

Small Business Administration (SBA)
Task Order 004 - SBIC Examinations Evaluation
(Contract # 73351018A0040)

Final Report

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The statements, findings, conclusions, and recommendations found in this study are those of the contractor and do not necessarily reflect the views of the Office of Investments and Innovation, the United States Small Business Administration, or the United States Government.

Executive Summary

The Small Business Investment Company (SBIC) program is a Federal credit program authorized under the Small Business Investment Act of 1958, as amended, designed to enhance small business access to capital by stimulating and supplementing the flow of private equity capital and long-term loan funds, which small-business concerns need for the sound financing of their business operations and for their growth, expansion, and modernization, and which are not available in adequate supply. The program is managed by the Office of Investment and Innovation (OII), which includes the Office of SBIC Examinations (OSE) that is responsible for conducting periodic examinations of the SBICs for regulatory and financial compliance. In recent years, the time required to complete an examination has increased, resulting in a steady decline in the number of SBIC examinations.

SP Group was tasked by the U.S. Small Business Administration (SBA) to conduct a study of (1) how the SBIC program can streamline its examination process, (2) how the technology available may help in streamlining this process, (3) how the program can ensure that it is conducting its examinations within statutory requirements, and (4) whether the current organizational structure can be improved upon.

SP Group designed an extensive data collection approach to conduct an evaluation of the process. We analyzed the historical trends and patterns by performing a broad analysis of OSE's historical data. We then triangulated our observations with qualitative data collected through surveys and interviews of the various stakeholders involved in the examination process (managers, examiners, operations, and licensees). Our data collection methodology is summarized in Section 2 of this report, and our findings and observations for the SBIC examination process are described in Section 3. Under Section 4, we present our recommendations that are categorized by the four evaluation questions, as summarized below:

- 1. How can the SBIC program streamline its examination process?** We recommend that SBA adopt a risk-based resource allocation for exams by giving each exam an estimated "degree of difficulty" score that is different from the currently assigned "risk score," which primarily addresses the need for review as opposed to the level of examination effort required. We also recommend that SBA develop quantitative performance indicators for tracking examiner efficiency and quality, as well as managers' turnaround time. To track the proposed performance indicators, we recommend that OSE implement a task-descriptive timesheet that separates the examination activities into relevant subcomponents.
- 2. What technology needs are identified in your process review that may help streamline the examination process?** We recommend that OII's IT modernization initiative be assessed by OSE staff for net impact on processing time. We suggest that OSE require all licensees to submit data in a standard, digitized form that would automatically populate the examiners' work papers. We also recommend that OSE modernize and update its Standard Operating Procedure (SOP) 10 09.
- 3. How can the SBIC program ensure that it is conducting its examinations within statutory requirements?** We recommend that OSE develop a variable schedule at the beginning of the year that allots varying hours to examinations, based on expected level of effort, expected risk, and the known productivity of different levels of examiners. We also recommend that OSE establish an issue-clarification process for complex or unique circumstances in order to avoid jeopardizing the examination schedule. Lastly, we recommend that OSE create a centralized repository of guidance as a single online resource for examiners.
- 4. Can the current organizational structure be improved upon?** We recommend that OSE set up contingency plans for addressing staffing shortfalls. Such plans could include having senior managers conduct managerial reviews during times of need and having contractors serve as backup resources for surge periods. We also recommend that OSE consider appointing certain senior individuals as subject matter experts (SMEs) on recurring topics rather than having all 15 examiners become experts on all issues. Lastly, we recommend that OSE develop and implement a national training and onboarding curriculum to maintain consistency across the regional offices.

Section 1 – Introduction and Context

1.1 Background and Purpose

Background: The SBIC program is a Federal credit program, managed by SBA's OII, which is composed of five offices including OSE. OSE is responsible for conducting periodic examinations of SBICs for regulatory and financial compliance. OSE is further divided into its headquarters in Washington, DC, and three branch offices in Atlanta, GA; New York City, NY; and San Francisco, CA. Approximately 15 examiners from OSE independently gather and report information to OII's Office of Operations (Operations) to assist in the monitoring of the SBIC program.

Section 310(c) of the Act requires that each SBIC be examined at least every 2 years, and requirement may be waived for up to 1 additional year by SBA depending on certain factors, including credit risk and regulatory history of the SBIC. To meet this statutory requirement, SBA sets procedures in regulation and policy for compliance. The SOP 10 09 describes the examination procedures. Although the statute requires SBA to examine licensees at least every 2 years, SBA's internal goal in the SOP 10 09 is to examine leveraged SBICs (SBICs with outstanding leverage or commitment from SBA) on a 12-month cycle and non-leveraged SBICs (SBICs with no borrowings from SBA) on an 18-month cycle. The goals and priorities of the examinations are established annually by the heads of OII and OSE; a detailed schedule of examinations is developed by the head of OSE and the examination managers.

Purpose: In September 2018, SP Group was awarded a contract by SBA's Office of Performance Management (OPM) to conduct a study of how the SBIC program can streamline its examination process, how the technology available may help in streamlining this process, how the program can ensure that it is conducting its examinations within statutory requirements, and whether the current organizational structure can be improved upon.

In SP Group's Performance Work Statement (PWS), SBA noted that "the SBICs have encountered a steady decrease in the number of examinations conducted each year and an increase in the time it takes to conduct an examination." The SBA also noted the following challenges based on examination data from Q1 FY 2018.¹

- **Statutory Compliance:** The PWS states, "...the goal of having 100% of the SBICs examined within two years is not being met but it is close to being met with 95% of all SBICs examined within two years."
- **Scope Period:** The PWS states, "...although the goal is to have 100% of leveraged SBICs examined with an end of scope period date within the past 18 months, only 45% of leveraged SBICs met this standard as of FY 2018 Q1."
- **Examination Frequency:** The PWS states, "...the number of examinations conducted has declined by 25% during the past three fiscal years from 222 in FY 2015 to 186 in FY 2016 to 167 in FY 2017."
- **Length of Examinations:** The PWS states, "...in FY 2017, it took twice as long to examine an SBIC than it took in FY 2013."

According to the PWS, these challenges could pose an increased risk to SBA for timely detection of fraud, abuse, or illegal activities, as well as compliance with regulations. In light of these challenges, the PWS notes that OSE instituted a number of changes, including longer scope period to improve compliance record, redefining the examination cycle to the time elapsed between start of examinations, scheduling based on risk priority levels, contractor assistance for non-leveraged and some leveraged examinations, and a push toward a paperless electronic documentation system.

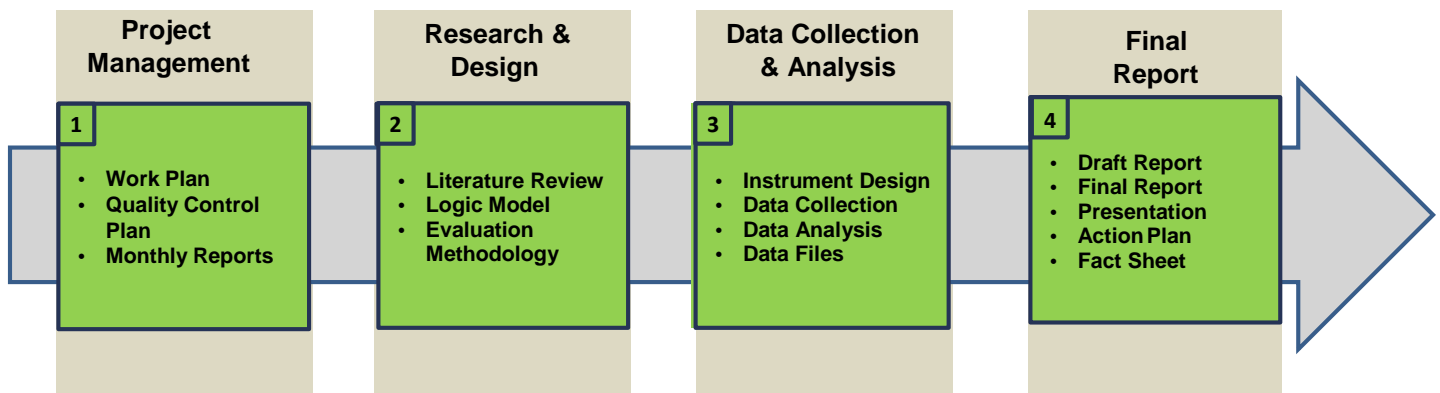
SP Group conducted an evaluation of the SBIC examination process over a period of 12 months (from September 28, 2018, through September 15, 2019²). Figure 1 shows the four phases of SP Group's evaluation: (1) Project Management, (2) Research and Design, (3) Data Collection and Analysis, and (4) Final Report. SP Group

¹ SBA's PWS for Task Order 004 awarded to SP Group.

² Contract was modified to extend the period of performance from June to September 2019.

completed Phases 2 and 3 of the project during the period of October 2018 through January 2019. From February through April 2019, SP Group engaged in data collection efforts and completed an analysis to identify trends, patterns, and issues that pointed to certain areas for improvement in the examination process. We submitted our findings in a “Data Analysis” report in early May 2019 and gathered SBA comments and feedback. We prepared a “Draft Report” of our findings and recommendations for SBA in July 2019. This “Final Report” reflects SBA’s comments on our Draft Report. Phase 4 deliverables also include an oral presentation to SBA management, a recommendation action plan, and a factsheet.

Figure 1: Timeline for SP Group’s Evaluation



1.2 Objectives of the Evaluation

Based on SP Group’s PWS, we identified the following six objectives for data collection and analysis. Where practical, SP Group established metrics for each of these objectives to assist in the evaluation study as well as to guide our data collection efforts.

1. **To determine what changes have occurred over the past 5 years:** We focused on the portfolio characteristics of risk, maturity, and size to determine the changes in the past 5 years and how these factors contributed to the lengthening of the examination process.
2. **To review and compare SBIC examinations with other peer agencies:** We looked at the degree of automation, skills of the examination team, and their examination approach and methodology to evaluate the SBIC examination process with similar regulatory programs.
3. **To study the SBIC examination process to uncover areas for process improvement:** We measured the current performance, utilizing metrics such as Hours per Exam (HPE) to evaluate efficiency of the current process.
4. **To assess the technology needs for examination process improvement.** We evaluated the Touches per Exam (TPE) to gauge the number of times a document is touched by multiple participants, leading to duplicative efforts that could be minimized through automation and digitization.
5. **To evaluate the process for compliance with statutory requirements:** We reviewed the quality assurance process to evaluate the compliance effectiveness of the current process.
6. **To evaluate whether the current organizational structure is optimal:** We compared the load balance across the various regional offices to assess the adequacy of the division of work in the current organizational structure.

In Section 2 of this report, we provide an outline of our data collection approach that was approved by SBA. Section 3 describes our analysis and findings, and Section 4 provides our detailed recommendations.

Section 2 – Data Collection

2.1 Data Collection Approach

SP Group adopted a mixed-method data collection approach where both quantitative and qualitative data were collected. We present a summary of the data collection methods and the nature of data collected below.

- **Quantitative Research:** SP Group was charged with determining changes that have occurred in the examination process in the past 5 years that have lengthened the examination process. SP Group conducted a quantitative analysis of SBA’s historic EXAMPPAM data from FY 2014 to FY 2018. This analysis allowed us to trace the evolution of characteristics such as the changing risk profile of the SBIC portfolio, HPE, and the time taken by various steps of the examination. These results are presented in Section 3, the Data Analysis section of this report.
- **Qualitative Research:** We conducted a survey of all examiners and managers at OSE, then followed up with individual interviews of each examiner and manager. We also interviewed personnel from six SBICs (two from each field office). We researched and collected literature on similar programs at other comparable government agencies regarding their examination process. Before engaging in interviews and surveys, we conducted a pilot test of our questionnaires with one examiner. The examiner’s feedback was incorporated into our final instrument design.

(i) Survey: We conducted a survey of the 15 examiners and 3 examination managers through online questionnaires. The objective was to gather information on each step of the examination process from the hands-on practitioners, which was then used as supplementary data during the interview phase of the data collection process. The survey was preceded by a letter from SBA management to examiners and exam managers introducing SP Group and explaining the reason and nature of the survey. The questionnaire was administered under complete anonymity. Participants were not required to provide information regarding their name, job, or contact information to ensure that the data we collected was not altered and was reflective of reality. The survey was administered online on Qualtrics over a weeklong period.

(ii) Interviews: The goal of the interview process was to collect qualitative data that we could then cross-reference with quantitative data obtained through the EXAMPPAM analysis as well as data collected through the survey. We conducted a combination of sample-based interviews with selected examiners and general interviews with all examiners and managers. The principal difference between the two approaches was that under the sample-based interviews, we were seeking a response to “*why*” a certain action was taken in the examination process, whereas under the general interviews we asked for “*what* should it take to do an exam?”

We conducted interviews with the following participants: (1) examiners, (2) exam managers, (3) the OSE Director and his staff at the headquarters, (4) the Operations Director and analyst, and (5) staff from six licensees. We selected two licensees from each regional office to ensure adequate representation.

The interviews were held by phone over a span of 1 month; the Operations staff interviews were held in person at the SBA headquarters. Each examiner interview was held for at least an hour each, and interviews with managers lasted for 2 hours each. We asked a uniform set of questions to each cohort. The SP Group interviewer team constituted the same four people: two lead interviewers and two staff members for taking detailed notes of the questions and responses. The notes were transcribed and further summarized into main takeaways from each interview. The results are discussed in Section 3 of this report (Data Analysis).

(iii) Literature Review: We conducted a literature review of best practices in examinations in other government agencies comparable to SBA, such as the Federal Deposit Insurance Corporation (FDIC), the Securities Exchange Commission (SEC), and the Government National Mortgage Association (GNMA). These reviews were based on publicly available documents such as their SOPs, manuals, guidance, handbook, and GAO/OIG reports. A summary of the results is presented in Section 3 of this report (Data Analysis).

2.2 Limitation of Data Collection

We encountered some limitations related to data collection that may have an impact on our analysis, especially with respect to historical trends and observations.

