defined as small under size standards set by the SBA. Almost two-thirds operate full-time, the rest part-time (from *The Facts about Small Business 1999*, Office of Advocacy, SBA).

The graph shows a steady growth since 1982. The annual average growth rate for the number of firms filing tax returns is 4.6 percent and for number of firms with employees is 2.1 percent for the period 1982–1999. On the basis of a linear regression for the period 1982– 1999 (with an explained variance for the period 1982–1999 of 98.9 percent), SBA projects that 26.0 million small businesses will file tax returns in FY 2000 and 26.6 million (projection based on a linear regression of values 1988–1999) in FY 2001. By using the same method, SBA projects 6.6 million businesses with employees (with an explained variance for the period 1982–1999 of 99.1 percent) in 2000 and 6.7 in 2001.

Number of New Firms with Employees

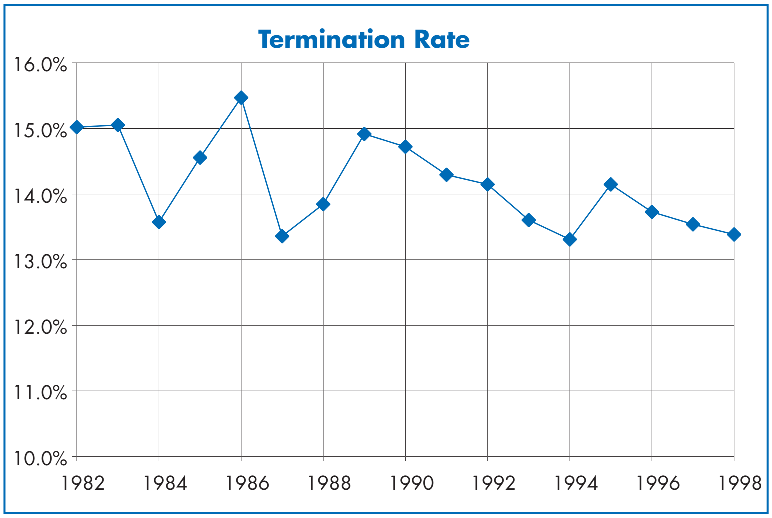


Year	Number of new firms with employees	Year	Number of new firms with employees
1982	595,000	1991	724,000
1983	633,000	1992	737,000
1984	691,000	1993	780,000
1985	722,000	1994	806,885
1986	741,000	1995	819,477
1987	775,000	1996	842,357
1988	755,000	1997	885,416
1989	743,000	1998	895,000
1990	769,124	1999	

Data: Measure defined as firms filing form 941 with IRS. Data provided by the U.S Department of Labor, Employment and Training Administration

Analysis of Results: Through its programs SBA seeks to help entrepreneurs start up new businesses. The number of new firms has been increasing steadily since 1992. SBA's projection is for 901,000 new businesses in FY 2000 and 916,000 new businesses in FY 2001. SBA provided almost 17,000 loans/financings through its 7(a), 504, and Small Business Investment Companies to startups, or about 2 percent of the estimated 887,000 new firms in 1999. Through its network of SBDCs, BICs, OSCSs, SCORE, and TBICs, and Women's Business Centers, SBA provided counseling and training to almost 1.2 million clients in FY 1999, a large number of where startups.

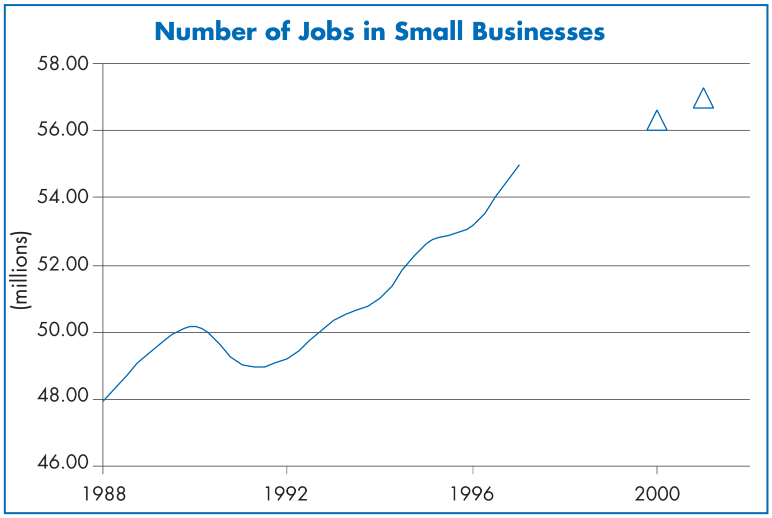
The growth of small business is the net result of new firms being created and existing firms dissolving. A high rate of business formation and dissolution is characteristic of a dynamic economy responding to changing tastes and preferences, new technologies, and changes in demography.



Year	Firm termination rate	Year	Firm termination rate
1982	15.0%	1991	14.3%
1983	15.1%	1992	14.1%
1984	13.6%	1993	13.6%
1985	14.6%	1994	13.3%
1986	15.5%	1995	14.1%
1987	13.4%	1996	13.7%
1988	13.8%	1997	13.5%
1989	14.9%	1998	13.4%
1990	14.7%	1999	N/A

Data: Based on data from U.S. Department of Treasury, IRS, SOI bulletin. When a business terminates, or goes out of business, in one state and still continues to do business in another state, or if the business terminates in more than one state, then this can result in an over-count. It should also be noted that it can take up to eight quarters for a firm that has gone out of business to be removed from the Employment and Training Administration's list of filings. The termination rate is defined as the number of small businesses terminations divided by the number of state level firms with employees.

Analysis of Results: The termination rate has had a decreasing trend since 1986. Although the net growth in the number of small businesses with employees was 2 percent, each year about 14 percent of small firms with employees drop from the unemployment insurance rolls and 16 percent are added. This means that about half of all listed firms disappear or reorganize every five years (*The State of Small Business*, A Report of the President, Office of Advocacy, SBA, 1995).



Year	# Jobs in small firms (in millions)
2001 projection	57
2000 projection	56.3
1999	N/A
1998	N/A
1997	55
1996	53
1995	53
1994	51
1993	53
1992	49
1991	49
1990	50
1989	49
1988	48

Data: The data are derived from firms with positive payroll reporting to IRS on form 941.

Analysis of Results: The number of jobs in small businesses has varied substantially since 1988 in large part due to the recession in 1990–1991. In FY 1997 small businesses provided 55.0 million jobs. SBA projects that small businesses will provide 56.3 million jobs in FY 2000 and 57 million jobs in FY 2001. A SBA/Census database indicates that between 1990 and 1995, 76.5 percent of all new jobs came from firms with fewer than 500 employees and about 49 percent came from firms with fewer than 20 employees. Startup firms provided about a third of the total new jobs.

Jobs Created by SBA Clients

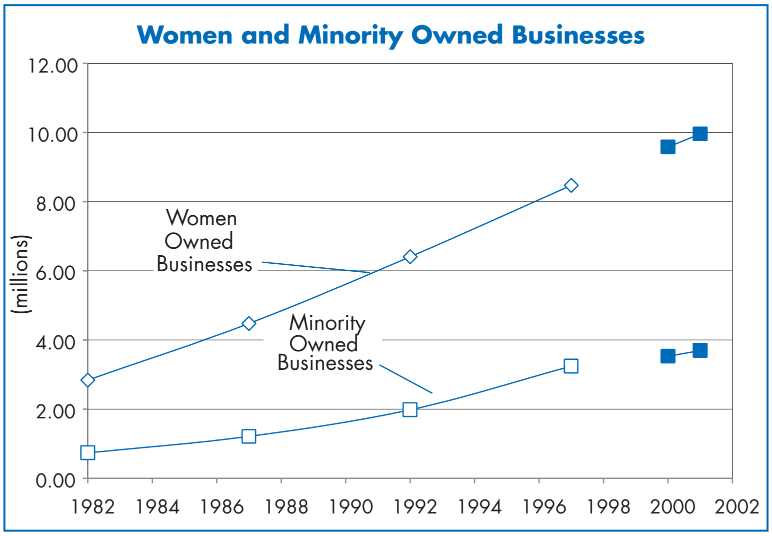
A number of studies have attempted to estimate the job creation effects of SBA programs. Examples include the 7(a) and 504 loan program study and the biannual study on the impact of the Small Business Development Center program. Some SBA programs estimate job creation from surveys, while others capture data on job creation by directly asking clients about the impact on jobs retained or created as a result of program participation.

SBA Client job creation/retention	FY 1997	FY 1998	FY 1999
7(a)—jobs created	280,354	262,730	261,653
504—CDC jobs created/retained	73,696	90,919	102,009
Microloan jobs created/retained	1,784	1,745	1,800
SBIC—jobs created	74,000	89,000	117,000
SBDC jobs created	93,000	93,000	93,000
Disaster loans—jobs retained	N/A	N/A	55,610
Export loans—jobs created	5,000	5,340	5,040

Data: The job creation studies have data and methodological limitations.

- *The 7(a) program:* The job creation constant is derived from a study of firms that received 7(a) loans in 1990 and the consequent change in jobs in these firms from 1989 to 1994. The estimate was one new job for $27,700 in loans disbursed. This estimate is strongly affected by the slowdown in the economy during the measurement period.
- *The 504 program* estimate is based on the same study as the 7(a) loans. The job creation constant is one job for every $22,000 gross approvals. This estimate is also strongly affected by the slowdown in the economy during the measurement period.
- *Microloan* is based on client estimates of jobs created or retained.
- *SBIC program:* The job creation constant is based on a survey performed in 1999 by The Zermatt Group. The study estimated about one new job is created at the end of five years for every $35,000 of venture capital investment. The jobs included those in the firm that got the financing as well as indirect jobs created in other firms as a consequence of the financing.
- *The SBDC estimate* is based on the SBDC Biannual Economic Impact of Small Business Development Center counseling activities in the United States: 1994-1995, The survey result for 1994 was used as an estimate for succeeding years.
- *Disaster job estimates* are based on the number of jobs in firms receiving SBA disaster business loans.
- *Export loans estimates* are based on twenty jobs created for each $1 million in export sales according to Department of Commerce.

Analysis of Results: SBA's three programs(7(a), 504, and SBIC) contributed to over 450,000 new jobs in small businesses in FY 1999. Of the estiamted 15 million jobs created by small businesses between 1993 and 1998, the 7(a), 504, and SBIC programs created about 2.3 million jobs or about 15 percent of the total.



Year	Women owned businesses (millions)	Minority owned businesses (millions)
2001 projection	9.96	3.70
2000 projection	9.58	3.53
1997	8.47	3.25
1992	6.41	2.98
1987	4.48	1.21
1982	2.84	0.74

Data: *Source:* SBA Office of Advocacy, *Women in Business*, October 1998, and SBA Office of Advocacy, *Minorities in Business*, April 1999. The criterion used is small firms that are self-certified as 50 percent woman-owned or minority-owned.

Analysis of Results: The New Markets strategy seeks to increase small business ownership by women, minorities, and veterans, as well as by stimulating small business startups and growth in inner cities, rural areas, HUBZones, Empowerment Zones, and low and moderate income (LMI) areas. The figures show that

- The number of women-owned small businesses have increased significantly, from 4.1 million in 1987 to 8.5 million in 1997. SBA projects that 9.6 million small businesses will be owned by women in FY 2000 and 10.0 million in FY 2001. Women now own about one-third of all firms and employ 24 million people. These companies generated $3.1 trillion in revenue in 1997, more than triple the amount from a decade earlier.
- The number of minority-owned small businesses has grown significantly since 1988 and at an increasing rate since 1994. SBA projects there will be 3.5 million small businesses owned by minorities in FY 2000 and 3.7 million in FY 2001.

Share of Federal Procurements Going to Small Business

Share of Federal procurement	Small business	Small and disadvantaged business	Women-owned business	HUBZone firms
Goal FY 2001	23.0%	7%	3.0%	2.0%
Actual 1999	22.4%	6.6%	2.3%	1.0%
Actual 1998	23.4%	6.5%	2.2%	N/A

Data: *Source:* The Federal Procurement System Database. The data exclude prime contracts awarded and performed outside the United States, foreign military sales, and mandatory sources of supply (e.g., Federal Prison Industries, Committee for Purchases from the Blind or Severely Handicapped). HUBZone data for FY 1999 is unavailable through the FPDS to measure achievement of the 1 percent goal. Data are for Federal procurement prime-contract dollars awarded to small businesses, small and disadvantaged businesses, 8(a) firms, and women-owned small businesses.

Analysis of Results: Each year SBA achieved the government-wide small business goal, recently increased to 23 percent by the Small Business Reauthorization Act of 1997.

Except for FY 1992, SBA achieved the small disadvantaged business goal of 5 percent. We continue to make progress toward achieving the government-wide, women-owned small business goal of 5 percent.

FY 1999 Performance Goals and Indicators

SBA's performance on its 59 FY 1999 performance indicators is reported below. The Agency achieved 90 percent or above success on forty indicators. We did not reach 90 percent on sixteen indicators, and data are not yet available for three. Where the Agency did not achieve 100 percent, we provide an explanation and outline steps to improve our performance in FY 2000.

STRATEGIC GOAL 1: HELPING SMALL BUSINESS SUCCEED

Annual Goal 1: Improve Access to Capital and Credit

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
1. Number of 504 loans	4,131	4,930	4,600	5,280	115%
2. Number of Microloans	1,115	1,091	1,300	1,434	110%
3. SBIC dollars invested	\$2.4 B	\$3.2 B	\$3.2 B	\$4.2 B	131%
4. Loans to minority-owned small business	10,616	10,897	11,589	12,127	105%

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
5. Number of 7(a) loans	45,228	42,268	51,000	43,639	86%
6. Number of startups through 7(a) loan program	15,266	15,191	17,191	13,969	81%

Comments:

SBA did increase the number of 7(a) loans to 43,639 over FY 1998 (by 3.2 percent), but did not reach our goal. However, while the number of loans increased by a little over 3 percent, the dollar volume of those loans increased 12.5 percent in FY 1999, from $9.02 billion to $10.1 billion.

Going forward SBA is focusing on filling the critical gap in the marketplace for smaller loans. Relatively high transaction costs and the loss of smaller rural and community lenders is shrinking the financing options available to smaller businesses.

SBA proposed small loan incentives for FY 2000 that were not enacted by the Congress. These incentives would have helped expand our lending to startups, which typically involve smaller loans.

We again proposed small loan incentives for FY 2001, to encourage more lenders to offer financing to newer and smaller businesses. SBA proposes to raise the guaranty for our 7(a) loans that are $150,000 and under from 75 percent to 90 percent, and simplify the guaranty fee structure for all loans. Our 90 percent guaranty will encourage more institutions to provide 7(a) loans, making capital more available at a more competitive price, while expanding financing options for small business owners.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
7. Number of loans to women-owned small businesses [7(a) & 504 loans]	10,788	11,084	15,395	10,244	66.5%

Comments:

While SBA has emphasized outreach to women entrepreneurs and has tripled its loans to women since 1992, the Agency achieved 66.5 percent of its FY 1999 target. The target for FY 2000 is 15,395. (Note: the number of loans to women reported here is based on 51% business ownership by women. In FY 1999, SBA also made 8,323 [7(a) & 504] loans to businesses owned 50 percent by women, bringing the total to 18,568 loans to businesses owned at least 50% by women.)

Because many loans to women are for startups, and are small, we believe our small loan proposal should help expand loans in this area.

In addition, we continue to increase our outreach to women. Women's Business Centers have more than tripled in three years, going from eighteen funded centers to fifty-nine (including twenty-five new WBCs in FY 1999.) SBA's budget request for FY 2001 includes $12 million, enough to widen our nationwide network to more than eighty sites. We plan to have at least one center in each state.

SBA will continue to seek partnerships with institutions and trade groups that concentrate on advising and financing newer and smaller businesses.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
8. Number of loans to veteran-owned small businesses	6,606	5,912	7,395	5,477	74%

Comments:

The Veterans Entrepreneurship and Small Business Development Act (the Act) provides SBA with the opportunity to enhance and increase its outreach and assistance to veteran small business owners. SBA is already aggressively implementing the Act in FY 2000. The following steps will help us reach our FY 2000 goals:

- Created by the Act as an independent organization, the National Veterans Business Development Corporation will help improve access to small business development training and counseling for the nations' veterans.
- SBA is working with the Association of Small Business Development Centers and the Department of Veteran's Affairs to expand research, create Internet distance learning courses and an electronic clearinghouse of contract opportunities.

- SBA is expanding its Veterans Grant Outreach Program, which provides business training, counseling, technical assistance, and mentorship to service disabled veteran business owners and potential owners.

- The Act also created a fifteen member Advisory Committee to help SBA keep current with the needs of the veteran community and continually tailor its programs to meet those needs.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
9. Number of export loans	447	431	550	429	78%

Comments:

Export loan guarantees remained level between FY 1998 and FY 1999. Reasons include the strong domestic economy reduced incentives to export; a strong U.S. dollar made exports less competitive overseas; Asian, Russian, and Brazilian markets had financial difficulties that reduced their demand for imports; and inadequate access to trade finance due to lack of familiarity and reluctance of most lenders to finance exports.

The target for export loans in FY 2000 target is 550. To meet this goal we will expand the marketing and outreach responsibilities of the U.S. Export Assistance Centers (USEACs), increase the ways lenders can use export working capital loans to assist small business exporters, educate small business lenders about the opportunities in export financing through trade finance training, continue to work with the Private Export Finance Corporation (PEFCO) to develop a secondary market program for export loans, and strengthen agency web applications designed to increase export sales. SBA will continue to seek new lending partners for its programs.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
10. Number of new licensed SBICs	33	31	65	53	82%
11. Amount of private capital licensed	$449 M	$578 M	$800 M	$747.4 M	93%
12. Number of small business financings	2,731	3,456	3,400	3,096	91%

Comments:

In FY 1999, SBICs provided over $4.2 billion in investments to small businesses. SBIC's 3,096 investments amounted to more than half of all institutional venture investments made in the United States in 1999.

Last year the SBA licensed fifty-three new SBICs, which was almost double our average for the preceding five years. Demand for the program remains very high with over fifty applications on file, and approximately forty more management teams that have been cleared to file applications. The Agency evaluated a large increase from the prior year and is expanding and reorganizing our Investment Office to increase our evaluation capacity in this area.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
13. Percent of financings in 50% minority-owned firms	26%	26%	28%	17%	60.7%
14. Percent of financings in 50% women-owned firms	8%	6%	7%	6%	86%

Comments:

FY 1999 saw a significant decrease in the number of investments by Specialized SBICs and Debenture SBICs from the prior year. These declined 49 percent and 29 percent, respectively. These types of SBICs are the ones with the largest percentage of investments in businesses with at least 50 percent owned by minorities. The reduction in the number of their financings had the effect of decreasing the percentage of investments to minority- and women-owned firms for SBICs as a whole.

To improve on this goal, SBA held a series of workshops in FY 1999 focused on linking existing SBICs and SSBICs with potential entrepreneurs in Low and Moderate Income (LMI) areas. We also introduced the LMI Investment tool for existing SBICs and SSBICs. This tool should focus attention on LMI areas where a number of minority firms are located and provide incentives to invest in those areas.

The Agency anticipates authorization in FY 2000 to license ten to twenty New Markets Venture Capital Companies (NMVC). These NMVCs will be designed to provide equity capital and technical assistance to small businesses in rural, urban, and low- and moderate-income areas.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
15. Number of bonds issued to contractors	16,313	13,305	14,300	9,399	66%

Comments:

Program volume has decreased as a result of a continued strong economy. Contractors can obtain bonding without the need to pay extra fees for a government guarantee. In the current economic climate, sureties are willing to bond riskier contractors without SBA's guarantee.

The target for FY 2000 is 9,500. To achieve our FY 2000 goal, we are looking for ways to reduce cost and increase outreach efforts to ensure that all businesses that need surety bond guarantee are aware of our program. In our FY 2001 legislative package, SBA is proposing a reduction in the contractor fee charged and an increase in the maximum eligible contract amount to help make the Surety Bond Guaranty program more competitive in the surety industry. We will also be seeking new sureties to partner with to assist a wider range of activity.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
16. Number of participating surety companies	31	37	41	34	83%

Comments:

Budgetary restraints have prevented us from doing the outreach necessary to attract new sureties into the program. Sureties have dropped out of the program for various reasons. Some are no longer writing bonds. Also, some Preferred Surety Bond (PSB) companies have acquired Prior Approval companies. Program regulations prohibit a surety and its affiliates from participation in both the PSB and Prior Approval programs. If a PSB surety acquires a Prior Approval surety, only one surety then participates.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
17. Dollar amounts of surety bonds written by Preferred Surety Bond companies	$226.4 M	$148 M	$175 M	$170 M	97%

Comments:

The performance indicator shows only a small insignificant deviation (within 3 percent short of target).

Annual Goal: Expanding Small Business Procurement Opportunities

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
18. Percent of procurement going to Small Disadvantaged Business (SDB) including 8(a)	6.2%	6.5%	6.5%	6.6%	102%
19. Number of Federal contracts through 8(a) firms	4,999	5,132	5,500	5,630	102%

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Estimated	Goal achievement
20. Percent of prime contract for small business	22.6%	23.4%	22.7%	22.4%	98.7%
21. Percent of subcontract for small business	41.5%	41%	43%	na	na
22. Percent of procurement going to women	1.9%	2.2%	2.5%	2.3%	92%

Comments:

The accomplishments for indicators 20 and 22 are based on preliminary FY 1999 data. The final FY 1999 data will be available April 2000. It is reasonable to expect that we will meet the targets.

SBA negotiates mutually acceptable prime and subcontract goals with each agency for each small business category. SBA must ensure that the mutually established cumulative goals for all agencies meet or exceed the government-wide 23 percent small business goal. SBA cannot accept an individual agency's goal until the government-wide goal is established in the aggregate. Subsequently, SBA compiles and analyzes agencies' achievements against their individual goals and reports the results to the President.

SBA will review the goaling data on a semi-annual basis and also issue mid-term report cards to all the agencies that negotiate goals with SBA showing the agencies' mid-year FY 2000 achievements compared to previous years. These mid-term report cards will be provided by SBA to brief the President's Management Council on the importance of the small business goals. The mid-year evaluation will be conducted using data from the Federal Procurement Data System that is based on the SBA goaling guidance.

To encourage agencies to set aggressive small business goals SBA established the new Gold Star Awards that will be presented at the Annual Joint Industry/SBA Procurement Conference, Business Opportunity Expo and Awards Celebration, in Washington, D.C. The Gold Star Awards will recognize the Federal personnel within the Office of Small and Disadvantaged Business Utilization (OSDBU) who have the primary responsibility for the aggressive goals and strategic initiatives that ensure small business a fair and equitable share of the Federal marketplace.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
23. Number of firms certified as SDB eligible	N/A	5,132	30,000	7,475	25%

Comments:

Several circumstances beyond SBA's control have affected participation in the SDB program. In retrospect, it appears that the universe of SDBs is smaller than 30,000. The numbers were overestimated, based on the potential of SDB subcontractors to be certified. Overestimation was a function of the unavailability of reliable relevant data.

Before the implementation of new regulations governing the SDB program, firms self certified as to individual social and economic disadvantaged status. It appears that many SDB subcontractors did not believe that there was any immediate benefit to certification.

Other circumstances that affected participation include (1) The U. S. Department of Defense (DOD) represents 60% of Federal contracting dollars (DOD cannot offer SDB price credits due to the Santorum Amendment Restrictions (i.e., if DOD meets or exceeds the 5 percent SDB goal in the prior fiscal year)). (2) The self-certification deadline for SDBs was extended from January 1, 1999 to June 30, 1999, and subsequently to October 1, 1999. For all prime Federal contracts awarded based on solicitations issued before October 1, 1999, the acquisition agency could rely on the self-certification of SDBs. This was true for initial awards as well as option years on contracts. (3) The SDB price credit program is new to the civilian agencies. Many contracting officers are reluctant to use SDB price credits due to the potential for legal challenges as a result of conditions beyond SBA's control, the use of "best value," contracting (i.e., low price is not significant), and the potential use of the 8(a) program to meet the 5 percent SDB goal.