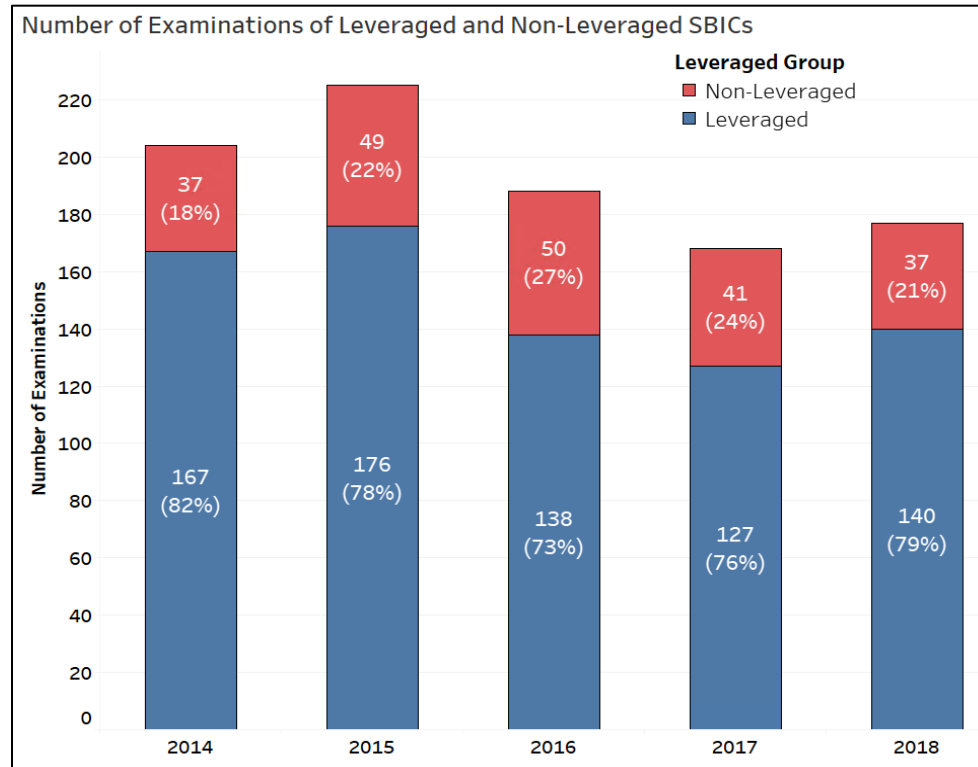
- **Lack of Available/Reliable Data for Prior Years:** We found that the EXAMPPAM data was sometimes incomplete for certain data fields, especially when comparing current information to prior years. However, we were able to make sufficient observations on the changes in the examination portfolio over time.
- **Limitations of Memory:** During interviews, we found that examiners could not shed light on why certain exams that were completed 2 years ago took longer than others. Oftentimes, they could not recall the details of the timeline for an old exam and did not have their notes/documentation easily accessible to recreate the timeline. This made it difficult to determine “why” certain exams on EXAMPPAM show longer exam time than others.
- **Parallel Efforts:** Some of the challenges that we noticed during our data collection efforts may be addressed by the new technology solution (from Backstop) in the next 1 to 2 years. Making an assessment of the adequacy or efficacy of the new technology solution is outside the scope of our engagement.
- **Changing Data Baseline Due to One-Time Factors:** During the past 2 years, the number of exams completed, and their characteristics, have been affected by several factors that may have obscured general trends. These included a concerted “catch-up” process (i.e. starting in 2017, OSE intentionally scheduled longer-scope examinations in order to bring all SBIC examinations current), staffing vacancies and shortages, and changes in the priority order of scheduling.
- **Limited Data on Comparable Programs:** When conducting literature reviews, we were limited to publicly available documents for learning about the examination process at other comparable government agencies. In many cases, the documentation was dated or incomplete, thereby limiting our ability to conduct a thorough analysis of comparable programs.

Section 3 – Findings

3.1 Changes in the Last 5 Years (Objective #1)

We conducted an analysis of the EXAMPPAM data from FY 2014 through FY 2018 to evaluate the changes in the examination portfolio in the last 5 years. We utilized data analytics and visualization tools such as Tableau and Power BI to assess trends and changes in the portfolio. In Figure 2, we show the number of examinations completed in the 5-year period for leveraged (blue) and non-leveraged (red) SBICs. SBA brought in contractors in August 2017 to supplement the work of SBA staff. The contractors primarily focused on non-leveraged examinations, but the contractor resources were also available for examinations of leveraged licensees. In FY 2018, 79 percent of the SBIC examinations completed were for leveraged licensees.

Figure 2



Based on our analysis of the changes in the past 5 years, we note the following key six takeaways that are discussed in detail in Sections 3.1.1 through 3.1.6. We believe that these factors contributed to the lengthening of the examination time in recent years.

- 3.1.1. Examinations of SBICs that are “greater than 5 years old” (generally a marker of being in “harvesting stage”) has doubled since 2014.
- 3.1.2. Examinations with findings have been climbing for leveraged SBICs.
- 3.1.3. 20 to 25 percent of findings are related to late filings.
- 3.1.4. Larger number of examinations involve long scope periods.
- 3.1.5. Vacancies, turnover, and absences have contributed to variability in the number of examinations.
- 3.1.6. Average time per SBIC exam and average time per managerial review is significantly longer.

3.1.1 Examinations of SBICs “Greater Than 5 Years Old” Has Doubled Since 2014

The following figures depict the number of examinations of leveraged and non-leveraged SBICs by the age of the licensees. The red portion of the charts show the number of exams for licensees that were greater than 5 years old (in harvesting stage). We observed that in 2018, exams of leveraged SBICs constituted a significantly larger number of licensees that were in harvesting stage. Figure 3a shows that the percentage of leveraged SBICs as a percentage of all leveraged exams in harvesting stage (red) doubled from 29 percent in 2014 to 61 percent in 2018. Similarly, Figure 3b shows that the non-leveraged exams in harvesting stage almost doubled, increasing from 46 percent in 2014 to 81 percent in 2018. These observations suggest that OSE staff and its contractors are conducting more examinations of older transactions, which can take more time than for licensees that are less than a year old (represented by green in the charts).

Figure 3a

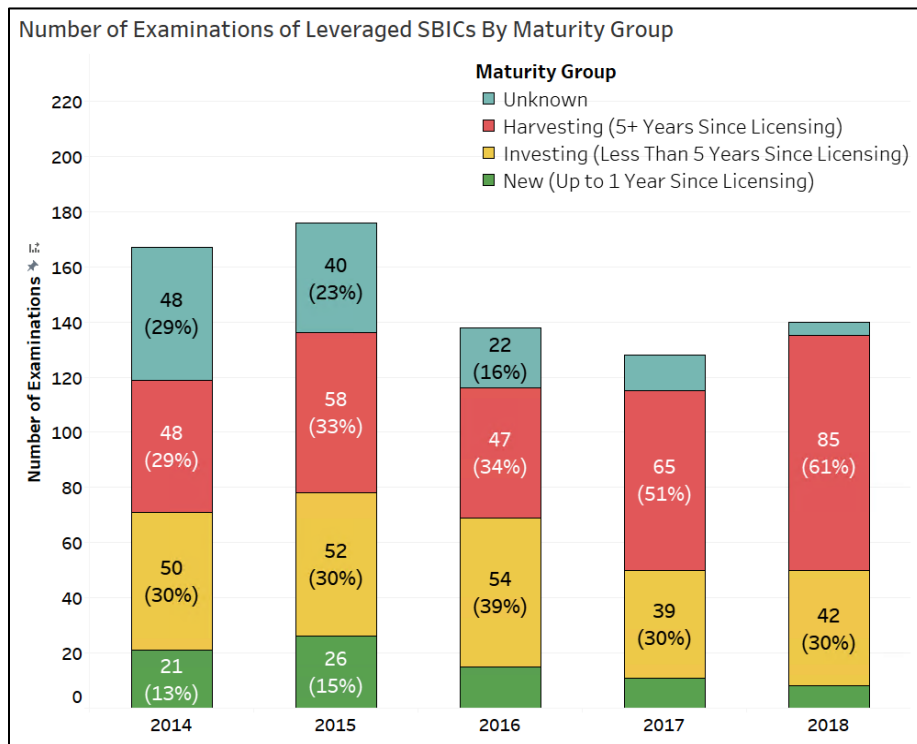
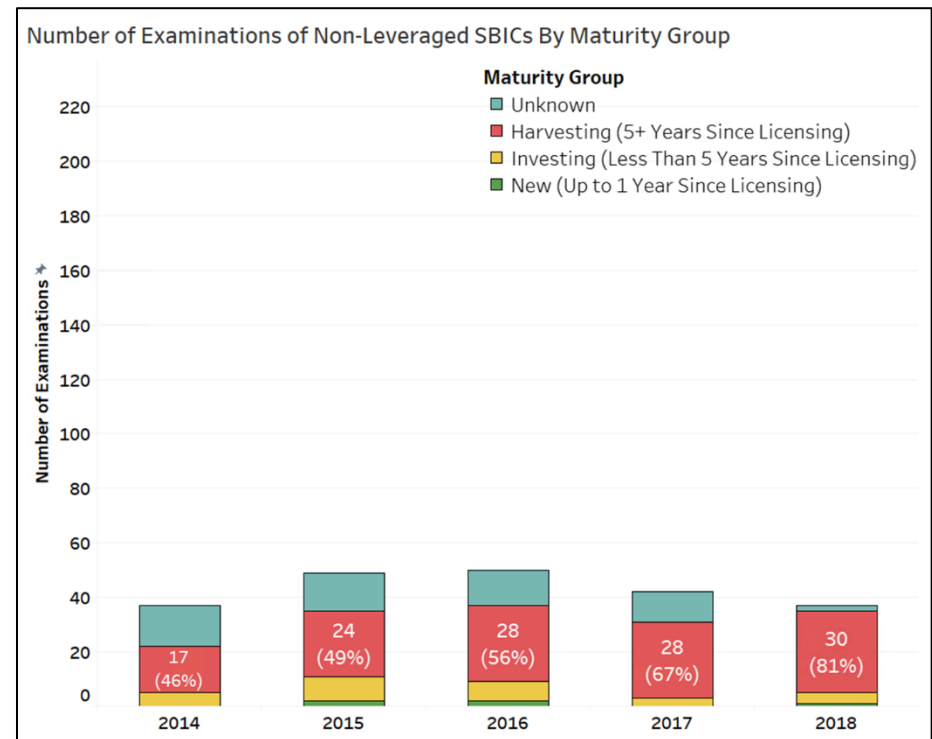


Figure 3b



3.1.2 Examinations With Findings Have Been Climbing for Leveraged SBICs

Figures 4a and 4b show the number of exams that had at least one or more findings in the past 5 years for leveraged and non-leveraged SBIC exams, respectively. As shown in Figure 4a, the proportion of leveraged exams with at least one finding increased from 16 percent in 2014 to 41 percent in 2018 for leveraged exams. For non-leveraged exams, we did not observe a similar increase. As shown in Figure 4b, the non-leveraged exams with findings varied around 30 percent.

Figure 4a

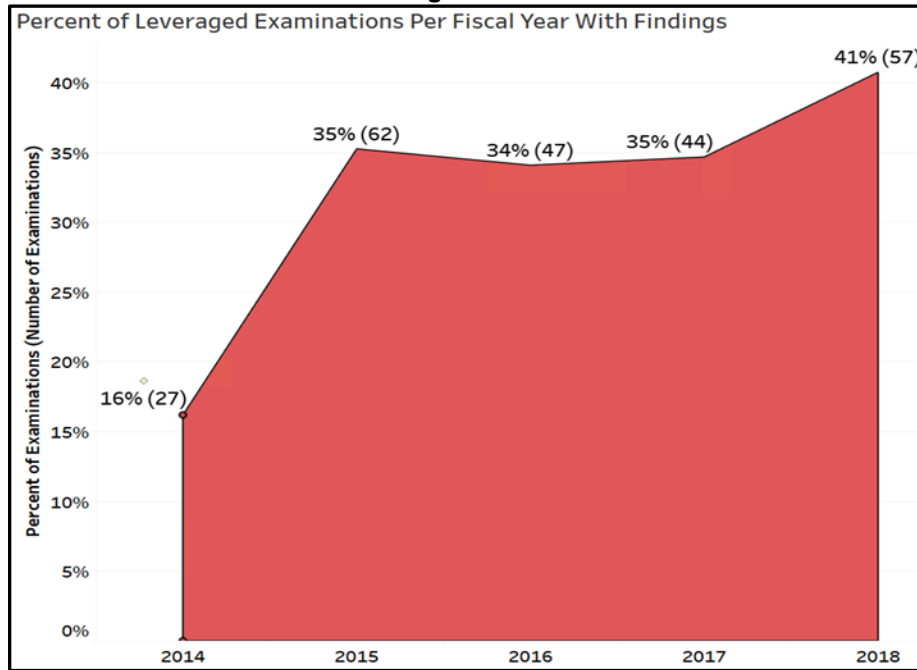
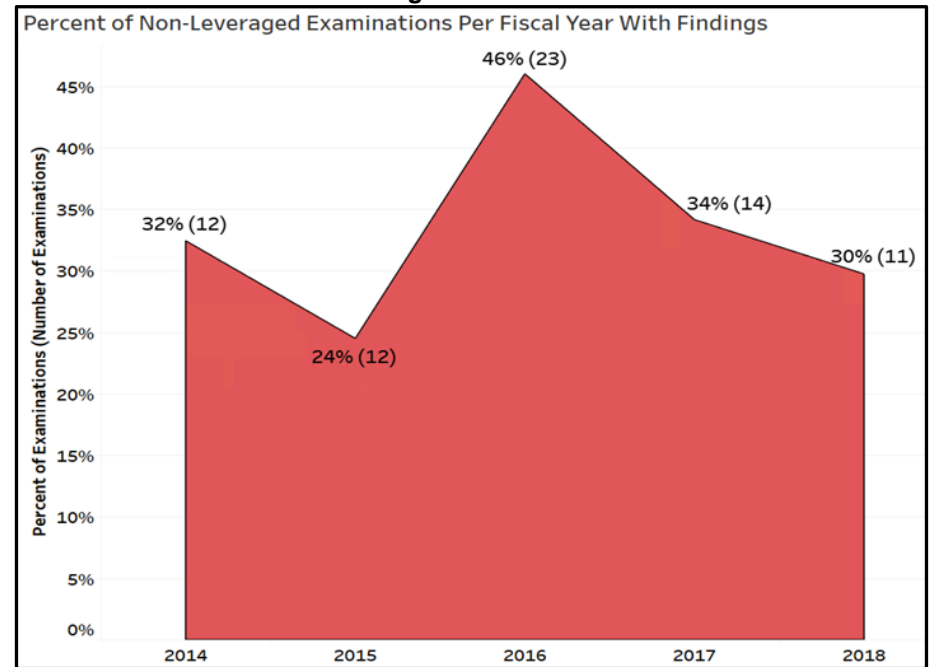


Figure 4b



We then investigated if examinations with findings took longer than those without findings. In Figure 5, we show the number of days for an examination from the notification date to the time that the examination report is issued to Operations. Figure 5 provides the average number of days, median point, and the standard deviation of the distribution for both leveraged and non-leveraged examinations.