For FY 2000 SBA has revised its target to 12,000. We will certify approximately 4,000 firms by September 30, 2000, to reach this goal. We are taking the following actions:

- SBA has given SDB Outreach Seminars in twenty-six cities in FY 2000. Our tentative schedule has us reaching an additional eleven cities by the end of 2000.

- A Memorandum of Understanding (MOU) has been signed between the SBA and the Department of Transportation (DOT) whereby each agency will recognize elements of each other's certification to the extent possible. The DOT and SBA will adopt each other's definition of ownership and control. As a result, over 5,000 of the approximately 50,000 DOT firms' profiles have been put into an interim database, with future plans for entry into PRO-Net. In March, 2000, we sent letters to these 5,000 firms inviting them to apply for the SDB Program. We also sent letters to 2,500 large, prime contractors, asking them to work closely with their suppliers to obtain SDB certification.

- We are developing a revised, simplified application that also incorporates the 8(a) application. This streamlined application is expected to encourage firms to apply that otherwise might not do so.

- We are also contacting the DOD Procurement Technical Centers to emphasize the SDB Program and to describe and highlight how these Centers can market our program more effectively.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
24. Percent of Procurement dollars to firms in HUBZones	na	na	1%	na	na

Comments:

The HUBZone Program was officially launched March 22, 1999, six months into the fiscal year. Although we are aware of HUBZone Program contract awards in FY 1999, we are unable to determine whether Federal agencies were successful in achieving the FY 1999 goal of 1 percent because the Federal Procurement Data System (FPDS) did not have a mechanism in place to identify HUBZone contract awards. The FPDS now has that capability and within the next few weeks we expect to receive our first report, which will show FY 2000 first quarter contracting activity.

The necessary investments in infrastructure and program development are beginning to pay off. We are now certifying firms more quickly and have over 1,000 approved in 47 states. In FY 2001 our focus will turn to outreach and enhanced compliance reviews to ensure that all eligible firms are aware of the opportunities the HUBZone program presents. We also will work to educate contracting officers about the benefits of the HUBZone program.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Estimates	Goal achievement
25. Percent of Small Business Innovation Research (SBIR) dollar awards to women-owned business	7.0%	10.9%	7.8%	11%	141%
26. Percent of Small Business Innovation Research (SBIR) dollar awards to minority-owned business	9.0%	14.5%	10.6%	15%	141%

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
27. 8(a) firms success rate	42%	46%	50%	N/A	N/A

Comments:

The success of the 8(a) program is measured as the number of 8(a) businesses independently owned and operated during three years after exiting the program. This measure is estimated using a survey. However, the results have yet to be tabulated for FY 1999.

An intermediate measure of 8(a) success is the percentage of firms that complete the nine-year program term or graduate early before the term expires and receive business development assistance. The FY 1999 completion rate is 68 percent, or about seven out of ten companies complete the program or are so successful that they graduate before the end of the nine years. Three of ten companies did not complete the full nine years of the program. The target for this measure for FY 2000 is 70 percent.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Estimate	Goal achievement
28. Dollar value of 8(a) contract	$6.4 B	$6.5 B	$6.5 B	$6.1B	93%

Comments:

In FY 1999 the number of 8(a) contracts increased by almost 10 percent over FY 1998; however, the dollar volume of 8(a) contracts decreased from $6.5 to $6.1 billion (or by 6 percent). This development is in part due to the declining

Federal procurement, contracts being bundled, and contracts that often are too large for 8(a) firms to perform. Indications are that 8(a) firms are receiving smaller contracts compared to the previous two fiscal years. Agencies are using streamlined contracting practices such as Federal supply schedules and government purchase cards which cannot be counted toward their 8(a) goals even though the dollars may be awarded to an 8(a) firm. Currently, agencies are unable to determine the extent to which 8(a) firms are receiving contracts when purchase cards are used because information is not collected by the credit card companies. Collectively, these factors contribute to the decline of 8(a) contract dollars.

The target for FY 2000 is $7 billion. We will continue to work with the procurement agencies to identify contract opportunities that can be performed by 8(a) firms. We are implementing an aggressive outreach strategy to train our district office staff and 8(a) firms about the changing procurement environment. We are also working with GSA to establish a basic purchasing agreement of all GSA schedule acquisitions under the 8(a) program, which will allow agencies that place orders from 8(a) firms to count those dollars towards their 8(a) procurement goals.

Annual Goal 3: Enhancing Entrepreneurial Development Assistance

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
29. Export clients counseled (USEACs &SBDC)	14,645	9,957	10,432	16,076	154%
30. Export clients trained (USEACs & SBDC)	12,300	13,141	13,905	27,366	197%
31. Clients counseled by SCORE	241,279	246,707	245,300	266,048	108%
32. Clients trained by SCORE	116,902	107,532	120,000	118,806	99%
33. Clients counseled by SBDC	240,522	237,655	242,408	263,927	109%
34. Clients trained by SBDC	315,210	309,382	327,944	331,464	101%
35. Women counseled by SBDC	86,921	88,019	89,780	99197	110%
36. Women trained by SBDC	150,501	141,015	149,476	154,850	104%
37. Minorities counseled by SBDC	65,485	56,540	43,015	65,693	153%
38. Minorities trained by SBDC	32,443	64,315	68,173	69,665	102%
39. Clients served in BICs	94,000	108,918	113,400	123,264	109%
40. Clients served in TBICs	1,707	2,815	3,683	3,913	106%
41. Clients served in WBCs	8,140	9,000	10,000	30,577	306%
42. Clients served in OSCSs	28,000	41,699	44,000	53,374	121%

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
43. Number of on-line requests for business development information	na	30,000	33,000	10,293	32.2%

Comments:

We continue to develop and improve the On-line Women's Business Center web site at www.onlinewbc.org. As the site's content expanded and became more user friendly, clients found it easier to find information from the web site rather than e-mailing their questions. For FY 1999, we estimated that we would have about 165,000 visitors to the web site. The actual number was 694,984.

This indicator is no longer being used in FY 2000. We will, however, continue to track the results of on-line requests and the utilization of the web site to use in the maintenance and improvement of the site.

STRATEGIC GOAL 2: TRANSFORM SBA INTO A 21ST CENTURY LEADING EDGE FINANCIAL INSTITUTION

Annual Goal 1: Ensure a strong internal control environment, identify and manage risk, reduce cost (through increasing productivity, reducing defaults, increasing recoveries, shifting risk to partners), ensure customer satisfaction, and act on OIG recommendations.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
44. COSO-based audit	na	set plan	assess internal control	completed	completed
45. Net cash collection as a percent of XGP Portfolio	22.2%	21.9%	22.5%	22.5%	100%
46. Charge off rate	1.3%	1.1%	1.5%	1.5%	100%
47. Purchase as percent of total guaranty portfolio	2.23%	2.26%	2.06%	2.06%	100%

Annual Goal 2: Transform SBA's information system capacity
These indicators are in the form of deliverables.

System Modernization	FY 1999 Goal	FY 1999 Accomplishment
Technology and systems infrastructure	• Technology policy guidance • Develop systems modernization blueprint • Information technology architecture: to be reported • Gap analysis and migration plan	• Final • Contract awarded to EDS • Completed March 2000 • Completed March 2000
Phase I: Lender oversight and credit risk management	1. Fully define the systems requirements.	Completed Feb. 2000
	2. Identify all inputs and outputs needed for timely report generation.	Completed July 1999
	3. Benchmark loan monitoring business processes and system.	Completed Dec. 1998
	4. Determine data quality standards.	Completed June 1999
	5. Identify acquisition strategy and work increments to completion.	Completed Feb. 2000
	6. Analyze the benefits and costs of alternatives.	Completed Feb. 2000
	7. Ensure that proposed system is consistent with SBA's information architecture.	Completed June 1999
	8. Estimate the cost to system completion, identifying essential cost elements.	Completed Feb. 2000
	Electronic Guaranty Applications	On hold until 8 planning steps completed.
	Implement new Lender System	On hold until 8 planning steps completed.
Phase II: Modernize financial management and accounting systems	Disaster Assistance BPR	Completed
	Develop requirements for CFO	CFO requirements Feb 2000
	CFO Business Case	CFO Business Case expected April 2000
	Develop requirements for ODA	ODA requirements contract awarded-expected by end of 2000.
	Market research for COTS accounting packages	Completed
Phase III: Program management systems	Implement electronic ED–MIS for some programs	OMB approval March 2000; pilot in progress
	Implement electronic SDB system	SDB Tracking System implemented Jan. 1999; HUBZone Electronic Application implemented March 1999
Electronic commerce	50 lenders do electronic commerce (LowDoc, PLP)	LMS planning activities superceded FY 1999 goal for LowDoc and PLP lenders. Pilot for these will begin in FY 2000. Added 30 additional Sureties to SBG electronic processing and 15 Microloan Intermediary Lenders (Ils) are providing electronic quarterly loan status reports electronically. An additional 70 Ils have signed up to report electronically. User IDs and passwords have been issued.
Data quality	Develop agency-wide data quality guidance	Completed
	Develop Data Quality Plan for Loan Monitoring	Completed

STRATEGIC GOAL 3: HELP BUSINESSES AND FAMILIES RECOVER FROM DISASTERS

Annual Goal: In FY 1999, SBA will continue to provide an expedited response to disasters to help businesses and families recover, maintain the quality of disaster loan underwriting, and make electronic funds transfer available to all disaster loan borrowers.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
48. Field presence within 3 days of disaster declaration	95%	100%	98%	100%	102%
49. Disaster Home Loan Currency Rate	92.5%	94.3%	95%	95.2%	100%
50. Disaster Home Loan Delinquency Rate	3.9%	1.9%	2%	2%	100%

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
51. Loans processed within 21 days	87%	77%	80%	60%	75%

Comments:

During FY 1999, we successfully responded to 69 physical disaster declarations ranging from Hurricane George (the largest hurricane disaster in Puerto Rico's history) to Hurricane Floyd that covered ten states along the east coast of the United States. At the beginning of the fiscal year, we were faced with having to bring over 700 employees to Puerto Rico immediately, provide training, and then staff disaster recovery centers in every municipality in Puerto Rico at the same time responding to tropical storms that caused severe flooding in the southeastern parts of the United States. As of October 1, 1998, we had 902 employees doing this work. During the first four months of the fiscal year, we processed over 80,000 applications (out of a total of 104,643 for the year) of which only 55 percent were processed within twenty-one days. For the balance of the year, we exceeded the goal by processing 92 percent of all applications within twenty-one days.

The ability to process applications within the seven to twenty-one days is dependent upon the timing, location, frequency, and intensity of disasters and the availability of resources, trained staff, and equipment. We were unable to provide the same level of performance due to fiscal restraints. Our strategy is to staff up, train, and deploy sufficient levels of staff to be able to process disaster loan applications within seven to twenty-one days. We have continued to improve to our loan process and plan to implement electronic enhancements in the third quarter of FY 2000. We have tested and plan to implement an expedited method of processing home loans that meet certain criteria. We had requested and obtained approval from OPM to establish a "Disaster Personnel Reserve Corps" that will allow us to maintain a group of trained individuals on a standby basis that have agreed to be available within forty-eight hours of being called to work.

STRATEGIC GOAL 4: LEAD SMALL BUSINESS PARTICIPATION IN WELFARE-TO-WORK

Annual Goal: SBA will help small businesses satisfy their work force needs by hiring work-ready welfare recipients and will assist those former recipients who wish to become self-employed or start their own businesses.

Performance goals and indicators	FY 1997 Actual	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
52. Number of commitments by small firms to hire former welfare recipients	12,800	103,360	64,000	101,417	159 %

STRATEGIC GOAL 5: SERVE AS A VOICE FOR AMERICA'S SMALL BUSINESSES

Annual Goal 1: Maintain accurate and current data on small business from the Bureau of Census and other resources. Identify and disseminate information and research to policy makers and small businesses stakeholders on small business characteristics that are relevant to the formulation of public policy.

Annual Goal 2: Identify and reduce barriers to access to capital for emerging small businesses and economically disadvantaged business owners.

Annual Goal 3: Improve across-the-board Federal agency compliance with the Small Business Regulatory Enforcement Fairness Act (SBREFA) of 1996.

Annual Goal 4: Promote an understanding of small business rights in regulatory enforcement in the small business community and among regulators, research and report to Congress on the Federal regulatory enforcement climate faced by small businesses nationally, and report to Congress and the Administration on Federal enforcement practices and their effects.

Performance goals and indicators	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
53. Number of reports	24	25	36	144%
54. Number of SBREFA panel reports completed	8	7	7	100%
55. Number of agencies appointing RegFair compliance officials who are independent of enforcement activities	27	30	36	120%
56. Number of RegFair hearings held	10	10	10	100%
57. Number of Rules commented on	98	98	78	80%

Comments:

SBA reacts to proposals of regulatory agencies. Advocacy has increased responsibilities under SBREFA, namely, to participate in EPA and OSHA small business advocacy review panels, which consumes approximately 500 professional hours per panel. In addition, Advocacy is of the view that the 1996 amendment to the Regulatory Flexibility Act (RFA) which conferred jurisdiction on the courts to review agency compliance with the law has provided a major incentive to comply and this is resulting in increased consultation with Advocacy prior to the publication of regulatory proposals. This issue is covered in Advocacy's FY 99 Report to Congress on agency compliance with RFA.

This indicator is not in the final revised FY 2000 Annual Performance Plan because the result is not controllable. Advocacy does not generate the number of rules.

Performance goals and indicators	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
58. State exemptions for ACE-Net	27	42	38	90%

Comments:

State regulators and, in some cases, state legislatures, have to enact modifications to their laws/regulations to accommodate ACE-Net. The initiative rests with these decision making bodies. It is important to note that the number increased in FY 99 from twenty-seven to thirty-eight, a major accomplishment by any standard.

This indicator is not included in the final revised FY 2000 Annual Performance Plan because the result depends on the complicated securities regulations of some states.

Performance goals and indicators	FY 1998 Actual	FY 1999 Target	FY 1999 Actual	Goal achievement
59. Number of reviews of regulatory proposals for small business impact	1,675	2,500	1,338	54%

Comments:

First, it is possible that agencies are not proposing as many rules as in FY 1998 that impact small business. Second, rules that are reviewed address more complex problems, requiring more in depth professional analyses. In addition, Advocacy is being consulted more frequently by agencies prior to agency publication of rules for public comments. This early consultation is resulting in positive changes to rules but the work is not made public. Time spent on early consultation will be documented for FY 2000 and will be covered by Advocacy's report to Congress on agency compliance with the law.

This indicator is not in the final revised FY 2000 Annual Performance Plan because the result is not controllable. Advocacy does not generate the number of regulatory proposals.

Evaluations and Surveys

Women Business Centers

The Women's Business Centers conduct an annual client satisfaction survey. Questionnaires are sent to each client one year after they received service. The results indicate that a large majority of its clients rate the service as excellent or very good.

Women's Business Center Survey Result

Rating	FY 1995–96	FY 1996–97	FY 1997–98
Excellent	31%	33%	40%
Very good	33%	40%	36%
Average	10%	8%	8%
Fair	7%	4%	4%
Poor	4%	3%	2%
Not enough information	16%	13%	11%

Office of Disaster Focus Groups

The research was conducted to evaluate customer satisfaction with the services provided to recipients of disaster loans as a result of Hurricane George. Some of the major results follow:

- Most clients agreed that they learned of SBA's disaster assistance when first meeting with FEMA.
- Most clients agreed that the initial contact with SBA tended to be very positive.
- Most clients agreed that the actual loan application was relatively simple to complete.
- Most clients were impressed with the professional manner that SBA staff verified their losses.
- Most clients agreed that the period between loss verification and loan closing was described as the most difficult.
- Most clients agreed that the actual loan closing typically proceeded in a very professional and efficient manner.
- Most clients were pleasantly surprised by the brief period of time between the closing and the first loan disbursement.
- Some clients expressed frustration with the length of time it took for them to receive subsequent disbursements.
- Most clients agreed that they believe SBA's insurance requirements for them were reasonable.

Office of Disaster Assistance Customer Satisfaction Survey

The survey was conducted to measure the level of satisfaction SBA customers were experiencing with the service provided by the Office of Disaster Assistance during the disaster loan making process.

SBA developed the survey questionnaire in FY 1999, and received OMB approval in November to conduct the survey. A survey of 2000 disaster loan recipients has subsequently been conducted. A report of the survey results are expected to be available in April 2000.

One Stop Capital Shop Customer Satisfaction Survey

The survey was conducted to measure customer satisfaction with the One Stop Capital Shop (OSCS). The intent is to adjust the service delivery and product availability at the SBA's OSCS. The data for this survey have been collected, and the results of the survey will be available in early April 2000.

National Partnership for Reinventing Government Employee Surveys

In FY 1998 and in FY 1999, the National Partnership for Reinventing Government (NPR) in partnership with Office of Personnel Management, the Merit Systems Protection Board, and the Federal Aviation Administration, sent surveys to 34,000 randomly selected employees in forty-eight government organizations. The response rate was approximately 40 percent. The study was to show an agency how to determine changes between the two years, and then compare those results with government wide results in FY 1999. Four questions in the survey compared SBA with private sector norms.

The FY 1999 survey results follow:

- SBA had the highest response rate of any of the 22 Federal organizations.
- SBA exceeded the results in FY 1998 in 27 of 31 areas.
- The agency exceeded government-wide results in 28 of 32 areas in FY 1999.
- SBA exceeded the private sector norms in two out of four areas.
- SBA fell significantly below the government-wide average in the critical area of training for staff to provide high-quality customer service and training for staff to perform their jobs.

SBIR Evaluation

The study "Commercialization of Small Business Innovation Research (SBIR), Summary Report" (July 13, 1999) was designed to determine what progress had been made in commercialization and then document a better understanding of the commercialization process for SBIR. The study methodology was similar to that used by the GAO in 1992 and documented in their report (RCED-92-37). Some of the major conclusions follow:

- SBIR is a vibrant program that has become an established means of using small businesses to meet Federal agency research needs.
- SBIR has stimulated technological innovation and has been highly successful in fostering participation by minority-owned businesses in technological innovation.
- Phase III of SBIR that were awarded a Phase II prior to 1994 has amounted to over $4.6 billion in sales and further developmental funding. This does not mean that commercial success is easy to achieve for small business. Only one of sixty Phase I proposals ultimately result in Phase III success.

- Of the 2,674 Phase II projects for which responses were received, 1,313 projects have remained active in Phase III (49 percent).
- Several of the Federal agencies have begun capturing data about commercialization of prior projects as a part of new SBIR proposals.

8(a) program

SBA began several initiatives to comply with Congressional reporting requirements for the 8(a) Business Development program (i.e., assess recently implemented program changes) and the HUBZone contracting program, to include the following:

- Measuring the long-term viability of 8(a) firms: This project will provide for a systematic approach to examine the outcomes of successful 8(a) program participants.
- Owner financial characteristics and minority business performance, employment capacity and sustainability: This project will examine the association between the financial characteristics of business owners starting a business and subsequent performance in terms of employment characteristics and sustainability.
- Identifying failure propensities among minority owned businesses: This research will help support the development of a scoring mechanism for business development by firm age or business development stages.
- HUBZone Benchmark Study: This study will help SBA assess the changes in employment opportunity and investment in distressed urban and rural communities as a result of the HUBZone program.

In the FY 1999 Annual Performance Plan, OIG identified targets for performance outputs. These targets were based on historical averages. This FY 1999 Annual Performance Plan Report will not report against the targets in the plan because 1999 is a transition year. Instead, we have chosen to account for our accomplishments by using a narrative approach. A statistical analysis is located on page 55.

Goal 1. Improve the economy, efficiency, and effectiveness of SBA programs through recommendations resulting from OIG oversight activities.

In response to separate requests from the Senate Committee on Governmental Affairs, the House Majority Leader, and the Committee on Government Reform and Oversight, in December 1998, OIG identified the top ten management challenges facing the SBA. They were based on our general knowledge of SBA activities and previous audits, inspections, and investigations of SBA and included recommendations on how to best address these issues. In response to the actions taken by the SBA to address OIG's recommendations, one of the ten management challenges was removed from the list and portions of others have been implemented.

- Major Audits: OIG issued twenty-six audit reports and identified over 148 recommended actions to improve the economy, efficiency, and effectiveness of SBA programs during FY 1999. OIG completed major program audits of Section 7(a) business loans, Northridge Disaster early defaulted loans, five surety bond companies, Disaster Home Loan Servicing Centers, SBA's implementation of the Debt Collection Act, and SBA's FY 1998 financial statements.

A nationwide audit of Section 7(a) business loans concluded in FY 1999, with the issuance of the reports on the last three of eight districts in the sample. The purpose of the audits was to determine if Section 7(a) business loans were originated, disbursed, and used in accordance with twenty-two key procedures designed to reduce risk of loss to SBA. The eight districts were randomly selected, and thirty loans in each district were randomly picked for examination. Results in these three audits concluded that forty-three of the ninety loans had at least one noncompliance with the twenty-two procedures. Typical lender errors were lack of IRS tax verification, failure to verify use of proceeds, failure to verify equity injections, and failure to issue joint payee checks. Recommendations were made to the district offices to correct the problems found. SBA agreed with most of the recommendations made by OIG to address the deficiencies identified in the audits. The program offices are coordinating efforts to implement the recommendations.

An audit of defaulted loans from the 1994 Northridge, California, earthquake disaster found that SBA needed to improve loan origination and review of defaulted loans. On the basis of sample results that nineteen of seventy-five defaulting borrowers had poor credit or cash flow at loan origination, the auditors estimated that 2,316 Northridge loans totaling $90 million could have had the same problem and should not have been made. The auditors also identified twenty-one defaulting borrowers who had assets and income available for repayment that had not been identified by SBA. Another fifteen borrowers in the sample had assets and income that SBA already identified. The auditors estimated that borrowers on 2,560 defaulted Northridge loans totaling $80 million could have had unidentified assets and income that could be used to repay loans. SBA made

124,000 loans totaling more than $4 billion after the Northridge earthquake. By December 1997, there were 9,144 loans totaling $286 million in default; the audit sample came from the defaulted loans.

Five audit reports were issued on five sureties finding significant noncompliance with SBA procedures. More than half of fifty-one bonds at one surety had deficiencies that resulted in $1.3 million owed to SBA. Another surety did not follow proper procedures in eleven of twenty-four bonds reviewed, with a finding that $803,926 of loss claims were unallowable because of improper allocation of expenses and unallowable expenditures for claims settlement. In addition to claims issues, sureties were cited for issuing bonds after project starts, splitting bonds to stay under the dollar maximum for SBA guarantees, submitting bond applications in excess of the number allowed, submitting legal expenses that were not all allocable to the bond, not remitting salvage on time, and not remitting claim recoveries and fees due SBA. The Associate Administrator for Surety Guarantees agreed with our recommendations to recover funds due the SBA.

An audit of Disaster Home Loan Servicing Centers found more timely and frequent collection efforts were needed. The audit also found that delinquent disaster home loans were routinely charged off without using available liquidation tools, such as litigation and garnishment. The Associate Administrator for Financial Assistance (AA/FA) agreed with the recommendation to increase referrals to the Department of Justice.