Figure 5

Days to Process from Notification to Issue to Operations	Leveraged		Non-Leveraged	
	Findings	No Findings	Findings	No Findings
Average	185	131	155	113
Median	162	111	133	94
Standard deviation or variance	99	78	99	74

We found that on average, it took approximately 40 percent longer for leveraged examinations with findings compared to those without findings (185 days versus 131 days). Given that leveraged examinations with findings in 2018 are up three times compared to 2014 levels (as shown in Figure 4a), the overall examination process is lengthened as leveraged exams with findings take 40 percent longer.

Similarly, we observed that non-leveraged examinations with findings take approximately 37 percent longer than those without findings (155 days versus 113 days). The spread between median values and average values was similar for leveraged and non-leveraged examinations, irrespective of findings. We also noticed that the standard deviation for examinations without findings was smaller than those with findings.

3.1.3 20 to 25 Percent of Findings Are Related to Late Filings

We examined the type of findings reported in recent years to identify if there is a trend toward certain types of findings. As shown in Figures 6a and 6b, we found that in 2018, late filings of Forms 468 and 1031 (shown in purple) constituted approximately one-quarter of all findings in the leveraged SBIC examinations and one-fifth of the non-leveraged examinations, compared to none or almost none in 2014.

Figure 6a

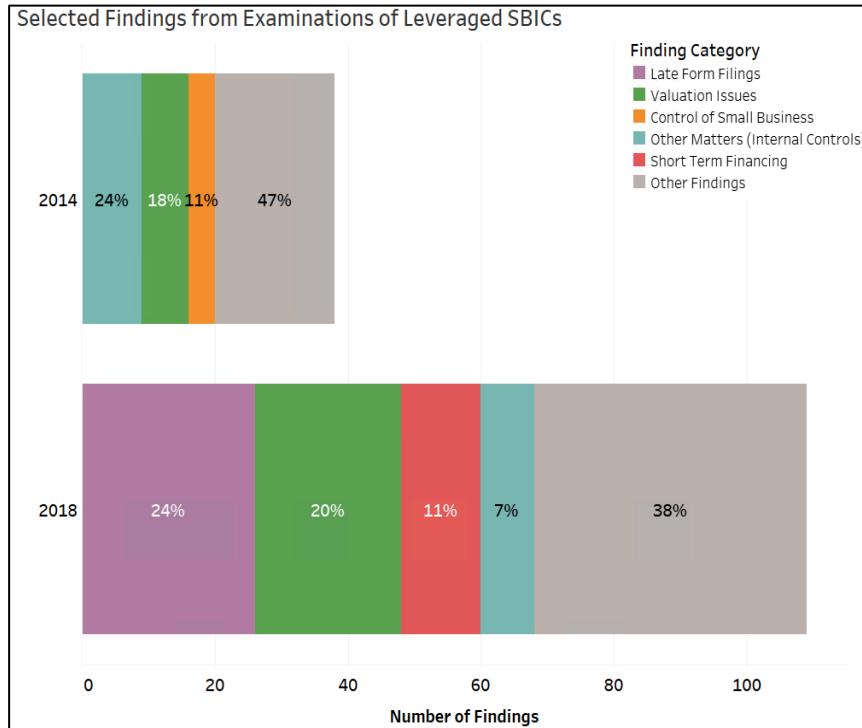
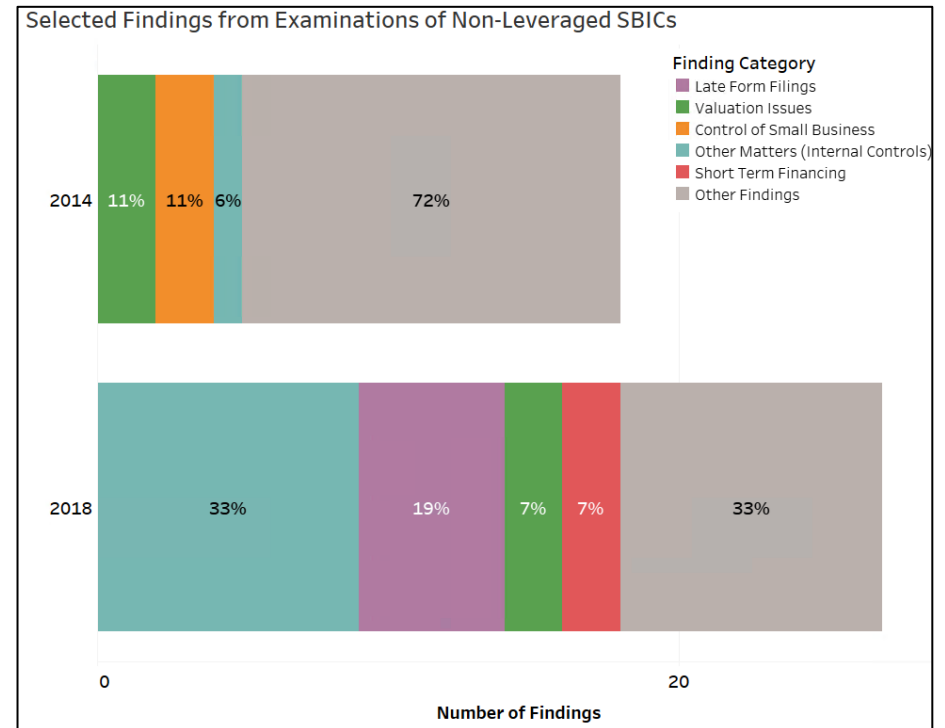


Figure 6b



3.1.4 Larger Numbers of Examinations Involve Long Scope Periods

We learned from OSE management that while the SOP 10 09, effective October 28, 2013, states that the leveraged licensees should be examined in a 12–14-month cycle and the non-leveraged exam with no findings in the previous exam should be examined in an 18-month cycle, the internal credit standard practiced at OSE is 18 months for both leveraged and non-leveraged. We understand that in 2017, internal policy developments led to changing the definition of the examination cycle from “time since last exam” to become from “start of exam” (that is, when a notification letter is sent to the SBIC) to the next “start of exam.” At the same time, OSE began scheduling longer scope examinations in order to bring current many outdated examinations (the “catch-up effort”). The combined effect of these actions was to lengthen the scope period in practice. Evidence of these longer scope examinations can be seen in the data shown in Figures 7a and 7b for leveraged and non-leveraged SBICs, respectively.

We observed that the number of leveraged examinations with a greater than 12-month scope period increased by a factor of approximately 7 from 2014 to 2018 (from 16 to 108 exams), as shown in Figure 7a. For non-leveraged examinations, the number of SBICs with a scope period greater than 18 months more than doubled (from 11 to 26) from 2014 to 2018, as shown in Figure 7b. Longer scope periods can contribute to lengthier examinations, as there are more activities and transactions that need to be reviewed.

Figure 7a

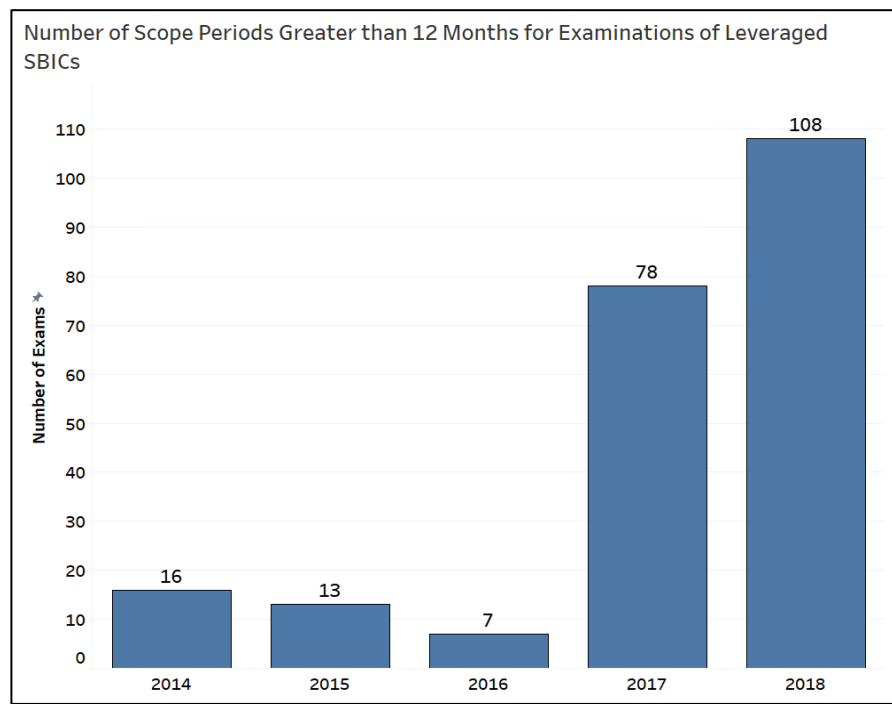
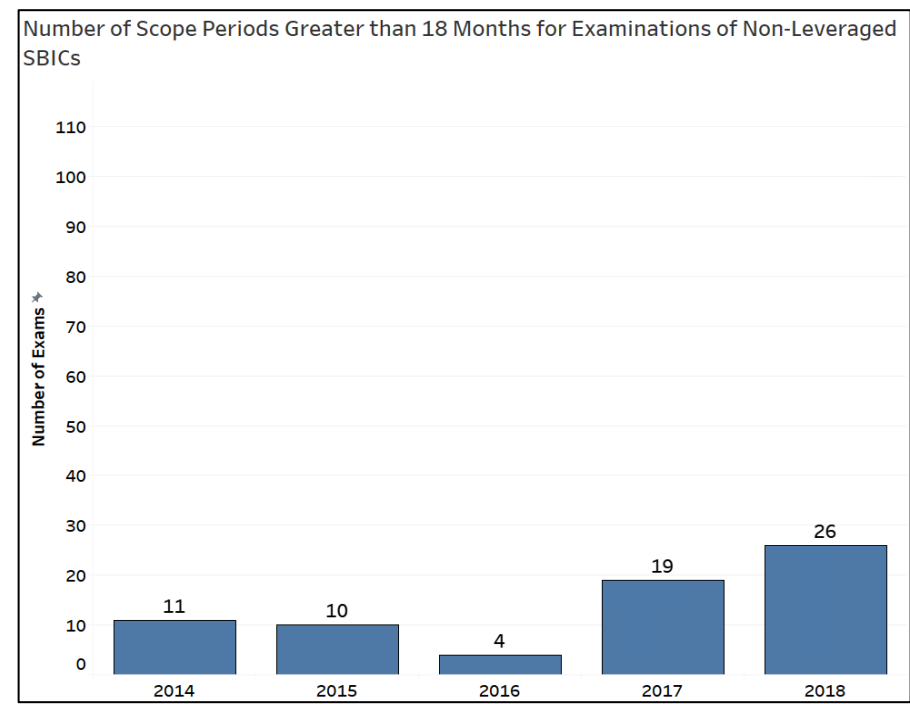


Figure 7b



3.1.5 Vacancies, Turnover, and Absences Have Contributed to Variability in the Number of Examinations

Due to vacancies, staff turnover, and absences, the number of exams completed by each regional office has varied considerably in the past 4 years. Figures 8a and 8b show the numbers of examinations completed by each of the regional offices for leveraged and non-leveraged exams, respectively. We found that the number of leveraged examinations completed in Atlanta (shown by the blue line), which experienced the greatest turnover in its staff in the past 5 years, fell considerably in 2017 (from 43 in 2016 to 27 in 2017); however, this number picked up to 35 in 2018. San Francisco (shown by the green line) also experienced staff turnover, resulting in the number of leveraged exams completed falling from 42 in 2015 to 28 in 2016. The number of leveraged exams completed by New York (shown by the orange line) increased from 44 in FY 2014 to 58 in FY 2018.

The non-leveraged examinations performed by the regional offices were expected to drop after 2017, as contractors were supplementing the work. As shown in Figure 8b, this number fell only for the Atlanta field office (from 11 to 4 between 2017 and 2018).

Figure 8a

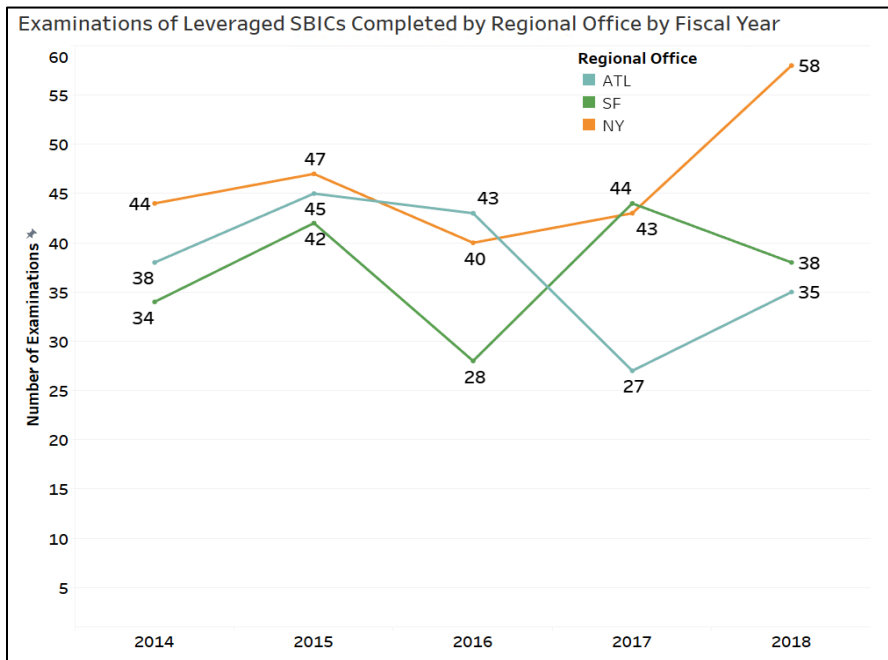
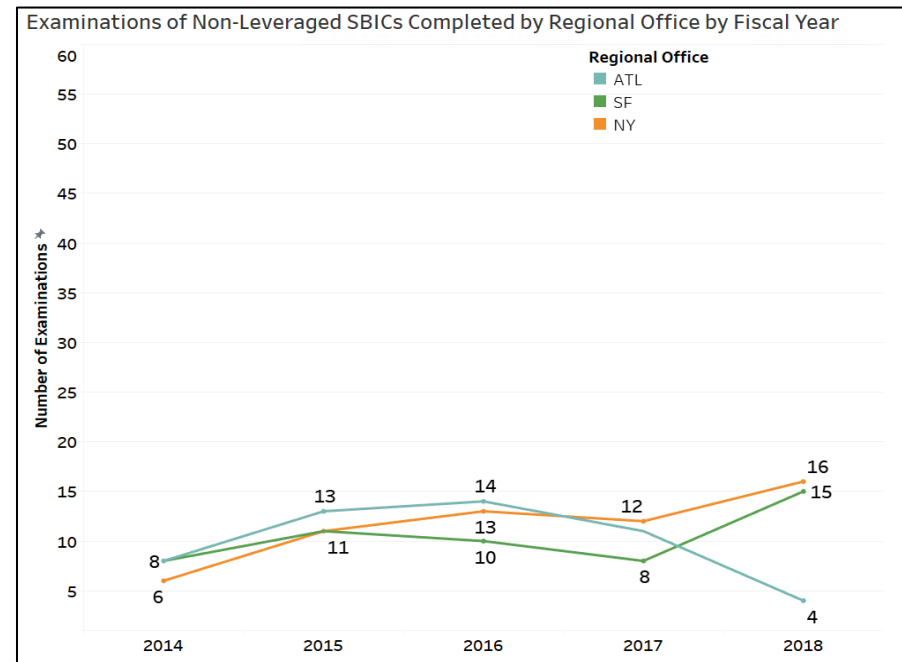


Figure 8b



3.1.6 Average Time per SBIC Exam and Average Time per Managerial Review Is Significantly Longer

Figures 9a and 9b show the average number of days between the notification letter and draft report submitted to the manager for leveraged and non-leveraged examinations, respectively. The examinations completed on average by OSE staff during the past 5 years (shown by the black line) and in each of the three regional offices—San Francisco (green line), New York (orange line), and Atlanta (blue line)—is shown. We found that the average number of days from notification to draft exam report doubled from approximately 55 days in 2014 to approximately 105 days in 2018 for leveraged exams, as shown in Figure 9a. The same trend was observed for New York and Atlanta. In the case of non-leveraged exams, Figure 9b shows that the average number of days increased from approximately 70 days in 2014 to approximately 105 days in 2018. San Francisco followed this trend but with a substantially higher number of days (approximately 70 to 110 from 2014 to 2018); New York also followed the trend of the average. In Atlanta, this number increased from approximately 50 days to more than 100 between 2014 and 2018. That means that in 2018, the exams—as defined by the time from notification letter to submission of draft report to manager—for both leveraged and non-leveraged exams were taking about 3.5 months.

Figure 9a

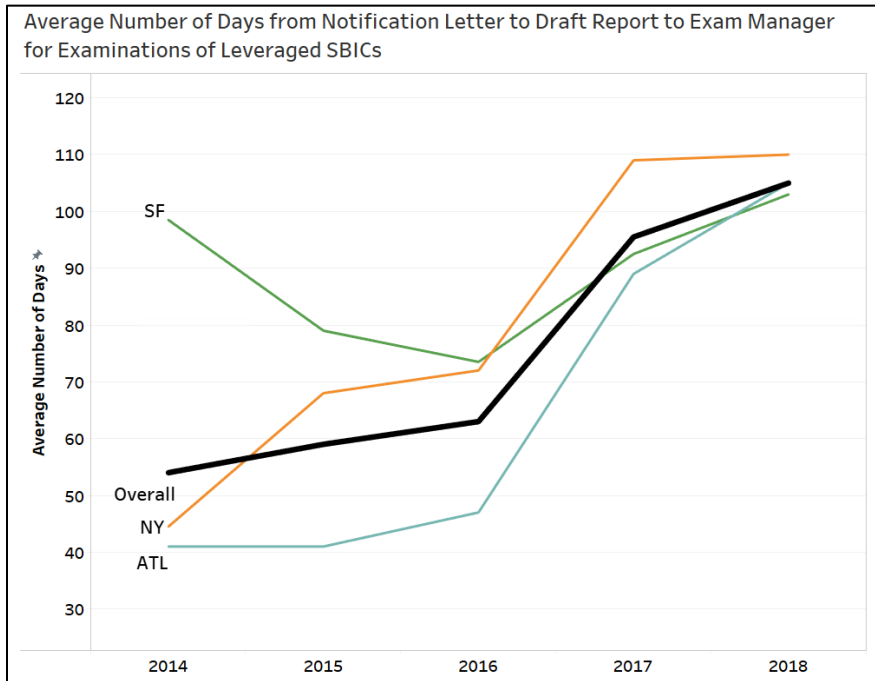
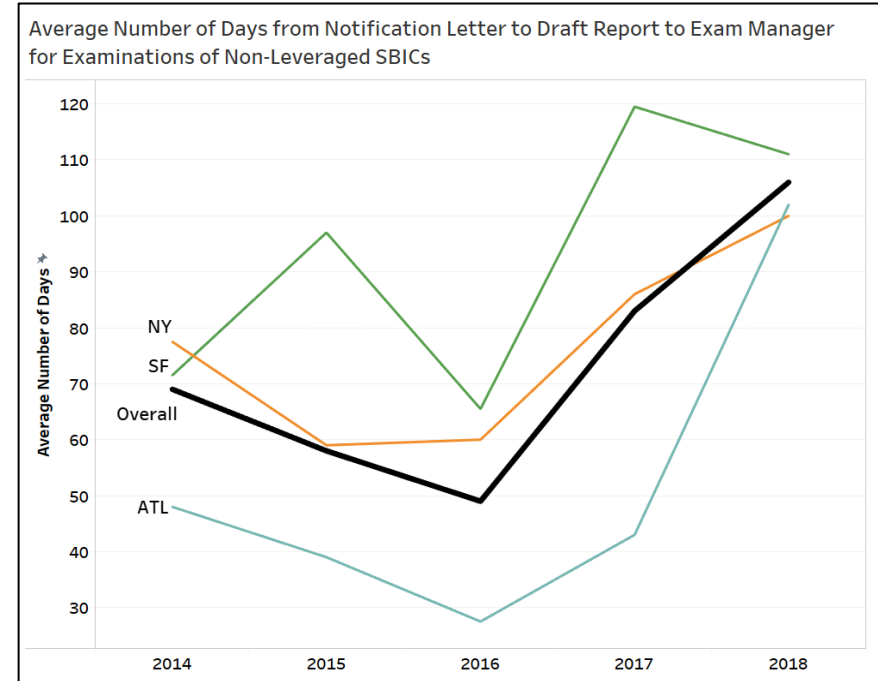


Figure 9b



In Figures 10a and 10b, we broke down the average number of days into (1) the average number of days between the notification letter and onsite visit (yellow lines), (2) the average number of days between notification and the draft report (red lines), and (3) the average number of days between notification and the final issuance of the report (green lines), for leveraged and non-leveraged SBIC exams, respectively. The SOP 10 09 stipulates a maximum of 2 months for the report to be issued from the date of the onsite visit. In Figures 10a and 10b, we show the days from the end of the site visit to the report being issued as the distance between the yellow line and the green line. We observed that this distance was approximately 2 months (62 days) in 2014 for leveraged exams but increased in subsequent years, reaching a maximum of more than 4 months (129 days) by 2017. For non-leveraged exams, this distance increased from just less than 2 months (55 days) in 2014 to more than 4 months (123 days) in 2018.

Figure 10a

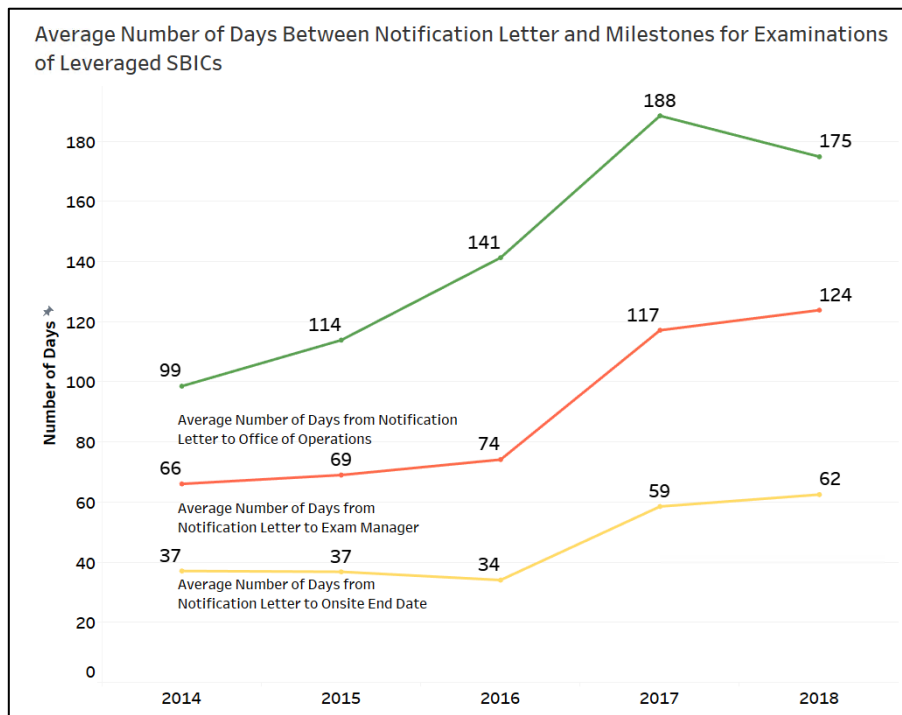
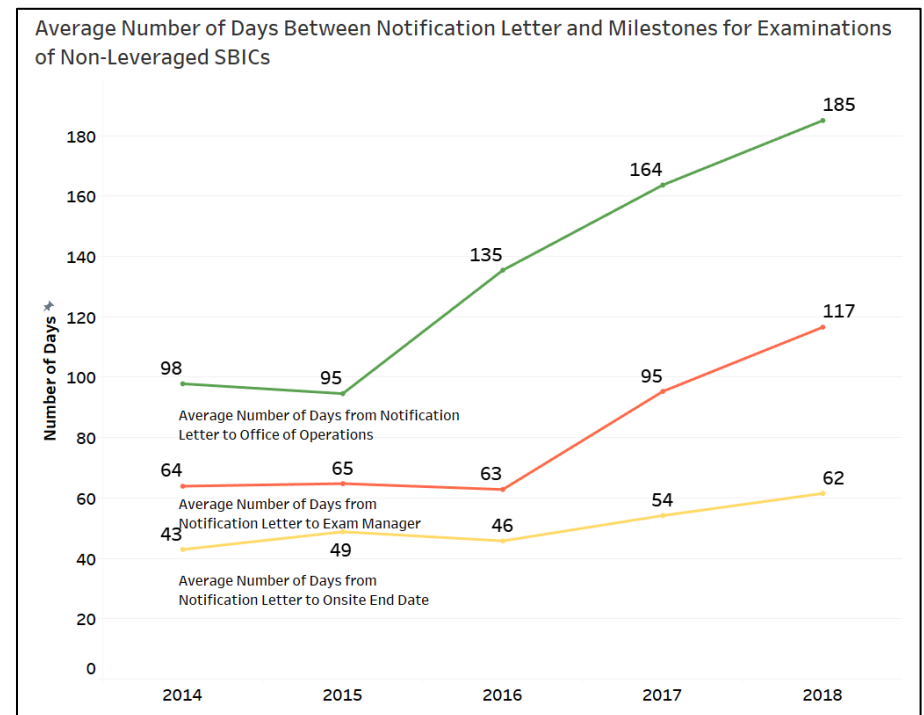


Figure 10b



Additionally, the distance between the red line and the green line in Figures 10a and 10b shows the time the manager takes to review the exam report and issue it to Operations. Figure 10a shows that this managerial review time for leveraged exams more than doubled from 33 days to 71 days between 2014 and 2017, then fell to 51 days in 2018; similarly, Figure 10b shows that managerial review time for non-leveraged exams also doubled from 34 days to 68 days between 2014 and 2018. As is apparent in the figures, throughout this period (2014 to 2018), managerial reviews were taking longer than the time examiners took from the notification letter to submitting the draft report to the manager.

In summary, our historical data analysis shows that the factors that contributed to the lengthening of the examination time are (1) the increased likelihood of findings in examinations, (2) longer scope periods, (3) staff turnover and vacancies, and (4) longer managerial reviews.

3.2 Comparison of SBIC Examination Process to Industry (Objective #2)

SP Group performed a literature review of SBA's peer government agencies that have examination processes comparable to the SBIC examination process. Our research was based on publicly available documents. The objective was to identify the best practices in the examination functions. Each of the peer agencies had similar work flows, statutory regulations, and statutory purposes as the SBIC program. The six peers that we researched were FDIC, SEC/Financial Industry Regulatory Authority (FINRA), GNMA, the National Credit Union Administration, Export-Import Bank's Delegated Lender Program, and the U.S. Department of Agriculture's Rural Economic Loans Program.