As part of a joint project of the President's Council on Integrity and Efficiency (PCIE), OIG conducted an audit to determine whether SBA had implemented the Debt Collection Improvement Act of 1996 (DCIA) and whether SBA accurately reported delinquent debt to the Department of Treasury (Treasury). The audit found SBA had not fully implemented the DCIA and had not established a timeframe to implement wage garnishment. Also, purchased loans serviced by lenders were not referred to the Treasury Offset Program (TOP). The delinquent debt reported to Treasury was accurate. The report recommended that the AA/FA revise the loan accounting system to automatically refer to Treasury eligible loans over 180 days delinquent, refer to TOP purchased loans serviced by lenders, and establish a timeframe for implementing garnishment of non-Federal wages. The AA/FA agreed with the recommendations and advised that the revisions to the loan accounting system to refer loans to Treasury were in process and a date to implement wage garnishment has been established.

SBA's FY 1998 financial statements for the third straight year received an unqualified opinion. An unqualified opinion means that the auditors found SBA's principal financial statements to be presented fairly in all material respects in accordance with Office of Management and Budget (OMB) guidelines and SBA accounting policies. The audit, however, found three material weaknesses in SBA's internal control structure: lack of planning for financial reporting that resulted in untimely and erroneous draft financial statements, incorrect calculations used in the credit reform subsidy modeling and re-estimating process for the Section 7(a), 504, and disaster loan programs resulting in substantial errors (these calculations were corrected by SBA upon discovery by the auditors), and inadequate SBA computer security and applications development standards.

• Major Inspections: An inspection of the Certified Development Company (CDC) Program found that SBA's monitoring of the CDCs needed tightening to be effective. The report contained recommendations for strengthening internal controls and improving the effectiveness and timeliness of program delivery. It also found that CDC job creation data currently being used in SBA's Government Performance and Results Act (GPRA) plans have not been verified and have serious methodological flaws that call into question its reliability. During FY 1999, the Office of Financial Assistance (OFA) began implementing several of the recommendations. To correct inconsistent practices, it developed a training manual and initiated a series of training sessions at various district offices to review annual reporting requirements, the 504 loan monitoring system, and SBA's policies, procedures, and oversight for the CDC Program. OFA is taking steps to make annual reports more useful for monitoring CDCs, apply technology to manage the CDC reporting process more efficiently, and track borrower fees more closely.

An OIG inspection report identified potential security, legal, and organizational challenges that managers need to address before converting existing paper procedures to an electronic process. In an era of shrinking government budgets and greater reliance on private organizations, there is considerable pressure on program managers to use technology more effectively to make up for reduced resources, sustain production or service levels, and monitor the performance of out-sourced functions. This study represents a significant proactive effort by OIG to prevent serious management and operational problems that can disrupt programs when managers attempt such conversions too hastily or with insufficient preparation. The inspection report and a companion checklist guide describe each of the potential problems. They also set forth the essential considerations that need to be made in deciding how to convert to a more electronic process. These documents should assist managers in significantly reducing security risks such as inadvertent leaks of sensitive information or deliberate attempts to exploit system vulnerabilities and commit theft, fraud, or other crimes; legal risks such as safeguarding proprietary information; and organizational problems that accompany electronic conversions. The report has been well received by organizations in both the private and the public sectors as a useful roadmap for converting their processes. The Office of the Chief Information Officer (OCIO) and the Office of General Counsel implemented the recommendation calling for periodic electronic posting of a notice on employee computers to remind them of their security responsibilities and lack of privacy. OCIO also estimates a September 30, 2000, completion date for limiting the information in digital certificates used to verify an electronic document's authenticity.

An OIG inspection identified in the FY 1999 Annual Performance Plan to assess the effectiveness of the Business Information Centers and the One Stop Capital Shops has been expanded into an analysis of how well entrepreneurial development initiatives are being coordinated in the districts. The inspection is currently under way and will be completed in FY 2000.

• Reviews of Proposed Issuances: During FY 1999, the OIG reviewed 10 legislative proposals, 30 proposed regulations, 14 Agency Standard Operating Procedures, and 187 other SBA issuances to monitor and ensure the economy, efficiency, and effectiveness of SBA programs. Examples of the legislative proposals reviewed include the Proposed Small Business Paperwork Compliance Relief Act of 1999; Proposed Government Waste, Fraud, and Error Reduction Act of 1999; and the Proposed Government Waste Corrections Act of 1999.

OIG reviewed a proposed Review Guide that Agency personnel planned to use to review and monitor lenders participating in the Agency's Preferred Lender Program (PLP). On the basis of past audit findings that lenders do not always submit tax verification forms to the Internal Revenue Service (IRS), OIG recommended that the PLP review process should always include a determination that the lender: (1) obtained a completed IRS Form 4506, Request for Copy or Transcript of Tax Form, from the applicant/borrower; (2) submitted the form to the IRS; and (3) used the results to verify the validity of the tax return information or other credit information submitted by the applicant/borrower prior to disbursement. OIG also recommended that the review should indicate whether a referral was made to OIG as a result of any discrepancies found by the tax verification process.

OIG reviewed revisions to the regulations and internal Agency procedural notices implementing the HUBZone program. Additionally, OIG consulted with HUBZone staff to develop an application for program participants that addresses both the information-gathering needs of SBA and the fraud deterrence concerns of OIG. The application was adopted and is now in use.

Goal 2. Reduce fraud and abuse in SBA programs and foster integrity in SBA personnel and its resource partners.

The SBA OIG chaired an interagency group that worked with congressional staff to try to obtain legislation that would allow more extensive data sharing among Federal agencies. The intent was to enable agencies to access third-party databases that hold information useful for verifying the eligibility of applicants for Federal credit, grants, and other services. This capability would help the provider agencies and their OIGs prevent and detect fraud by program applicants. Although the Congress did not act on the matter in FY 1999, OMB has revived the effort in FY 2000.

The OIG continued to investigate a California loan brokerage firm that packaged and submitted approximately 160 loans originally valued at some $60 million to a now defunct participating lender bank. The principal owner of the loan brokerage firm, borrowers, and a tax preparer participated in submitting applications for numerous SBA-guaranteed loans containing altered tax returns and other fraudulent documents. Legal action in this matter resulted in eighteen guilty pleas, with thirteen sentenced and nearly $2.25 million in court-ordered restitution and fines in FY 1998 and 1999. Much of the investigative work done came to fruition in FY 1999 in terms of convictions and court-ordered restitution.

In addition to providing integrity awareness briefings to SBA employees, the OIG expanded its program of briefings for SBA resource partners such as participating lenders. In FY 1999, we briefed a total of 170 resource partners. The increase in OIG briefings for SBA's resource partners is in response to the new way SBA is doing business. SBA now relies on a large network of lending partners to deliver its programs, which has proven to be more efficient to taxpayers and leverages private sector expertise. Therefore, OIG's scope of responsibility to educate against fraud has expanded to include these resource partners.

The OIG was involved in several initiatives to enhance productivity. OIG investigations staff participated in a joint venture with the Federal Emergency Management Agency OIG to deter fraud at the local, state, and Federal levels by training state and local law enforcement authorities in methods of preventing, detecting, investigating, and prosecuting disaster-related fraud. The OIG devoted time to the development and testing of a new Management Information System that is designed to reduce paperwork and increase data integrity for investigative operations. The OIG played an active role along with the PCIE in facilitating the merger of the IG Criminal Investigator Academy and the Treasury IG for Tax Administration Training Academy. The new organization will better serve the IG community by offering more high-quality investigative training programs to enhance investigative productivity.

Goal 3. Communicate OIG findings, recommendations, and results to SBA stakeholders.

OIG published two semiannual reports and issued twelve monthly activity updates. OIG processed twenty-six Freedom of Information or Privacy Act requests. OIG also placed reports and other documents available electronically on its website, as well as updated and current information about the office and its mission.

OIG staff has played an active role in GPRA issues in the IG community through the PCIE OIG GPRA Interest Group, and with other agencies through the National Academy of Public Administration's (NAPA) GPRA Performance Consortium. For the Consortium, OIG staff organized discussion forums focusing on bringing together representatives of the executive and legislative branches to discuss their various perspectives on implementing the Act. OIG staff has also actively participated in the PCIE/Chief Financial Officers Council (CFOC) Dialogue Committee, developing seminars on GPRA issues of common concern to the IG and Chief Financial Officer communities.

The OIG completed two inspection reports in FY 1999, on the CDC program and on management issues in a "paperless" office. Both were widely disseminated to SBA Headquarters personnel, Congress, district offices, the national CDC association, and all CDCs. The "paperless" office report was well-received as a proactive effort to address an emerging problem in many organizations. We provided the report, along with a handy checklist pamphlet, to all IGs, district offices, SBA Management Board members, and a substantial number of requesters in the public and private sectors. We also briefed congressional staff members on the reports and posted both on the Internet.

Goal 4. Ensure the economical, efficient, and effective operation of OIG.

The OIG continued its program of quality assurance of its audits by having each report independently referenced in accordance with existing OIG policies and procedures. An external peer review was not completed during FY 1999 but is scheduled for the FY 2000 period in accordance with the PCIE requirements for the three-year cycle.

OIG developed a new Results Act Strategic Plan For FY 2001–2006 to respond more effectively to SBA's modernization efforts. During the last few years, SBA has been reinventing itself and changing the way it does business. By using its partnerships and business resource partners more extensively, SBA is moving farther away from the direct delivery of products and services, increasing the overall financial risk. Centralized business loan approval and processing, asset sales, privatization of a third of the disaster home loan program, and increased use of technology means that OIG must also change the way it does business. OIG has developed a new Strategic Plan and FY 2001 Annual Performance Plan specifically to address these issues more efficiently, effectively, and economically. The significantly revised plans will provide for more accountability on the part of the OIG, focusing the organization less on numbers of products and more on results and how to improve those results. A copy of the current SBA OIG Strategic Plan Framework comes later in this report.

The 1999 OIG Training Conference focused primarily on GPRA issues with several sessions devoted to the role of IGs in implementing the Act, and a workshop on developing OIG performance measures.

Office-Wide Dollar Accomplishments	Totals
A. Potential Investigative Recoveries and Fines	$10,419,102
B. Loans Not Approved as Result of Investigations and Name Checks	$28,382,286
C. Disallowed Costs Agreed to by Management	$2,322,780
D. Recommendations that Funds Be Put to Better Use Agreed to by Management	$8,929,983
Total	$50,054,151

Auditing Division Activities

A. Audit Reports Issued	26
B. Disallowed Costs Agreed to by Management	$2,322,780
C. Recommendation that Funds Be Put to Better Use Agreed to by Management	$8,929,983
D. Advisory Reports	3

Inspection and Evaluation Division Activities

A. Reports Issued	2

Investigations Division Activities

A. Cases Closed	130
B. Indictments	44
C. Convictions	53
D. Potential Investigative Recoveries and Fines	$10,419,102
E. Loans Not Approved as a Result of Name Check Program:	$28,382,286
F. Advisory Reports	1

**In our FY 1999 Plan, OIG identified averages for the out years for some of these outputs because targets could not be set. We will no longer provide these averages since our new plan has adopted more realistic performance goals.*

SBA Personnel Actions Taken as a Result of Investigations

A. Dismissals	1
B. Resignations/Retirements	3
C. Suspensions	2
D. Reprimands	1

Program Actions Taken as a Result of Investigations

A. Suspensions	0
B. Debarments**	3
C. Removals from Program	0
D. Other Program Actions	0

***Former officers of participating lender were debarred from jobs in the banking industry. Former SBA job applicant was debarred from applying for Federal jobs.*

Summary of OIG Fraud Line Operation

A. Total Fraud Line Calls/Letters	1,623
B. Total Calls/Letters Referred to Investigations Division for Evaluation	73
C. Total Calls/Letters Referred to Program Offices or Other Federal Investigative Agencies	161
D. Total Other Calls/Letters	1,389

Management and Legal Counsel Activities

A. OIG FY 1999 Appropriations	$10,800,000
B. Employees On Board	109
C. Subpoenas Issued	71
D. Semiannual Reports to Congress	2
E. Number of Employees Trained:	100

SBA OFFICE OF INSPECTOR GENERAL STRATEGIC PLAN FRAMEWORK

VISION

Our vision is to improve SBA's programs by identifying key issues facing the Agency, ensuring that corrective actions are taken, and promoting a high level of integrity. We will focus on serving the needs of our customers and stakeholders and on safeguarding SBA resources from waste, fraud, and abuse. We will also provide a work environment in the OIG that is conducive to excellent performance by our employees.