The comparisons were made on the basis of 18 characteristics. The four main takeaways are summarized below:

- **Rotation of exams:** Most agencies have either a fixed schedule for compliance reviews (say, once a year) or over a multiyear cycle time, with additional reviews for troubled entities or special needs. SBA seems to combine the two, with a fixed cycle but a "floating" scheduling system that can insert reviews for risk or financing reasons that may eventually push routine licensees off the far end of the cycle.
- **Risk-based approach:** SEC/FINRA's escalating risk review model appeared to be an efficient process that reduces risk. SEC escalates review level and frequency according to the perceived risk of the firm. This multitier review system allows SEC to provide greater attention to firms undergoing legal battles, asset shortages, or work in a riskier domain.
- **Outsourcing for management information systems:** There did not appear to be any industry standard for management information systems. GNMA appears to use the most advanced information management system of the peer agencies surveyed. With the help of a contractor, GNMA created a software to guide auditors through conducting the required reviews. This kind of software is useful in applying uniform standards across all reviews.
- **Multidisciplinary review teams:** It appears that the best practice in the industry for reviews is to have a multidisciplinary team of reviewers that includes accountants, lawyers, and specific industry SMEs.

3.3 Assessment of the Examination Process (Objective #3)

In order to answer SBA’s evaluation question of “How can the SBIC program streamline its examination process?” we conducted a detailed analysis of the tasks involved in the various phases of an SBIC’s examination. In Appendixes A.1 and A.2, we present process maps for leveraged and non-leveraged SBICs, respectively. These are schematic representation of the phases and activities involved in an examination process. The process map consists of five swim lanes—one for each stakeholder: OSE headquarters, the Operations analyst, the exam manager, the examiner, and the SBIC licensee. We identified five stages of examination, as described below:

1. **Pre-notification/Scheduling phase:** This stage constitutes the operations and examinations setting scheduling priorities. This is revised periodically and conveyed to the regional managers who determine assignments to specific examiners.
2. **Notification phase:** Assignments are typically made on a quarterly basis. Once assignments are received, the examiner coordinates with the licensee to initiate a notification letter, which is the formal start date of an examination. The notification letter informs the licensee of the site visit date and lists documents required from the licensee. At this stage, the Operations analyst is also informed of the scheduled examination.
3. **Exam Pre-Planning phase:** Before the site visit, the examiner collects existing documents related to previous exams of the licensee. The volume of documents for non-leveraged SBICs is smaller than that for leveraged SBICs. The Operations analyst briefs the examiner on any outstanding findings or other issues the examiner should be cognizant of during the examination. The licensee provides the requested documentation through email or OneDrive. The examiner then reviews the documents received, completes work papers, prepares the e-Workbook (eWB), and identifies a list of open items and issues to be reviewed during the site visit.
4. **Site Visit phase:** This phase is significant only for leveraged SBIC exams; for non-leveraged SBICs, this phase is mostly conducted over the phone, although some involve in-person site visits. For leveraged SBICs, the examiner holds an entrance conference with the licensee management to brief them of the upcoming review. During the site visit, the examiner reviews financial and corporate governance documents and holds interviews as necessary. At this point, the examiner makes an initial assessment of findings, if any. At the conclusion of the visit, the examiner holds an exit conference with the licensee management.
5. **Post-Exam phase:** Upon returning from the site visit, the examiner drafts post-exam memos and discusses findings with the exam manager, and Operations, if necessary. He/she drafts the exam report and finalizes work papers and the eWB. The draft report is reviewed by the exam managers, who provide comments and feedback to the examiner. The report is then finalized and submitted to the manager, who subsequently issues it to the Operations division for final issuance to the licensee.

In most service industries, time per unit of production is the base measure of productivity. In the case of the SBIC program, this would be “hours per exam” (HPE). We computed a theoretical HPE available to examiners to conduct all five phases of the examination. We then compared this theoretical estimate to the observed hours for OSE and identified the reasons for the variances. Our findings are summarized below and described in detail in this section.

- 3.3.1 The examination process has 18 percent of the time unaccounted for.
- 3.3.2 Requiring a “one size fits all” checklist adds hours to the examination timeline.
- 3.3.3 The pre-planning and site visit are the most time-consuming activities.
- 3.3.4 The examination process is vulnerable to scheduling changes.

3.3.1 The Examination Process Has 18 Percent of the Time Unaccounted For

We computed a theoretical HPE available to examiners to conduct all five phases of the examination, assuming a standard 40-hour work week. As shown in Figure 11, we adjusted the working hours for leaves/absences as well as time consumed by administrative activities, resulting in 1,536 hours per year per examiner for direct examination activity. Given that each examiner is allocated a minimum of 13 exams to be completed in a year (as per their performance requirements), we estimated that an examiner has approximately 123 hours per exam.

Figure 11

Hours Per Exam (HPE) Available per Examiner	Hours
1. Working Hours per Year ³ (assuming 160 hours per month)	2,080
2. Less: Vacation/Sick/Holiday ⁴ Leave (assuming 43 days)	(344)
3. Less: Training/Administrative (assuming 3.5 weeks)	(140)
4. Hours Available per Year for Exams (Line 1 less Lines 2 and 3)	1,596
5. Number of OSE Examiners	13
6. Total Hours Examination Hours Available (Line 4 x Line 5)	20,748
7. Minimum Number of Exams to be Completed Each Year	13 exams
8. Hours Per Exam Per Examiner (Line 4 divided by Line 7)	123

We then compared the theoretical estimate of 123 hours per exam per examiner (which is based on the assumption that examiners spend all of their working time on exams) with the observed production data from 2018. We used different methods to try to quantify the work required as opposed to the time available. Specifically, our observed data included three sources: (1) a review of the task-detail timesheets in a sample of exams, (2) data gathered during the examiner interviews regarding estimates of hours by specific tasks, and (3) data gathered during interviews regarding a top-down estimate of time required for each exam. These detailed queries about time required suggest that a leveraged exam takes 108 hours on average, and a non-leveraged exam takes 86 hours on average, as shown in Figure 12.

³ The Federal Government works on a pay cycle of 26 pay periods of 80 hours each per year, or 2,080 hours per year. See Page 1 of “Federal Workforce Statistics Sources: OPM and OMB, March 2019” at [Federal Workforce Statistics](#).

⁴ Ten holiday days, an average of 20 days of vacation, and the maximum 13 days for sick leave. See “OPM Pay and Leave” at [OPM Pay and Leave](#).

Figure 12

Phase/Activity	Average Hours Needed per Examination	
	Leveraged	Non-Leveraged
1. Notification/Scheduling	2	2
2. Pre-Planning	40	40
3. Site Visit	24	2
4. Post-Exam:		
4a. Report Writing	16	16
4b. Each Finding	8	8
4c. Manager's Review	10	10
4d. Follow-Up, Misc.	8	8
Total HPE	108	86

EXAMPPAM showed that in 2018, OSE staff examiners completed 135 leveraged exams and 29 non-leveraged exams. Figure 13 shows the actual hours consumed based on observed data from EXAMPPAM.

Figure 13

Current State of Hours Available per Exam Based on 2018 Data	Leveraged	Non-Leveraged
1. Number of Exams Completed by OSE Staff in 2018	135	29
2. Average Hours Needed for Each Exam (from Figure 12)	108	86
3. Hours for All Exams in 2018 by Exam Type (Line 1 x Line 2)	14,580	2,494
4. Total Hours Needed for All Exams in 2018 (sum of Line 3)	17,074	
5. Total Hours Available per Year for All Exams (from Figure 11)	20,748	
6. Total Hours Remaining in Reserve in 2018 (Line 5 less Line 4)	3,674	
7. Percent Hours Remaining in Reserve in 2018 (Line 6 divided by Line 5)	17.7%	

As shown in Figure 13, the OSE staff spent 17,074 hours to complete the 164 exams in 2018. This left approximately 3,674 hours, or 18 percent of the hours available, unaccounted for. This implies that more time is being spent on exams than is necessary.

3.3.2 Requiring a “One Size Fits All” Checklist Adds Hours to the Examination Timeline

We found that the HPE is directly correlated to the level of complexity presented by the licensee’s operations. Examiners cited the following three reasons for what drives the “level of complexity”:

- 1) **The number of financings since the last exam:** The examiners are required to review a sample of all financings since the last examination. More specifically, the SOP 10 09 requires that examiners select a sample that includes at least five financings and should represent 50 percent or more of the dollar value of the total financings for the scope period. Since the average scope period in 2018 was approximately 19 months, most examinations involved reviewing almost 2 years of data, which added to the HPE in 2018. This effect may be temporary, as the catch-up effort (beginning in March 2017) was intended to bring all SBIC examinations current.
- 2) **The stage of the licensee:** Some interviewees commented that licensees in the investing stage (i.e., in Years 2–5) require a different level of effort for examination as there are more financings to be reviewed *versus* older licensees that are in the harvesting stage (>5 years), where valuation and impairment issues become more pertinent from a regulatory compliance standpoint.

- 3) **The number of findings:** We also heard that each exam finding can disproportionately add to the number of hours required per exam for both the examiner and the manager, which can impact the schedule for subsequent examinations.

Since each exam can differ in its level of complexity, we asked each of the 15 examiners and 3 managers to provide their estimate for HPE for the various levels of complexity. As shown in Figure 14, the estimates for hours needed to examine a complex licensee can be almost twice as long as those needed to complete a basic, no-frills exam.

Figure 14

Level of Difficulty/Complexity	Estimates for Hours per Exam
Base, No-Frills Exam	80–90 hours
Typical Exam	100–110 hours
Difficult Exam	120–140 hours

Yet, examiner performance is measured by the number of exams completed (13 being the minimum per year) as opposed to the level of difficulty. Difficulty of an exam is determined by the number of financings, complexity of financing structure, unresolved findings from previous years, present number of findings, and the stage of the SBICs. This causes a misalignment as work expands on a no-frills exam to fit the timeframe, while challenging exams cascade into missed deadlines and last-minute revisions to the examination schedule.

3.3.3 The Pre-Planning and Site Visit Are the Most Time-Consuming Activities

For each of the five process phases, we asked the examiners to describe the work they had to do in each stage, along with the hours required for a typical exam. Figures 15a and 15b show the average hours needed for Phase 2 through Phase 5 (which involve examiner activity), along with the range of time estimates that we received from interviews and timesheet records of a few examinations for leveraged and non-leveraged SBIC exams, respectively. Based on this information, we estimated the total hours needed for each type of SBIC exam. We found that the most time-consuming activity in an SBIC examination was the pre-planning review. It consumed approximately 50 percent of the total time in the case of non-leveraged SBICs, and approximately 40 percent in the case of leveraged SBICs. In leveraged SBIC exams, the pre-planning and site visit together consumed approximately 60 percent of the total exam time, and we noticed that these two activities show the largest variance in hours, potentially contributing to a longer exam time.

Figure 15a – Leveraged

Phase/Activity for Leveraged SBIC Exams	Average Hours Needed	Percentage of Total	Variance in Hours (+/-)
1. Notification/Scheduling	2	2%	4
2. Pre-Planning	40	37%	20
3. Site Visit	24	22%	8
4. Post-Exam:			
4a. Report Writing	16	15%	8
4b. Each Finding	8	7%	4
4c. Manager's Review	10	9%	4
4d. Follow-Up, Misc.	8	7%	4
Total HPE	108	100%	+/- 52

Figure 15b – Non-Leveraged

Phase/Activity for Non-Leveraged SBIC Exams	Average Hours Needed	Percentage of Total	Variance in Hours (+/-)
1. Notification/Scheduling	2	2%	4
2. Pre-Planning	40	47%	20
3. Site Visit	2	2%	4
4. Post-Exam:			
4a. Report Writing	16	19%	8
4b. Each Finding	8	9%	4
4c. Manager’s Review	10	12%	4
4d. Follow-Up, Misc.	8	9%	4
Total HPE	86	100%	+/- 48

To further understand the activities and tasks involved in an examination, we prepared a value stream map (VSM) to create a detailed visualization of the process, the information systems used, and the time spent on various activities for both leveraged and non-leveraged SBIC exams. The VSMs for an examiner’s process is shown in Appendix B for leveraged SBICs. These display all the important steps in the work process necessary to deliver value from start to finish. With the help of the VSMs, we were able to identify activities that do not bring direct value to OSE for ensuring statutory compliance. More specifically, these non-value-added tasks (also called “problem areas,” as shown in the VSM) are numbered and discussed in Figure 16.

Figure 16

Problem Area #	Description of Activity	Interviewee Comments on Reasons for Delay
1	Collect data and organize in standard indexing system	<ul style="list-style-type: none"> • Conversion of printed documents to digitized form. • Delays in SBIC Web uploads and user navigation. • Collecting bank records and D&B reports. • Waiting time for information requested.
2	eWB data entry and technical review	<ul style="list-style-type: none"> • Manual data entry is time consuming. • Requires data extracted from SBA forms already in the system. • Extra processing of permanent information not relevant to exam. • Some data required in eWB is information overflow.
3	Onsite visit for leveraged SBICs only	<ul style="list-style-type: none"> • At some sites, copying time if documents are not ready. • Travel time to and from airports. • Redundancy in reviewing things already seen in pre-visit review. • Items that could have been reviewed/resolved by phone.

3.3.4 The Examination Process Is Vulnerable to Scheduling Changes

The OSE manages the SBIC examination schedule using a Microsoft Excel-based tool called EXAMPPAM. The examination schedule establishes priorities based on risk scorecard, the statutory compliance cycle, leverage, and licensing actions (not necessarily in that order). The schedule is refreshed periodically, and the regional managers make quarterly assignments based on EXAMPPAM for their respective portfolio of licensees.

We heard that scheduling changes can have a ripple effect because the scheduling process is designed as a sequential process and changes in schedule can lead to very long delays. One measure for assessing efficiency in the scheduling process is the “Days Start to Finish” (DSF). The DSF metric shows the number of days from the date

when the notification letter is sent to the licensee to the date when the final report is issued. Figure 17 shows the data on DSF for each of the six phases for leveraged and non-leveraged exams.

Figure 17

Phase/Activity for SBIC Exams	Leveraged		Non-Leveraged	
	Days Start to Finish (DSF)	Variance in DSF (+/-)	Days Start to Finish (DSF)	Variance in DSF (+/-)
1. Notification/Scheduling	2	1	2	1
2. Pre-Planning	14	7	14	7
3. Site Visit	5	2	1	1
4. Post-Exam:				
4a. Report Writing	5	2	5	2
4b. Each Finding	2	1	2	1
4c. Manager's Review	60	60	60	60
4d. Follow-Up, Misc.	4	4	4	4
Total DSF	92	+/- 77	88	+/- 76

Interview responses suggested that delays in DSF are mostly caused either by design effects built into the scheduling process or by rules for dealing with external events. In the case of scheduling, overdue exams were at one time accorded lower priority than exams that were necessary to make a leverage decision/issue a leverage decision. The lower priority exams would be temporarily set aside in such cases, particularly in the initial assignment and manager-review phase. The accumulated set-asides tended to be brought current in batches (or delayed in batches), leading to a high variance in DSF based on EXAMPPAM data, as shown in Figure 17. We observed on EXAMPPAM that some delays were extreme—more than 250 days—and tended to occur in groups. According to interviewees, event-related DSF delays were either caused by substantive changes required in a complicated review, such as complex findings requiring input from analysts or counsel, or by unexpected staff vacancies (including turnover, leave, and illness).

3.4 Assessment of Technology Needs for Process Improvement (Objective #4)

In the manufacturing sector, automation of investments is studied after conducting “time and motion” studies, often involving stopwatches on the assembly line and other hands-on estimation techniques. In the case of the SBIC examination process evaluation, we had to rely on estimates from examiners and managers of how long each subtask took in order to address SBA’s evaluation question: “What technology needs are identified in your process review that may help streamline the SBIC examination process?” We understand that Backstop Solutions is building a solution that will automate a few aspects of the SBIC examination process; however, our findings, summarized below and discussed in this section, are related to the current state of affairs for examinations.

- 3.4.1 Minimal documentation management system.
- 3.4.2 No workflow management system.
- 3.4.3 Unwieldy analytics tool.
- 3.4.4 Disparate systems within OII.

3.4.1 Minimal Documentation Management System

At the start of an examination, in the absence of a document management system where documents needed are flagged and gathered automatically, the examiners are required to “hunt and gather” all the documents they need for the examination manually. These documents include prior examination reports on the licensee, examiners’ notes from the previous exams on findings and resolutions, if any, and other documents on the licensee from Operations. The historical documents need to then be compared and contrasted with the new documents that the licensee submits during the exam. This is often a time-consuming process and, according to the examiners, can take up to 8 hours. This process is repeated at the beginning of every examination.

3.4.2 No Workflow Management System

The examination process is composed of distinct steps requiring discrete levels of effort by different personnel and therefore lends itself to a simple and efficient workflow management system, which is currently lacking for monitoring the examination process.

Examiners complete a record of hours spent on each examination, broken down into component parts. While this information was illustrative of how time was distributed, we found that certain characteristics limited the value of the numbers to be used for tracking and monitoring the workflow. First, we were told that the timesheets were filled out after the examinations were done, so they were not a daily record; several interviewees themselves noted that they were estimates. Second, the breakdown of steps were not granular enough to judge which steps are more time consuming than others. Third, the variances could not be matched to underlying causes. For example, “preparation for visit” might be listed as taking 30 hours on one exam but 63 on another, with no indication of whether this was due to the characteristics of the licensee, difficulties in data transcription, or low levels of cooperation by the licensee.

3.4.3 Unwieldy Analytics Tool

The eWB is being developed as an analytics tool by OSE; however, it is long, complex, and unwieldy. We looked more closely at quantifying the work involved with completing an eWB for a typical exam. We manually counted the number of cells that could possibly require a manual entry across the 42 different tabs in the eWB spreadsheet. As shown in Figure 18, we found that there was an average of 7,450 cells that could take up to 42 hours to complete.

Additionally, due to the complexity and cumbersome nature of the tool, examiners typically maintain parallel personal workbooks, duplicating effort and time.

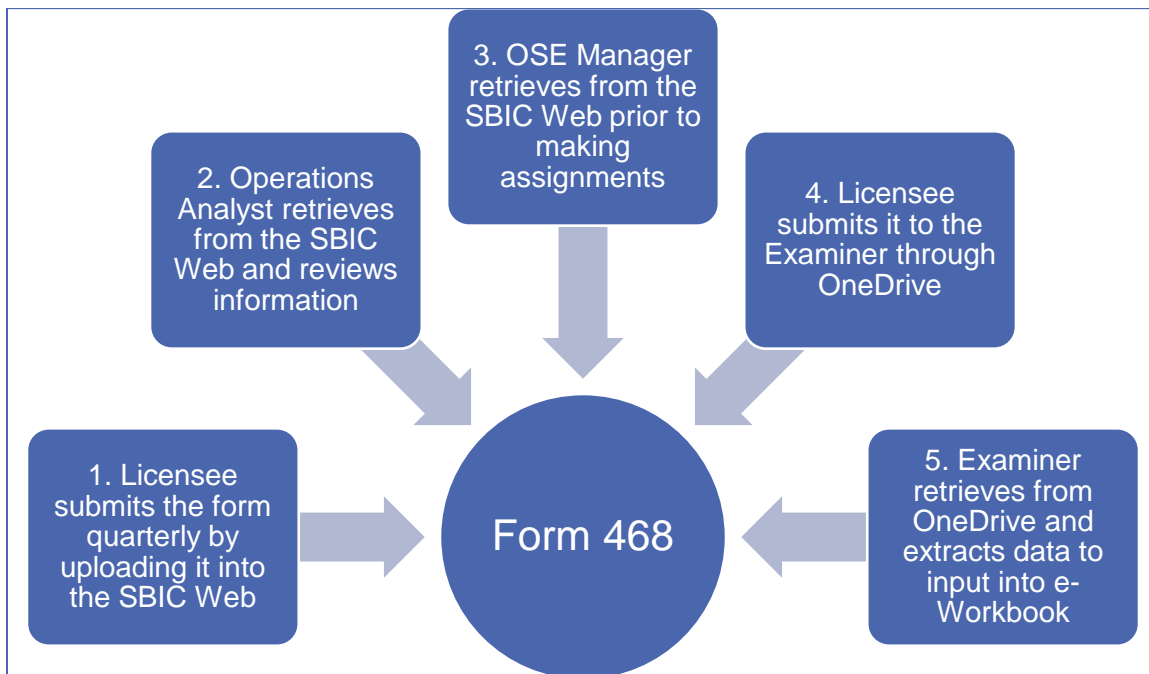
Figure 18

E-Workbook (eWB)	Average
1. Number of Cells Requiring Manual Data Entry (range from 593 to 14,490)	7,540 cells
2. Time Taken to Enter Data in Each Cell	20 seconds
3. Total Time Spent on Data Entry in eWB	~42 Hours

3.4.4 Disparate Systems Within OII

There is a lack of integration in the systems utilized by Operations and OSE for reviewing the same set of licensees, leading to significant duplication of efforts and waste in time and resources. For example, there are multiple TPE of Form 468, as shown in Figure 19. The Licensee is required to upload this form into the SBIC Web system for the Operations analyst and submit it through OneDrive to the OSE examiner at the time of the examination. The OSE manager also retrieves this form from the SBIC Web to estimate the number of financings for assignment purposes. Finally, the examiner reviews the form and enters data from this form to the eWB. In this example, Form 468 is touched five times for the same licensee. This can be minimized if the information is uploaded into a single system that pre-populates the relevant worksheets for the various users (Operations analyst, examiner, and manager).

Figure 19



3.5 Assessment of Compliance With Statutory Requirements (Objective #5)

This assessment was done to address SBA's evaluation question: "How can the program ensure that it is conducting its examinations within statutory requirements?" We observed that "compliance with statutory requirements" is a phrase used in different contexts inside SBA. First, there is the actual statutory requirement in the Act regarding the examination cycle (that each SBIC be examined once every 2 years, unless extended). Second, the phrase is used to also refer to the more restrictive internal performance *goal* of examining leveraged SBICs once every 12 months (or non-leveraged SBICs once every 18 months). Third, the phrase is used in the context of the "nine statutory requirements," which are generally understood to mean the nine priority compliance rules of the SOP 10 09. The Act itself identifies only seven requirements; the SOP adds two more requirements relating to improper distributions and impairment and valuation issues. Finally, many examiners commented that the true definition of compliance is that the licensee meet every single program and government requirement, regardless of priority. We noted in our interviews that we had to occasionally stop and clarify usage definitions.

Our findings from our assessment are summarized below and described in detail in this section.

- 3.5.1 The 12/18-month production goal is jeopardized by scheduling issues.
- 3.5.2 Guidance on statutes and regulations is located in various places, and some guidance is out of date.
- 3.5.3 Managerial review acts as a quality assurance tool but is also a root cause for delays.
- 3.5.4 Specialized knowledge and training needed for examiners.

3.5.1 The 12/18-Month Production Goal Is Jeopardized by Scheduling Issues

From our analysis of resource utilization, it appears that long delays are not primarily a matter of resource shortages. There are enough examiner hours available to produce the reports themselves. Rather, the bottlenecks appear to occur in three areas of scheduling:

1. **Exams are spaced evenly, despite varying levels of effort:** We heard from interviewees that the spacing of normal examinations is set to a "one exam per month" pace. As a result, staff turnover or extended leave can result in missed deadlines and have a cascading impact on OSE's ability to complete the targeted number of exams in a year.
2. **There is little "parallel processing" and no "batch processing":** The OSE's scheduling approach is to conduct exams sequentially, starting one when the main work on the previous one is complete. This means that delays in receiving information, meetings, or guidance result in the entire chain shifting out in time. The sequential processing approach misses the advantages of economies of scale and also misses the advantages of employing slack time on one exam to the benefit of another.
3. **The management review is an avoidable bottleneck:** The data for the last 5 years show that management reviews frequently take more than 60 days, pushing final reports beyond the internal cycle goals. Causes for managerial delays cited in interviews included varying levels of "reexamination" done by managers, including reviewing all 42 tabs of the eWB, an inability to shift some of the review work to other managers or senior examiners, and unnecessarily high evidentiary standards for findings.

3.5.2 Statutory and Regulatory Guidance Is Located in Various Places, and Some Guidance Is Out of Date

We heard from several interviewees that each finding can add approximately 8–24 hours in exam time. This is because an examination report with finding must be well supported and justified for why the finding is valid and appropriate. The challenge is that the SBIC program has a significant body of guidance on interpretations of requirements in the SOP (i.e., nine major types of findings and other matters). Many interviewees claimed that practical use of the guidance is affected by often having issues embedded in multiple notices, memos, or emails that are located in various places. They said that documents are not collected in one easy-to-use repository, and

the work tools (“job aids” such as short procedural checklists and spreadsheet templates for specialized calculations) are not sufficient to examine and apply the statutory and regulatory requirements. Some in SBA dispute this, pointing to the Resource Library on its website. We also heard that some of the guidance documents (including the SOP 10 09) that the examination team relies is out of date. This results in more work for the examiner and the manager as they independently attempt to discern the requirements during an examination.

Furthermore, in some cases, the definitions of requirements appeared to be interpreted differently by various parties. We did not perform a broad analysis of whether the cause was on the guidance side (ambiguous or vague language) or on the user side (examiner training), in order to stay within the scope of our PWS.

There are gray areas with respect to (1) what items to write up as “other matters,” (2) what issues outside of findings and other matters require disclosure and resolution, (3) how to handle nonstandard financial reporting and practices, and (4) how to find and get answers for questions about emerging policies. Gray areas in emerging policy were cited by several examiners in the areas of management fees, conflicts of interest, and valuation.

3.5.3 Managerial Review Acts as a Quality Assurance Tool but Is Also a Root Cause for Delays

The examination reports are required to be reviewed and approved by a manager prior to being issued to Operations (see Appendix C: Value Stream Map for Exam Managers). We found that each regional manager is tasked with reviewing up to 65 reports per year while also managing exam assignments and scheduling priorities for his regional office, supervising up to 5 examiners, staying abreast of regulatory guidance, and responding to inquiries from Operations and headquarters. This has resulted in extensive delays in managerial reviews that can last for 2 months or more, as shown under Section 3.1 in Figures 10a and 10b for leveraged and non-leveraged SBICs, respectively. Furthermore, the managers tend to prioritize reviewing those exams that receive a higher priority on EXAMPPAM, leaving lower-priority exams to be issued later in the year. This phenomenon results in more reports being issued in the latter quarters of a fiscal year. Figures 20a and 20b show that more than 55 percent of the annual production of leveraged and more than 50 percent of non-leveraged SBIC exams, respectively, were issued in the fourth quarter of FY 2017 and 2018.