To accomplish this vision, we will

- Focus on significant, systemic issues drawn from the cumulative results of our reviews and cases.
- Enhance our expertise in SBA's major programs to help us identify priority issues and plan our reviews and casework.
- Become more proficient in the use of information technology, research methods, data analysis, and investigative techniques.
- Encourage creative thinking within our office and the development of synergistic teams that combine various disciplines.
- Achieve superior results by emphasizing corrective actions that will improve SBA operations, combat fraud, and eliminate program vulnerabilities.

MISSION

Under the authority and in fulfillment of the Inspector General Act of 1978, as amended, the Inspector General is committed to supporting 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.

STRATEGIC FOCUS

Financial Management Systems	Information Systems and Computer Security	Lender Oversight	Other Selected High Risk Issues	New Agency Initiatives

STRATEGIC GOALS

Improve the economy, efficiency, and effectiveness of SBA programs and operations.	Prevent and detect fraud and abuse and foster integrity in SBA programs and operations.	Ensure the economical, efficient, and effective operation of OIG.

OBJECTIVES

Conduct reviews of major program activities, with emphasis on high risk and high priority areas, and assess whether SBA can be reasonably assured that its programs are meeting their goals in an economical, efficient, and effective manner. Audit contracts, grants, surety claims, and defaulted loans to determine whether the costs claimed are allowable.	Detect/identify waste, fraud, abuse, and integrity problems in SBA programs and operations and take appropriate action. Prevent and deter fraud and abuse, and other misconduct through studies and education programs for employees and participants. Preclude persons not of good character from participating in SBA programs and employment.	Provide the tools, services, and supportive work environment necessary to improve employee productivity. Communicate and foster cooperation with all stakeholders, customers, and interested parties. Develop and maintain a planning process that will provide for effective monitoring of operations and identify opportunities for improvement.

CORE VALUES

Respect for the Individual

Independence and Objectivity

Excellence and Effectiveness

Professionalism and Integrity

Teamwork

Communication

Accountability

Improving Data Quality

Managing for results and producing an annual performance plan and performance report requires valid, reliable, and high quality performance measures and data. Some data used by the Agency are created by SBA itself. Other information, equally critical to the SBA's mission, is created by Federal and local governments, private industry, and SBA resource partners, and submitted to, or shared with, SBA according to established agreements. While the source of some data is outside of SBA's control, SBA must still protect the integrity of its information resources when assimilating external data.

GAO offers the following strategies for improving data quality in an organization and SBA is pursuing all four strategies:

- Fostering organizational commitment and capacity for data quality: We will achieve data quality through a number of different processes. First, as part of a formal process where managers will attest to the quality of their information. Second, we are training managers to make sure they understand the need for quality data. Third, we are managing for results, which requires us to develop better information systems for decision-making. Fourth, we are using performance information to evaluate our senior managers

- Assessing the quality of existing data: The data quality of our financial data systems is to a great extent ensured by internal review and data verification and by audits. However, steps need to be taken to assess the quality of loan data and program data provided by our resource partners. For example, an OIG report documented that SBDC centers do not always use the same definitions for clients served, making it more difficult to get a valid picture of what has been done. We plan to include data verification in our lender and resource partner oversight.

- Responding to data limitations: It is not enough to identify data quality problems. Where there are data limitations, steps need to be taken to improve data quality. Managers will be asked to document how they intend to reduce these limitations.

- Building quality into the development of performance data: The design process for building new IT systems includes building in and maintaining quality at all stages of data handling: input, storage, and use. The new systems and the changes made to existing systems will make sure that only correct data are entered into the systems and that these data are stored in one data base with stringent verification and change rules.

Results

In fiscal year 1999, we tracked our performance goals monthly and verified the accuracy of the data on an ad hoc basis. As part of this internal performance monitoring, we tested the relevancy of the indicators and identified problems of data completeness, timeliness, and accuracy.

In FY 2000, we will be implementing a more formal quality process. The process has the following steps:

- Program manager self assessment of performance indicator quality.
- Manager training in data quality control and improvement methods.

- Development of data quality improvement plans.
- Feedback to program managers of data limitations determined through using the data.

We completed the program manager self-assessment step in December 1999. The results were documented in the Annual Performance Plan for FY 2001. Program managers were asked to

- Define the measure
- Identify the data source
- Discuss the validity of the measure (i.e., is the performance indicator relevant, complete, and objective)
- List data limitations, particularly of resource partners, to include reporting cycles, incomplete source of data, double-counting, erroneous data, inconsistency in standards and definition of data, data that cannot be collected (due to privacy or policy), and system capacity
- Document steps being taken to improve data collection, verification and reporting, and to reduce data limitations

Following the self-assessment, we realized that additional training would be needed. The training step will be carried out mid year 2000. Essentially managers will be informed of the elements of data quality, how to ensure data quality through internal controls, and how to improve data quality. Managers will be asked to provide data improvement plans, with milestones, after completion of the course. These plans will be tracked as part of the monthly tracking process. A last step is the explicit feedback to managers regarding data limitations and data quality as part of the Office of Policy Planning's use of the data in analyzing agency activities, outputs, and outcomes.

SBA's Systems Modernization Project identifies improved data quality as a major objective. In the Loan Monitoring System (LMS), SBA took a two step approach to ensure that the LMS collects data that meets the needs of SBA management. First, SBA's contractor developed a Data Quality Guidance document that sets the goal of quality data in all SBA information systems. This guidance was used to develop the LMS Data Quality Management Plan to identify data quality standards and control systems for ensuring information accuracy for the LMS. The Plan identifies the activities SBA will undertake to ensure information accuracy including: development of business, data, and application architectures, physical data base design, data load and migration, testing focusing on data quality, and inspection and data configuration management during system operation.

In addition, SBA also performed an analysis of the data quality issues it faces in its legacy loan and loan accounting systems. The LMS Data Quality Plan focuses on ensuring that these kinds of quality issues are resolved and do not reoccur in our new system. A major effort within the LMS project is the cleanup and conversion of legacy loan records and loan accounting records prior to inclusion in the new LMS system and its associated accounting system. This will involve a dedicated effort by SBA program, field, and CFO staff.

FY 1999 Management Issues

Management Problem 1: District offices do not consistently apply guarantee purchase requirements

OIG recommended actions	SBA plan/actions
1. Implement a process to • Address the inherent conflict of interest that exists at the District Office level, • Improve the consistency and quality of the purchase decision through staff specialization and an economy of scale, • Ensure that SBA denies liability or reduces the guarantee when a lender has failed to comply with SBA requirements.	• In response to this audit SBA partially centralized the guaranty purchase review process. Currently, all SBA Express loan purchase activity is centralized at the Fresno Servicing Center, and all 504-debenture purchase activity are centralized at the Little Rock Servicing Center. • District offices still perform most of the other guaranty purchase reviews, except that the Office of Financial Assistance and the OIG have negotiated a compromise related to the OIG's recommendation that the processing of loan purchase requests be centralized. Under this compromise, a staff position will be established in the Office of Field Operations to review 10 percent of all loan purchase requests. The 10 percent sample will include all loans identified by the OIG, and by lender/loan reviews, or otherwise, as potentially problematic for purchase. • Loan purchase processing will be tracked by the field office to identify offices that require additional action because of noted shortcomings in their processing of guaranty purchase requests. Implementation will begin by April 30, 2000. This compromise action was approved by the SBA Deputy Administrator.[3/23]
2. Establish a procedure requiring District Offices to record guarantees that have been repaired and report those results to Headquarters.	SBA will track repairs by field offices to identify any loans having shortcomings. To accomplish the tracking, the Office of Field Operations will coordinate a user request to modify the loan information system with the Office of Financial Assistance and the OCIO. We estimate implementation by September 30, 2000. [3/23]

Management Problem 2: SBA needs to improve loan monitoring

OIG recommended actions	SBA plan/actions
1. Establish organizational responsibilities for lender reviews to ensure that all lenders are reviewed periodically, the results are documented, and recommendations are made to correct any problems found.	• SBA is establishing an Office of Lender Oversight under CA. This office will be staffed and operational by June 30, 2000. This office is evolving a risk management system that benchmarks lender performance. This allows comparisons of performance between lenders and against SBA standards and is used to prioritize lender reviews. • The PLP Lender Review Branch in Kansas City will function under the Office of Lender Oversight and, working with district office resources, will review all SBA lenders on a three year cycle. SOP 5050 Revision B, effective October 1999, establishes lender review procedures for all lenders and all loan categories. Teams are

		currently working to establish remedies for lenders' shortcomings identified in review process. Recommendations will be received before the end of the fiscal year. [3/23]
2.	Establish a schedule of lender reviews and adhere to the schedule.	• SBA completed the first round of reviews of PLP lenders in March 1999 and will conclude the second round of these reviews by March 31, 2000. The third round of PLP reviews will begin in April and will incorporate reviews of selected CLP and 7(a) guaranty lenders. OIG will evaluate the reviews as part of an audit of lender oversight scheduled to begin in FY2000. During subsequent three year cycles all lenders will be reviewed and evaluated against the established Risk Management Benchmarks contained in the intranet-based Risk Management Database. • Lenders are evaluated by district personnel against 120 performance factors. Lenders failing their review will placed on a remediation plan and reviewed again. Only lenders with minimal SBA loan portfolios will be excluded from this procedure. [3/22]
3.	Develop and implement a loan monitoring system that will enable SBA to evaluate the quality of a lender's SBA portfolio. Factors to be considered should include loan volume, loan origination, loan seasoning, and delinquency and default rates.	Major efforts have been expended and funded developing a monitoring system, which considers factors identified by the OIG, as well as others, and contributes to the overall lender evaluation process. Exact procedures will have to be worked out under the new Office of Lender Oversight. The monitoring system is expected to be fully operational by the first quarter of FY 2001. The office will be operational by June 30, 2000, and will be responsible for the oversight function of all lenders and the organizations responsible for lender reviews. [3/23]
4.	Establish baseline goals and measures for lender processing errors and periodically compare performance to goals.	• Processing errors are initially identified by district offices and centralized loan processing centers that review and screen out applications. The Office of Financial Assistance has implemented a lender review system, through the PLP Review Branch, as specified above. The PLP Review Branch systematically reviews all PLP lenders and rates them relative to their degree of compliance (i.e., substantially in compliance, generally in compliance). • A three-year cycle has been established to review all lenders, as specified above, which includes the 120 performance factors, and loan processing error identification. In addition, the Office of Capital Access is developing a Risk Management System that benchmarks lender performance and compares to baseline loan portfolio performance goals and allows for comparisons among lenders. • The new Office of Lender Oversight will be responsible for management of the Agency's Risk Management and Lender Review function, and exact operating procedures will have to be worked out under this new Office. In addition, the systems modernization initiative will per-

mit lender data collection such as, delinquency default rates, liquidations, loan payments, and loan origination. [3/23]

Management Problem 3: SBA needs an effective oversight process for SBLCs

OIG recommended actions	SBA plan/actions
1. Require each SBLC to establish an effective risk management system that will identify potential problems in a timely and accurate manner.	As part of the first round of SBLC examinations in FY 1999, every SBLC was evaluated and a determination made as whether or not they had an effective risk management system in place. The Farm Credit Administration (FCA), which SBA enlisted to conduct the SBLC examinations, made clear recommendations to each SBLC as importance of such a system. SBA supports the FCA in this regard. During the second round of reviews, currently underway, we are following up on last year's findings and recommendations. [3/24]
2. Ensure that SBA's oversight process gives full consideration to the findings of the annual SBLC examinations and tracks the implementation of their recommendations.	The SBA intends to assure that full consideration is given to the findings of the SBLC safety and soundness examinations. In the design of the SBLC examination effort, SBA made clear that the first year of examinations would provide a necessary baseline from which to measure progress. In response, FCA has developed a new format for its individual SBLC examination reports that compares findings in FY 1999 to findings in FY 2000. SBA intends to establish a system to follow the recommendations to completion. [3/24]

Management Problem 4: More participating companies need to obtain contracting opportunities in the Section 8(a) program

We agree. We have attacked these problems along four fronts: first, reducing the concentration of dollars among relatively few companies; second, increasing the number of firms that receive small contracts and purchase orders under $100,000; third, tracking firms' financial progress as they advance through the program; and fourth, actively seeking to graduate firms once they have met their financial goals, or to have firms that no longer need the program to withdraw from the program.