Figure 20a

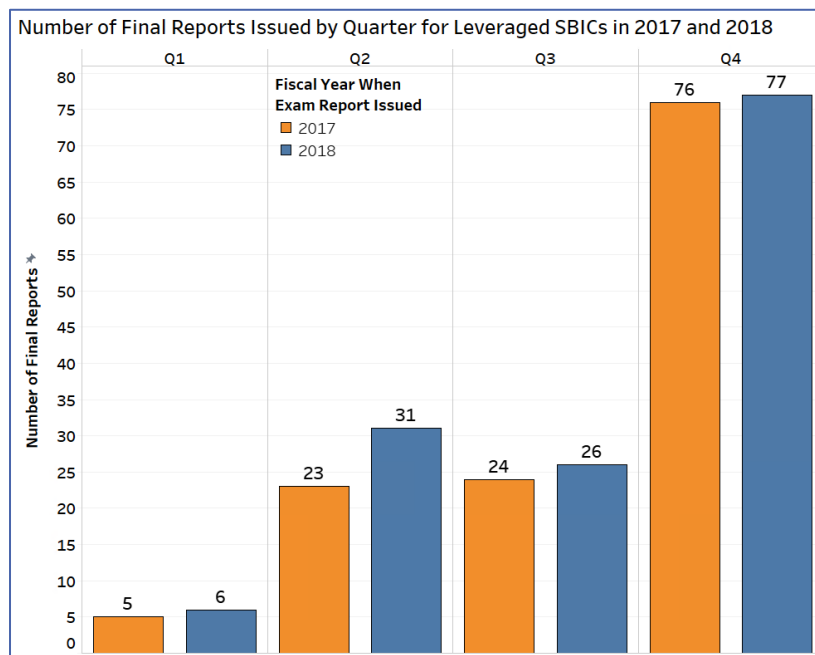
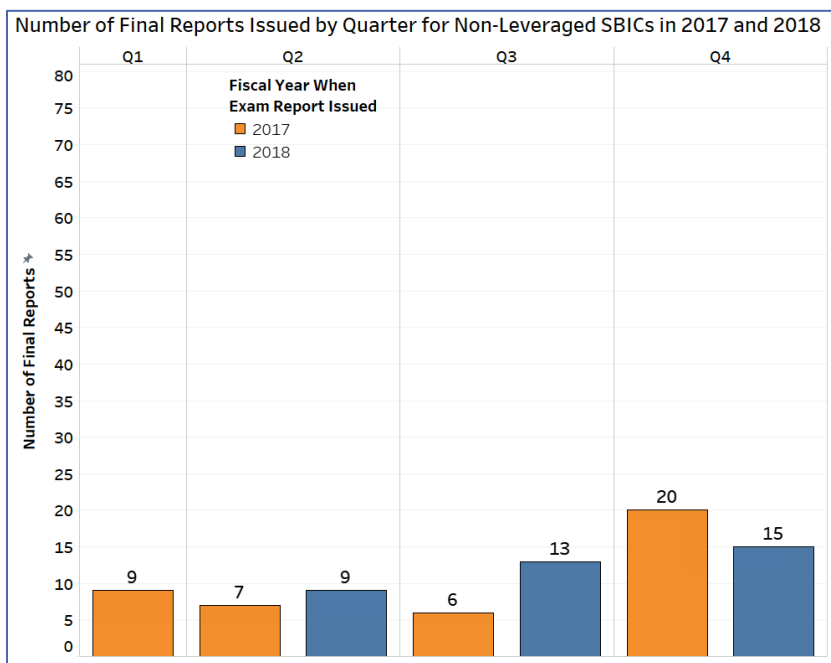


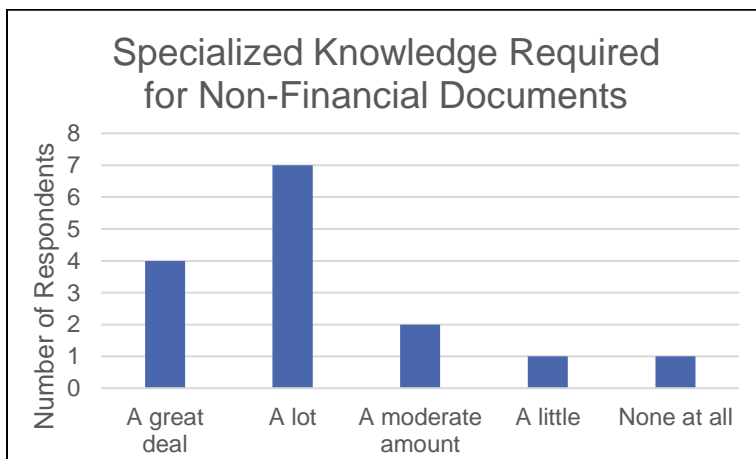
Figure 20b



3.5.4 Specialized Knowledge and Training Needed for Examiners

We found that approximately one-third of the examiners at OSE were previously part of the SBA’s OIG group, and a few came from IRS and DOD. We also learned that the majority of the examiner pool have an auditing background and feel comfortable in reviewing the financial statements of an SBIC. Despite these skills and familiarity with examining an SBIC, the interviewees expressed a need for more training to review non-financial documents (such as legal agreements and management documents). The results from our survey are summarized in Figure 21, which shows that most examiners agreed that specialized knowledge is needed for reviewing non-financial documents. Many interviewees responded that while on-the-job training is helpful, they could benefit by participating in additional training, especially for topics such as conflicts of interest, valuation, and management fees.

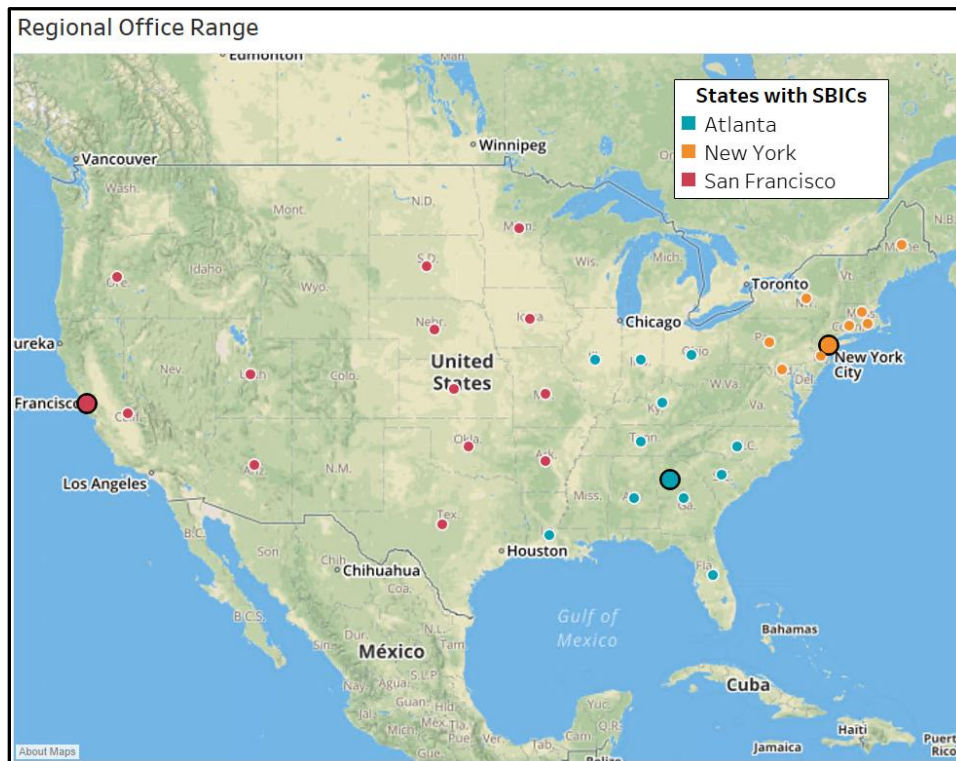
Figure 21



3.6 Assessment of Organizational Structure (Objective #6)

We conducted an assessment of the current organizational structure to address SBA’s evaluation question: “Can the current structure be improved upon?” We note that OSE consists of a centralized headquarters office and three decentralized field offices located in New York (shown in orange), San Francisco (shown in red), and Atlanta (shown in blue), as illustrated in Figure 22.

Figure 22



We found that the current model has advantages and works well for geographic proximity of the assigned licensees, fosters communication given similar time zones, minimizes travel, and provides the clustering benefits. In conversations with the regional staff, we found that a majority of examiners telework, and a few are located in a different state than where their respective office is located. However, there were some areas for improvement that are summarized below and discussed in detail in this section.

- 3.6.1 Load balancing is uneven due to staff turnover and absences.
- 3.6.2 Two-year rotation requirement compromises productivity benefits.
- 3.6.3 Differences in onboarding and training in the three offices.
- 3.6.4 Lack of coordination and communication with the Operations division.

3.6.1 Load Balancing Is Uneven Due to Staffing Turnover and Absences

Each regional office is designed to have a manager and five examiners. However, in the past few years, each office has experienced staffing shortages due to turnover, absences, and unexpected leave. This often results in a missed examination or a revision to the examination schedule that has a cascading impact on other offices. For example, the Atlanta regional office was short on two examiners during 2018. Consequently, they completed 39 examinations during 2019 (13 by each of the 3 examiners in Atlanta). The remaining 26 exams were either pushed to the next year or were reassigned to other offices. Figure 23 shows that neither Atlanta nor San Francisco delivered 65

exams (i.e., 13 each by 5 examiners), which includes leveraged and non-leveraged SBIC exams, in any of the past 3 years. The exception is New York, which over-delivered by nine exams in 2018, probably to make up for the shortfall in Atlanta. As shown in Figure 23, we observed that Atlanta has been operating at approximately 60 percent of its target for the past 2 years, whereas San Francisco is operating at approximately 80 percent.

Figure 23

Regional Office	Exams Targeted for Each Year (5 Examiners x 13 Each)	# of Exams Completed			Load Balance		
		2018	2017	2016	2018	2017	2016
Atlanta	65	39	38	57	60%	58%	88%
New York	65	74	55	53	114%	85%	82%
San Francisco	65	53	52	38	82%	80%	58%

Note: The figures presented are for leveraged and non-leveraged SBIC exams combined.

3.6.2 Two-Year Rotation Requirement Compromises Productivity Benefits

Regional offices follow the practice of rotating examiners assigned to an SBIC every 2 years. This practice is consistent with general practice for regulatory examinations that require examiner independence and avoidance of overfamiliarity with the licensee. However, both the examiner and the licensees pointed out that there was a productivity benefit of approximately 20 percent that could be retained if the examiner continued for more than 2 years. The licensees pointed out that with each new examiner, there was a learning curve involved on both sides for becoming familiar with the licensee's operations and portfolio. Indeed, some of the exam managers pointed out that there were efficiencies to be gained if funds with common ownership/management could be examined by the same examiner at the same time.

3.6.3 Differences in Onboarding and Training in the Three Offices

The training of new examiners varied substantially across the three offices. We heard that in New York, it took a year for a new examiner to be trained and to start conducting independent exams, whereas in Atlanta an examiner had conducted three such exams within 9 months of joining the SBA. This compares to 6 months of training for a newcomer to the San Francisco office prior to him/her conducting independent exams. In the absence of any contingency arrangement, longer training sessions either meant a shortfall in the exams completed or extra burden on the qualified examiners.

3.6.4 Lack of Coordination and Communication With the Operations Division

Examiners are required to inform the Operations analyst of an upcoming examination and ask for comments on the licensee or previous examinations of the licensee. Reportedly, however, it appears that examiners frequently do not receive a response from the Operations analyst. In the event that there were responses, these were perfunctory and not informative about the risk status of the licensees and other such characteristics on which the analysts regularly maintain information. At the same time, the Operations analysts did not have access to the detailed information on examinations carried out by the examiners. The potential efficiencies to be gained from an open exchange of information regarding the same licensees were pointed out by both the Operations analyst and the examiners.

Section 4 – Recommendations

4.1 Underlying Assumptions Regarding Recommendations

1. **Granularity of recommendations is to the level of detail that protects the agency’s prerogatives:** We present our principal recommendations and the associated subcomponents. Our approach is to make the most detailed recommendation that is consistent with respecting Oll’s authority to manage its programs. The selection at the detail level would be more appropriately made by SBA management in consultation with examiners, the Office of General Counsel (OGC), and/or other experts. The criteria by which management may wish to select certain details will be presented in SP Group’s Recommendation Action Plan (this deliverable is due in August/September 2019).
2. **These recommendations are for consideration by management and subject to agency clearance:** Our scope was limited to the four research questions and data available. It is an independent review intended to help management improve its programs. Any actual adoption of changes will be made by management, according to its own procedures for policy development, and internal discussions with staff and will be subject to agency clearance.
3. **All recommendations apply to both leveraged and non-leveraged licensees, unless noted:** On average, a non-leveraged exam should take less time than a leveraged exam. If procedures are optimized for leveraged exams, the time required for non-leveraged exams should be improved by at least as much.
4. **The time elapsed between exams should be from “last report cutoff”⁵ to “latest new exam notice”:** The general goal is that 18 months should not pass between times that SBA is able to see a completed set of reports.
5. **Any changes to the SOP in response to recommendations would be at SBA’s discretion:** Changing procedures will be done by SBA after an internal policy discussion that uses this report and other inputs.

4.2 The Recommendations

4.2.1 How Can the SBIC Program Streamline Its Examination Process?

Our findings associated with this research question are described in Section 3.3, and the recommendations to resolve these issues are summarized below.

Recommendation 1: Adopt risk-based resource allocation for exams.

- **Give all exams an estimated “degree of difficulty” score before scheduling.**
- **Light = 70 hours. Medium = 90 hours. Heavy = 110 hours. (Normal curve.)**
- **Conduct as many exams per quarter as possible, maintaining reserve time.**

We suggest that SBA develop a risk-based scoring methodology. Any characteristic of a licensee or exam that affects either the likelihood of noncompliance or the work required to verify compliance is a candidate for inclusion as a risk factor. Note that this is different from the current risk score, which addresses the need for a review as opposed to the level of examination effort required. Currently, each examiner is expected to complete 13 exams per year, regardless of the level of difficulty and complexity of the underlying licensees. The field office managers use their discretion in making appropriate assessments based on the skills/experience of their staff. However, all examinations, irrespective of the degree of risk associated, are subject to the same analysis (those required under the electronic work papers or eWB). As a result, the OSE resources are either underutilized when they are

⁵ “Last report cutoff” is the financial report ending period used in the previous examination.

assigned more “easy” exams or are overburdened when assigned more complex exams. This one-size-fits-all approach skews the examination priorities and schedule.

We believe that assigning each exam a degree of difficulty would assist in risk-based resource allocation. In our interviews, we learned that the main drivers of degree of difficulty were number of financings, stage of the SBIC, number of significant findings expected (based on historical records), use of third-party accountants, complexity of financings, number of outside statements and certifications required, and whether or not the exam required mid-period financials or other special treatment. A relatively less complex leveraged examination should take no more than 70 hours. As the level of complexity increases, leveraged examinations could take as many as 110 hours or more.

According to our calculations (see Figure 17), optimizing exam time to correspond with the level of difficulty of exams would free up some reserve time, which could be used more effectively for addressing priority examinations or skills development.

Recommendation 2: Establish performance metrics for examiners and managers.

- **Track (examiners): Hours per Exam (HPE), Report Quality Checklist (RQC).**
- **Track (managers): Maximum Days to Approval (MDA), Touches per Exam (TPE).**

SBA should develop quantitative performance indicators for examiners: one for efficiency (HPE—the total hours spent examining a licensee) and one for quality (RQC—a checklist-based score that captures breadth and depth of the examination). The measures could be tracked for both business process reviews and for employee performance reviews. Current performance metrics for examiners are subjective and are typically assigned by a manager on a scale of 1 to 5. Having quantitative measures such as HPE and RQC could help managers in objectively allocating examinations based on demonstrated performance. We recommend that the proposed quantitative measures be mapped to SBA’s standard scale (i.e., 1 to 5).