First, reducing the concentration of dollars among relatively few companies:

- In accordance with 13 C.F.R. 124.519, we actively limit the dollar amount of sole source contracts that firms may receive. A Participant (other than one owned by an Indian tribe or an Alaskan Native Corporation) may not receive sole source 8(a) contract awards where it has received a combined total of competitive and sole source 8(a) contracts in excess of the dollar amount set forth in this section during its participation in the 8(a) BD program. For a firm having a revenue-based primary SIC code at time of program entry, the limit above which it can no longer receive sole source 8(a) contracts is five times the size standard corresponding to that SIC code as of the date of SBA's acceptance of the requirement for the 8(a) BD program or $100,000,000, whichever is less. For a firm having an employee-based primary SIC code at time of program entry, the limit above which it can no longer receive sole source 8(a) contracts is $100,000,000. Once the dollar amount of 8(a) contracts is reached, the firm may not be eligible to receive any more 8(a) sole source contracts, but will remain eligible for 8(a) competitive awards.

This requirement applies to the 1516 firms that were certified for participation in the 8(a) program after December 31, 1997. We have reviewed each of the 1516 firms and found no firms that exceed these dollar limits. We believe that enforcing the cap on sole source contracts will make more 8(a) contracts available and should enable those Participants that have not received an 8(a) contract to receive 8(a) awards on a sole source and competitive basis. Moreover, the dollar limits should also encourage more 8(a) Participants to bid on 8(a) competitive contracts. That, in turn, should assist such firms in reaching and sustaining competitive viability after leaving the 8(a) Program.

- In 1995, we eliminated the indefinite delivery/indefinite quantity contract loophole, which allowed firms to get sole source contracts that were over the competitive threshold, while allowing the procuring activities to use a government estimate that was under the competitive threshold. In 1998, in accordance with 13 C.F.R. 124.519, we changed our regulation to limit sole source contracts. Also in 1998, in accordance with 13 C.F.R. 124.509, we now have the authority to enforce business activity targets.

- Our analysis shows that there has been a significant reduction in the concentration of 8(a) dollars among the largest firms. In fiscal year 1997, the ten largest firms had total 8(a) awards of $505,333,140; for fiscal year 1998, the ten largest firms had total 8(a) awards of $305,174,855. This was a 40 percent reduction in the concentration of 8(a) awards among the top ten firms. Additionally, in fiscal year 1997, the top 200 firms had total awards of $4,451,489,047 and total 8(a) awards of $1,940,270,586; 8(a) awards were 43.6 percent of total awards. In fiscal year 1998, the top 200 firms had total awards of $5,467,043,515 and total 8(a) awards of $2,142,262,589; 8(a) awards were 39.18 percent of total awards. This was a 4.4 percent reduction in the concentration of 8(a) awards among the top 200 firms.

Top 10 Firms Percent Reduction in Total 8(a) Awards
(in millions of dollars)

	Total 8(a) awards
1997	505
1998	305
Difference	200
Percent reduction	39.6

Top 200 Firms Percent Reduction in Total 8(a) Awards to Total Awards
(in millions of dollars)

	Total awards	Total 8(a) awards	8(a), percent of total
1997	4,451	1,940	43.6
1998	5,467	2,142	39.2
Reduction			4.4

- In accordance with 13 C.F.R. 124.509, during the annual review, the district offices ensure that firms meet their business activity targets. If a firm fails to comply with the regulation, they are denied additional sole source contracts. During both the developmental and transitional stages of the 8(a) BD program, a participant must make substantial and sustained efforts, including following a reasonable marketing strategy, to attain the targeted dollar levels of non-8(a) revenue established in its business plan. It must attempt to use the 8(a) BD program as a resource to strengthen the firm for economic viability when program benefits are no longer available.

In an effort to assess and ensure compliance with the 8(a) regulation, a Quality Service Review (QSR) is conducted at SBA district offices by MED staff (in conjunction with other program offices). The QSR addresses the Annual Review in addition to other program components, to determine whether the Business Opportunity Specialist has monitored and taken the appropriate action with regard to a firm's eligibility to continue participation in the 8(a) Program. A firm's compliance with its non-8(a) business activity targets is a key component that is assessed during the Annual review. However, to ensure that we are effectively monitoring this component, we will specifically address the business activity targets in the FY 2000 QSR.

Second, increasing the number of firms that receive small contracts and purchase orders under $100,000:

- We have increased the number of waivers of the competitive threshold, which allows a greater number of procurements to be competed below the $3,000,000 or $5,000,000 threshold, pursuant to § 124.506(4)(c). This provision permits the Associate Administrator for the 8(a) program to authorize contract competitions for contracts whose value does not exceed the sole-source threshold of three million dollars. For fiscal year 1999, we issued about 100 waivers, and for fiscal years 1996 through 1998, we averaged 75 waivers per year. This increase in the number of waivers demonstrates our commitment to increasing opportunities for smaller procurements and smaller firms.

- We have negotiated Memoranda of Understanding with twenty-eight Federal agencies that allow the agencies to contract directly with 8(a) firms. An additional feature of these MOU's is that they allow the agencies to issue purchase orders under $100,000 to 8(a) firms with minimal paperwork and with minimal lead-time. The elimination of the ten days for acceptance and the ten days for execution of contract speeds the procurement process by twenty days. Although we have no systematic way of tracking opportunities for these very small procurements, the MOUs have opened up a completely new area of procurement that did not functionally exist. Without the MOUs, it is likely that most purchase orders would not come into the 8(a) program.

Third, tracking firms' and owners' financial progress as they advance through the program:

- In accordance with 13 C.F.R. 124.602, firms with revenues between $1,000,000 and $5,000,000 are required to submit reviewed financial statements, and firms with revenues more than $5,000,000 are required to submit audited financial statements. This allows us to have a clear picture of a larger firm's financial status. For fiscal year 1998, 585 firms were required to submit audited financial statements, and 1,369 firms were required to submit reviewed financial statements. For fiscal year 1999, a total of 1,954 firms were required to submit third-party-prepared financial statements. This requirement allows the 8(a) program to learn more quickly whether a firm has met its business plan goals.

To ensure that we are effectively monitoring this requirement, we will specifically address this requirement in the FY 2000 QSR.

- By April 30, 2000, we intend to propose a regulation (it is being reviewed be OGC) that will require owners (those upon whom eligibility was based) to submit audited personal financial statements if their firms have revenues over $5,000,000, and to submit reviewed personal financial statements if their firms have revenues between $1,000,000 and $5,000,000.

- We require 8(a) business owners to certify annually that they still meet various eligibility criteria, such as the owner's net worth.

- We are developing a feature that will be added to PRO-Net that will allow procuring agencies' contracting officials to know whether a firm is eligible to receive 8(a) contracts. We plan for this system to be in place by September 2000. The system will give contracting officials quicker information regarding participant eligibility.

Fourth, actively seeking to graduate firms once they have met their financial goals, or to have firms who no longer need the program to withdraw from the program:

- We have assigned a higher priority to processing early graduations and withdrawals from the program. This is demonstrated by the increases in the numbers of graduations and withdrawals. During the five years from 1989 through 1993, we had 294 withdrawals, for an average of 58.8 withdrawals (There were no graduations during this period). During the 5 years from 1994 through 1998, we had a total of 6 graduations and 455 withdrawals, for an annual average of 1.2 graduations and 91 withdrawals. The withdrawals increased by 55 percent over the previous years. This demonstrates our commitment to graduating and withdrawing firms who have met their financial goals or who no longer need our assistance. A graduation is when a firm meets the goals stated in its business plan, and a withdrawal is when the firm leaves the program voluntarily, but has not necessarily met the goals as stated in its business plan.

- We are drafting a procedural notice that will address monitoring and graduating firms that have met the goals in their business plans. We intend to have this notice in place by June 30, 2000.

- During fiscal year 1999, we performed eight Quality Service Reviews, and during these reviews, we discovered two instances of district offices' failure to appropriately evaluate firms financial status, which allowed the firms to stay in the program. In each instance, the district office was informed that this was unacceptable and that once firms meet their business plan goals, they will be seriously considered for early graduation.

OIG recommended actions	SBA plan/actions
1. Determine the levels of contract support that are required to overcome economic disadvantage and graduate participants once they reach those levels.	• Agree. The SBA revised its regulations at 13 C.F.R. 124.519, *Are there any dollar limits on the amount of 8(a) contracts that a Participant may receive?* This regulation limits the amount of contracts that a Participant may receive in any SIC code. The regulation states that for a firm having a revenue-based primary SIC code at time of program entry, the limit above which it can no longer receive sole source 8(a) contracts is five times the size standard corresponding to that SIC code as of the date of SBA's acceptance of the requirement for the 8(a) BD program or $100,000,000, whichever is less. • For a firm having an employee-based primary SIC code at time of program entry, the limit above which it can no longer receive sole source 8(a) contracts is $100,000,000. The essence of the regulation and the limits placed on contract support is that once a firm has reached these amounts, the Participant is no longer considered to be economically disadvantaged in those SIC codes. The limits are applied by SIC code and have been successful at limiting contracts to economically viable Participants. Additionally, we believe that the limits have increased the number of contract opportunities available to program Participants who have received no contract support.

Management Problem 5: Participants who become wealthy are allowed to remain in the Section 8(a) program and be considered economically disadvantaged

We agree with this challenge in that, in the past, we had monitoring deficiencies. However, we have addressed these deficiencies by first, increasing our emphasis on annual reviews; second, recognizing the need for an objective scoring system for access to capital and credit; and third, defining and limiting excessive withdrawals.

First, increasing our emphasis on annual reviews:

- Three years ago we performed annual reviews on fewer than 50 percent of our portfolio, and for fiscal year 1999, we performed annual reviews on nearly 100 percent of our 5,200 firms.

- During the Quality Service Reviews, we require evaluation of no less than ten annual reviews per district office. Most of the QSRs are peer reviews; however, two of the eight performed in FY 1999 were both peer and Headquarters reviews. In the past three years, we have reviewed over 440 annual reviews, as part of the QSRs. Additionally, three years ago, Headquarters performed a staff review of 300 annual reviews. Reviewing these 740 annual reviews has allowed us to closely monitor the quality and accuracy of annual review process. Peer reviews are performed by field staff who are located in the field, but who are assigned to a different district office, and staff reviews are performed by Headquarters staff located in Washington, D.C.

Second, developing a scoring system for access to capital and credit:

- By the end of fiscal year 2000, we anticipate having a scoring system in place that will add additional objectivity to our existing determination in the review of a firm's access to capital and credit. As part of an audit being conducted by the Office of Inspector General's Auditing Division, they are attempting to develop a scoring system to determine access to capital and credit. We intend to collaborate with the OIG to develop this objective scoring system.

Third, defining and limiting excessive withdrawals:

- The regulation to correct and limit withdrawals has only been in place for sixteen months, and we learn of excessive withdrawals only during the annual review. Discovering and addressing excessive withdrawals is procedural, and not something that we systematically track. The only evidence of excessive withdrawals is maintained in the business development files. While we do not have systematic evidence on the total number of violations of the excessive withdrawal regulations, we do have anecdotal evidence that it occurred three times over the last four years. With the publication of our regulation in July 1998 at 13 C.F.R. 124.112, we can now train firms on proper compensation practices.

- Withdrawals are excessive if during any fiscal year of the Participant they exceed $150,000 for firms with sales up to $1,000,000; $200,000 for firms with sales between $1,000,000 and $2,000,000; and $300,000 for firms with sales over $2,000,000. The fact that a concern's net worth has increased despite withdrawals that are deemed excessive will not preclude SBA from determining that such withdrawals were detrimental to the attainment of the concern's business objectives or to its overall business development.

- The 8(a) program's field staff now has the regulatory direction to properly enforce limits on excessive withdrawals. However, this regulation has only been in place since July 1998, and it is too early to determine any systematic effects of the regulation.

OIG recommended actions	SBA plan/Actions
1. Redefine "economic disadvantage" using objective, quantitative criteria that effectively measure capital and credit opportunities.	Agree. The 8(a) BD program has assembled a working committee from the Offices of the Inspector General, 8(a) Business Development, and General Counsel that will develop recommendations to define economic disadvantage. The recommendations to due to the ADA/GC/MED by June 30, 2000.
2. Based on this new definition, create an automated capital and credit-scoring model to evaluate capital and credit opportunities of applicants and participants.	Agree. We anticipate that one of the recommendations from the above-mentioned working committee will be an automated algorithm that will score access to capital and credit for initial and continuing eligibility.
3. Provide sufficient financial and analytical training to the business opportunity specialists to enable them to evaluate a company's business profile and competitive potential.	Agree. We anticipate that one of the recommendations from the above-mentioned working committee will be a training syllabus.

A working group comprising representatives from the OIG, 8(a) BD, and the Office of General Counsel will convene on a weekly basis to provide recommendations to redefine economic disadvantage by June 30, 2000.

Management Problem 6: SBA does not enforce its rules to limit pass-through procurement activity to non-Section 8(a) participants

We agree with this challenge and have addressed the challenges in two areas:

First, changes to the twenty-eight memoranda of understanding. By April 30, 2000, as part of the upcoming renegotiation of the twenty-eight MOUs, we will add language that directs the procuring activities to review all 8(a) contracts for compliance with the subcontracting provisions, both at the time of contract award and annually during contract administration.

Second, changes in the procedures and Quality Service Reviews to address these issues.

- The Non-Manufacturer Rule (NMR) allows our firms to provide the product of a large business, as long as a waiver of this provision is granted. This is done on a case-by-case basis. The NMR program is managed by the SBA, and nearly 200 requests for waivers are reviewed annually. We intend to issue a procedural notice by April 30, 2000, that provides guidance on properly interpreting what constitutes manufacturing.

- The criteria for evaluation of the 8(a) program at the district offices will be amended by February 28, 2000, for inclusion in the FY 2000 Quality Service Reviews. We will add evaluation criteria that will direct the evaluators to review the strict compliance with this regulation during the fiscal year 2000 Quality Service Reviews.

OIG recommended actions	SBA Plan/actions
1. Develop a formula for calculating labor costs that can be easily understood, uniformly enforced, and withstand manipulation. The OIG has suggested that the calculation be based on a percentage of the total contract value, instead of one cost component; this method had been used in the past by SBA.	Agree. The program office agrees that conformance to this requirement is essential. Accordingly we will amend MOU that delegate 8(a) contracting authority to require the procuring activities to ensure that this is enforced on each 8(a) contract. This will be accomplished by June 30, 2000.
2. Tighten the definition of manufacturing to preclude the practice of making only minor modifications to the products of other manufacturers.	Agree. The SBA published in Federal Register a request for public comments regarding this issue. Comments have been received, and, based on those comments, we are drafting guidance to the field that will address these concerns. The notice will be issued to the field by June 30, 2000.

Management Problem 7: SBA needs to develop and implement a program-based cost accounting system

As early as 1997, SBA recognized the need for cost accounting. SBA contacted several CFO agencies and asked its accounting contractor to provide feedback on what other agencies were doing in this area. The response received was that very little was being done. Agencies typically would use a survey of agency activities to allocate costs. Therefore, in following this practice, the SBA's Office of the Chief Financial Officer (OCFO) hired a contractor to conduct a cost allocation study for 1997. This study was completed in mid-FY 1998. The study was again updated for 1998 costs, and completed in early FY 1999. These studies relied upon a survey of program and financial managers across the SBA to determine approximate employee usage of time that was then allocated against annual administrative costs to obtain the approximate cost of various SBA programs and activities. Cost surveys have become a preferred methodology for activity based cost accounting because they are efficient and far less costly than detailed payroll reporting of program cost data.

In Fiscal Year 1999, after performing a requirements analysis and a COTS assessment, SBA purchased the OROS Activity Based Costing (ABC) System to maintain cost data for the Agency. For FY 1998 and FY 1999 cost data, SBA developed an interface process to download cost data from the core administrative accounting system. The SBA also improved its survey method for FY 1999 reporting to include additional program activities and to survey all agency field and central offices on their employee time usage. In addition, the cost data download was modified to include more detailed information for analysis.

The OROS Activity Based Costing (ABC) system will be further used in FY 2000 and SBA will continue to perfect its ABC methodology to improve the accuracy of program cost information by using our existing accounting system data. Also, for FY 2001, the SBA will begin to implement activity based budgeting by using the ABC system. We believe that this cost methodology, just completed for FY 1999, is the most efficient method of meeting this need, and provides a reasonable estimation of program costs on an annual basis. Therefore, we plan to continue with this methodology into the future, using semiannual surveys of employee time usage. Again, we understand from our contractor that we are doing as much, or more, than other agencies in this area.

The Agency's Systems Modernization Initiative (SMI) will implement a Joint Accounting and Administrative Management System (JAAMS) within the SBA in FY 2002. The JAAMS will provide a more seamless interface with OROS for cost accounting data in the future. Also, SBA's SMI will improve the program data available for use with OROS cost data to develop unit costs for the Agency's programs that are required under the FASAB cost accounting guidance and for GPRA results reports.

The milestones are

- Produce FY 2000 cost reports having enhanced GPRA data using the OROS ABC System by December 31, 2000.
- Core Accounting System implemented by October 1, 2001.
- Cost Accounting System expanded and refined along with implementation of new program systems by December 1, 2002, to December 1, 2004.

Management Problem 8: Information system controls need improvement

SBA agrees that information systems controls need improvement. Improving the management oversight and control of the computer security program is a key initiative in the Agency. We have established an Information Systems Control Committee (ISCC) to address the issue of information system security. The committee includes the Chief Information Officer, the Chief Financial Officer, and the Associate Administrator for Disaster Assistance. The committee has been meeting monthly to monitor the status of the security enhancement program.

OIG recommended actions	SBA Plan/Actions
1. Entity wide security. SBA needs to implement a comprehensive entity-wide security program for its key information systems.	• Agree: We were authorized eight government employee positions to begin development of an Agencywide security program. We have hired four of the eight government personnel from the first vacancy announcement. We have reannounced the remaining four positions and are awaiting a roster of eligible applicants. • Integrated Management Systems, Inc. (IMSI), our contractor, is producing the documentation required for the security program. Thus far they have drafted a certification and accreditation manual, security feature user's guide, security test documentation, and system administrator's guide. • The security workload assessment, which will help to prioritize our system certification and accreditation reviews, is being refined to adequately reflect application sensitivity. • IMSI has completed reviews of three of the four systems identified in the FISCAM report. As part of the review process, IMSI is assisting program offices in the development of system security plans for their applications. • We have completed the update of our Security Program Standard Operating Procedures (SOP 90 47 1). The SOP is in final internal clearance and should be issued by the end of April 2000. • Completion Date: 50 percent complete September 30, 2001; completed September 30, 2003, for all programs.
2. Access controls.	Agree. Certification reviews will identify weaknesses in access controls. Where weaknesses exist the CIO staff will work with program offices to develop compensating controls or procedures to mitigate the vulnerabilities.

		• Access control reviews are part of the ongoing certification and accreditation evaluations. • IMSI has completed three certification reviews to date. Three new certification reviews are in progress. • Completion date: September 30, 2002, for all programs.
3.	Application development and change control.	Agree. All current application systems will be reviewed and certified. Future application systems will be reviewed and certified before implementation to insure that they meet appropriate Agency s standards. • IMSI has completed three certification reviews to date. Three new certification reviews are in progress. • Completion date: September 30, 2002, for all systems.
4.	Service continuity.	Agree. As a result of the requirements set forth in Presidential Directives (PDDs) 63 and 67, SBA is developing a comprehensive Business Continuity of Operations Plan (COOP) to be completed by June 2000. • We have finished data collection and site reviews for the five prototype offices and we are preparing the recovery plans. Once approved by senior management these plans will be used as templates for similar office types nationwide. Plans are being developed using SunGARD's Comprehensive Business Recovery software. We are incorporating procedures developed during the Y2K business continuity and contingency planning effort. • Our progress in developing a comprehensive contingency plan was reviewed FEMA during January 2000 as part of their oversight role under Presidential Decision Directive (PDD) 67. They found that we were "on track" to meeting the mandated deadlines of the Directive. • Completion date: September 2002 for all systems.
5.	Data authorization, completeness and accuracy.	Agree. The proposed solution to this recommendation is part of the SBA System Modernization Initiative, Phase II.
6.	Segregation of duties.	Agree. Certification reviews will identify segregation of duty issues. The additional staff will work with the program offices to develop procedures to eliminate, or mitigate, the identified issues. • We issued Information Notice 9000-1162 explaining the importance of maintaining segregation of duties during application development and in assigning permissions to use SBA applications. • Segregation of duty reviews are part of the ongoing certification and accreditation evaluations. • IMSI has completed three certification reviews to date. Three new certification reviews are in progress. • Completion Date: September 30, 2002 for all systems.

Management Problem 9: Preventing loan agent fraud requires greater emphasis

OIG recommended actions	SBA plan/actions
1. Submit a legislative proposal requiring that all loan agents provide SBA with the information necessary to conduct a criminal background check, including a social security number, and SBA conduct criminal background checks on all loan agents.	• OIG legislative proposals are included in the Agency's FY 2001 legislative package. [3/14] • The establishment of loan agent registration and monitoring systems is tied to the development of a Partner Information Management System (PIMS), a joint effort of the OCIO and OFA. PIMS will be incorporated into the monitoring portion of the Systems Modernization effort. SBA Form 159, which contains information on loan agents, has been modified to capture registration data and will be sent to OMB for approval as part of the implementation of SBA's System Modernization efforts. The first phase of the PIMS system is expected to be operational in third quarter 2000. The loan agent portion is subject to passage of proposed legislation that may effect system implementation, and will be completed with appropriate lead-time. [3/14]
2. Identify loan agents and track their association with individual loans.	• The establishment of loan agent registration and monitoring systems is tied to the development of a Partner Information Management System (PIMS), a joint effort of the OCIO and OFA. SBA Form 159, which contains information on loan agents, has been modified to capture registration data and will be sent to OMB for approval by April 20, 2000. The first phase of the PIMS system is expected to be operational by the third quarter of FY 2000, with the loan agent system up and running six months after passage of the proposed legislation that authorizes the system. • OFA played a significant role in the Business Process Reengineering related to SBA's overall system modernization efforts. The purpose was to re-design SBA's loan guarantee, lender oversight, and risk management functions to make use of new technology, to be able to work effectively with lender partners as they evolve their technologies, and to enhance the ability to assess risk to SBA. Part of the process involved reviewing "best practice" organizations (as identified by GAO and outside consultants) to consider their systems and adapt those that are applicable to SBA. The implementation for the new Loan Monitoring System (LMS) began in December 1999. [3/14]

Management Problem 10: Borrowers in SBA's business loan program need to have criminal history background checks

OIG recommended actions	SBA plan/actions
1. Legislation requiring that all business loan applicants provide SBA with the information necessary to conduct a criminal background check, including a social security number, and SBA conduct criminal background checks on all business loan applicants.	The OIG drafted language for a legislative change to require background checks for all loan applicants and loan agents. The proposed legislation was delivered to the Congress at the end of December 1999 and is pending consideration. [3/14]
2. Sufficient funding to permit OIG to perform background checks on all business loan applicants.	An estimated $1.0 million was requested for FY 2001 to per form background checks on all loan applicants, subject to legislative approval. [3/14]