For managers, we recommend two quantitative performance measures. The first covers the turnaround time—in days (MDA)—of examination report reviews, measured from the date of first receipt to the day it is forwarded to Operations. The second, TPE, would quantify and therefore help minimize the number of times a report is handled and worked upon.

Recommendation 3: Require daily, task-descriptive timesheets for examiners.

- **Establish and use standardized Work Breakdown Structure (WBS) components instead of phase descriptions.**
- **Use historical hours for each licensee as benchmark for follow-up exams.**

We found that SBA’s current time-tracking procedures did not support workflow analysis and tracking. The main problem seems to be that time is recorded according to process phase rather than task. While examiners do currently record time estimates for daily work during an exam, the line items captured are too general (“preparation,” “site visit,” “report writing,” etc.) to permit analysis of time spent on specific activities. A second issue is timeliness. We heard from examiners during our interviews that the timesheets are not completed immediately after the actual work is done.

We recommend that OSE require examiners to fill out detailed timesheets by task and subtask on a daily basis. The tasks on the timesheets should reflect a standard WBS that separates the examination activities into the relevant subcomponents. These timesheets should be collected at least weekly and rolled up into reports that staff and managers can review. We recognize that the daily timesheet requirement may be burdensome for staff, but it would allow for managers to make data-driven decisions when scheduling examinations and allocating staff time.

Recommendation 4: Clarify that the manager review is of the exam, not the licensee.

- **Create detailed WBS tree for manager timesheets.**

- **Establish process to reduce unnecessary duplicative data collection by managers in performing reviews.**

In our data analysis, we found that long managerial reviews often contributed to delays for both leveraged and non-leveraged examinations (see Figures 10a and 10b). We heard during our interviews that some managers treat the draft report review as a second, sequential review of the SBIC. This contributes to the delays in examination, especially as managers are tasked with reviewing up to 65 exam reports per year while also managing staff assignments and schedule changes, staying abreast of regulatory/statutory guidance, and responding to inquiries from Operations and headquarters.

We recommend that OSE amend its SOP to clarify that the manager's role in reviewing the examination report is a quality assurance process. As such, the manager may do spot checks and sample raw data against report statements, but not an in-depth reexamination of the source material. We also recommend that managers develop and use standardized managerial review checklists. Lastly, we recommend that manager timesheets be collected using detailed WBS to provide data on the time spent per review.

Recommendation 5: Establish high-level time budgets for all examiners.

- **Develop a “reserve time” policy for contingencies and to protect examiner skills improvement time.**

In our interviews, we heard that time planning was conducted in a process that effectively allocated 100 percent of examiners' time to examinations yet required sudden disruptions when priority exams were announced. There appears to be a disconnect between the hours theoretically allocated by SBA to exams and the bottom-up estimate of the hours those exams should actually take (See Figure 13).

We suggest that examiners' time be protected by a high-level time budget with four categories of work: examinations, exam reserve time, skills development, and leaves. Examination time is that minimum set aside such that all exams are completed on time. A performance management system should track and reconcile both the top-down time budget (e.g., “examination X should take 100 hours”) and the bottom-up timesheet-driven record (e.g., “examination X actually took 80 hours, broken down into the following Y categories”).

4.2.2 What Technology Needs Are Identified in Your Process Review That May Help Streamline the Examination Process?

Our findings associated with this research question are described in Section 3.4, and the recommendations to resolve these issues are summarized below.

Recommendation 1: Standardize all digital Client-Provided-Data (CPD).

- **Engage with industry software vendors to produce common reporting module.**
- **Establish data standards for ALL reporting in documented digital formats.**

Aside from the onsite review (which takes an average of 40 hours for travel and meetings), the entry and reentry of data is the most time-consuming part of the examination process—some examiners estimate that up to 40 hours is required to populate the eWB. Not all SBICs use the same formats for their financials and supporting documents, forcing the examiner to make judgements about aggregation and formatting. There also appears to be the possibility that there is duplication in some data entry requirements between examiners and Operations analysts at SBA that might be resolved by data sharing.

We recommend that manual transfer of data from paper reports and nonstandard Excel files be replaced with requirements that licensees submit CPD in a standard, digitized form. We understand that both SBA Forms 468 (Audited Financial Report) and 1031 (Portfolio Financing Report) require the licensee to enter the information into the SBA system, but the data currently does not transfer to examiners' eWB.

Recommendation 2: Use IT modernization process to reduce, not increase, work.

- **Conduct periodic demonstrations or tests of online alternatives (virtual onsite reviews, etc.).**

A common danger in financial modernization projects is the “electric paper” effect, whereby the paper forms of the old systems are digitized in the new system. This could result in more work for examiners, who would be faced with labyrinthine navigational screens, loss of mass-edit tools, and the possibility of duplication of entry as “modular” applications require repeat entries for each module. We recommend that OII’s IT modernization initiative be assessed for the impact on the examination processing time. Deliverables should be reviewed by OSE staff for the net impact on processing time.

Recommendation 3: Modernize Standard Operating Procedures (SOP).

- **Focus on true risks.**
- **Drop duplicative or repetitive administrative actions.**

We found many indications that the current SOP (10 09) requires more data collection than is necessary. During our discussions with the licensees, we heard that much of the exam data collection was duplication of work done by their accountants, and that in fact much of the exam response was outsourced to private professionals. We recommend that SBA appoint a working group to mark up the SOP for examinations. Particular attention can be paid to removing nonessential tasks, modernizing outdated procedures, conforming to “plain language” best practices, cross-linking to guidance and operational supports, and providing for a future update cycle. To the extent there are subsidiary requirements for examiners in other SOPs or policy guidance, we recommend that those be reviewed at the same time. We understand that such updates are already a policy goal; perhaps the recommendation is to raise its priority.

4.2.3 How Can the SBIC Program Ensure That It Is Conducting Its Examinations Within Statutory Requirements?

Our findings associated with this research question are described in Section 3.5, and the recommendations to resolve these issues are summarized below.

Recommendation 1: Create a variable scheduling algorithm that prioritizes 12/18-month cycle compliance and balances risk, expected level of effort, and available resources.

Examinations should be scheduled such that the 12/18-month cycles can be met even in a difficult year. Instead of setting a flat 13-exams-per-examiner-per-year threshold, a schedule could be set up at the beginning of the year that allots varying hours to examinations, based on expected level of effort, expected risk (riskier licensees will be allotted more hours), and the known productivity of different levels of examiners. As discussed under recommendations in Section 4.2.1, reserve time could also be set aside to absorb the inevitable surprises and/or special requests from licensees.

Recommendation 2: Establish issue-clarification procedures for unique or complex issues.

Our SBIC interviewees all commented that a finding was seen as a serious disciplinary act by the SBA—one that could have practical negative effects on an SBIC’s ability to obtain support or financing and internally on the staff involved. Because of the seriousness of the reprimand, examiners and managers appear to spend a great deal of time researching and collecting information on potential infractions, especially for issues that are unique or complex.

Two possible ways to alleviate these issues might be to (1) initiate conversations between the examiner, Operations, and OGC earlier in the process, in a newly created issue clarification, and/or (2) establish a parallel-track process to handle potential findings related to unique circumstances so that the examination schedule can continue without delays. This might require that examination reports be issuable in a temporary “conditional” status—that is, the report is complete except for a single issue in discussion.

Recommendation 3: Update SOP to clarify all “statutory and regulatory requirements.”

- **Add a refresh cycle (perhaps an update every 4 years).**

Interviewees commented that some of the statutory and regulatory guidance documents (including SOP 10 09) that the examination team relies on are out of date. This results in more work for the examiner and the manager as they independently attempt to discern the requirements during an examination. Furthermore, in some cases, the definition of statutory and regulatory requirements is ambiguous. We heard from a few interviewees that, taken literally, the requirements include “checking for fax machines” as part of the examination review.

We recommend that SBA clarify, even before initiating the full SOP modernization recommended in Section 4.2.2, whether there is a short list of issues that are triggers for a finding of noncompliance with a statutory and regulatory requirement. A 4-year update cycle for the SOP could be part of routine program management.

Recommendation 4: Create a centralized repository of guidance and updates.

- **Include online discussion points, such as a blog for unique or complex issues.**
- **Include templates and job aids.**

We heard from several interviewees that each finding can add approximately 8–24 hours in exam time. This is because an examination report with finding must be well supported and justified for why the finding is valid and appropriate. The challenge is that the SBIC program has the significant amount of guidance on interpretations of statutory and regulatory requirements (i.e., nine major findings and other matters); however, the guidance is often embedded in multiple notices, memos, and emails that are located in various places.

Working with its IT support team, SBA could organize its guidance into a single online source, subject to version control, indexing and cataloging, in-line citations and comments, and cross-referencing. The repository could also have a provision for online discussion of topics, cross-linked to source documents, and ability to seek help from managers, program leaders, OGC, and Operations analysts.

4.2.4 Can the Current Organizational Structure Be Improved Upon?

Our findings associated with this research question are described in Section 3.6, and the recommendations to resolve these issues are summarized below.

Recommendation 1: Establish contingency plans for handling staff “times of need” (i.e., long-term leave, sickness, staff turnover).

- **During times of need, senior examiners would be able to conduct manager reviews.**
- **Creating “stress procedures” will allow for the continuous cycle of exam processing.**

We recommend that SBA set up quantitative contingency plans for staffing shortfalls. All known and projected vacancies, leaves, and non-exam diversions could be quantified as lost hours and budgeted for accordingly. Specific procedures for maintaining compliance pace should be a routine part of internal budgeting and planning. This will avoid the cascading impact that is felt when one office experiences staffing shortage.

Recommendation 2: Create a national training and onboarding curriculum.

- **Develop internal certification levels to track knowledge diffusion. That is, all staff will participate in a “skills assessment” for matching against training needs.**
- **Decentralize both content and delivery, online where possible.**

The training of new examiners varied substantially across the three offices. We heard that in New York, it took a year for a new examiner to be trained and to start conducting independent exams, whereas in Atlanta an examiner had conducted three such exams within 9 months of joining the SBA. This compares to 6 months of training for a newcomer to the San Francisco office prior to him/her conducting independent exams. In the absence of any

contingency arrangement, longer training sessions either meant a shortfall in the exams completed and/or extra burden on examiners in other offices. We recommend that SBA institute a training program with specific minimum skills requirements for examiners and managers and carry out internal time budgeting of a minimum number of hours of training.

Recommendation 3: Add Flexible workflow routing.

Certain aspects of the examination process could be reviewed for centralization (e.g., irregularities with how management fee payments are established and recorded). SBA currently requires all examiners to understand the issues of such payments, how to collect the data and analyze the indicators, and how to prepare backup documentation for a finding. Instead of 15 examiners having to become experts on the issue, a single individual could be appointed as clearinghouse for all examinations with the potential for such an issue. The eWBs would be opened by the specialist upon email notice, and they would research the issues and join discussions with the licensee.

We recommend that SBA develop procedures for carving individual tasks from an examination and provide a workflow management system and online tool for routing the designated tasks to other examiners and managers (or possibly consultants).

Recommendation 4: Reset the mixture of SBA staff to contractor assignments.

- **Contractor roles: Provide backup resources for surge periods, add flexible resources to scheduling, perform special projects.**
- **SBA staff roles: Perform all high-priority exams, ensure that all licensees get a staff review at least once every 4 years.**

Examination of licensees for statutory compliance is an important governmental function. As long as SBA's examination model is staff-centered, as opposed to, say, a full industry-monitoring model such as SEC's FINRA, the appropriate role of contractors is for supplying contingency resources. From the perspective of the additional expenses that a contractor entails and the potential quality issues related to outsourcing, it is more desirable that in-house examiners perform more of the total and the most important exams. However, all the preceding discussions show that in SBA's experience, this has been difficult even with contractors in place due to unanticipated absences, priority exams, and excessive time taken for examinations and its reviews.

We recommend that SBA establish a system to ensure that each licensee is examined by staff examiners at least once every 4 years. Contractors could be used as backups for surge periods and/or for performing special projects. This would ensure that the riskiest and/or otherwise important examinations are rotated to guarantee timeliness and quality. Implicitly, this suggests that contractors receive training and experience in leveraged examinations, so that they can provide backup resources as necessary.

Appendices

- **Appendix A:** Process Maps
 - Appendix A.1: Process Map for Examination of Leveraged SBICs
 - Appendix A.2: Process Map for Examination of Non-leveraged SBICs
- **Appendix B:** Value Stream Map for Examiners
- **Appendix C:** Value Stream Map for Exam Managers

Pre-Notification

Notification

Exam Preplanning

Site Visit

Post-Visit

Project Administration

OSE Headquarters

Operations Analyst

Exam Manager

Examiner

Licensee

Determines Schedule & Establishes Priorities

Assigns Examiner

Determines On-Site Date

Sends Notification Letter

Licensee is informed re on-site visit

Receives Pre-Visit Memo

Obtains Previous Documents from Regional Office
Obtains Information from Operations
Obtains Documents from Licensee

Provides requested documents

Reviews Licensee Docs
Completes Workpapers
Updates E-Workbook
Completes Pre-Travel Setup

Shares Information About Previous Findings

Entrance Conference

Attends meetings, and provides necessary documents to Examiner

Reviews Docs not found in Pre-visit
Reviews Internal Minutes
Reviews Accounting & Portfolio
Reviews Corporate Governance

Exit Conference

Drafts Post-Exam Memo
Drafts Exam Report
Obtains Manager's Comments
Completes E-Workbook

Receives Email with Findings

Reviews Exam Report & Comments

Submits Exam Report to Operations

Incorporates Comments & Submits Draft Exam Report to Manager

Issues Final Exam Report & Sends to Licensee

Performs remaining administrative work

Licensee Receives Exam Report

Pre-Notification

Notification

Exam Preplanning

Site Visit
If necessary

Post-Visit

Project
Administration

OSE Headquarters

Operations
Analyst

Exam
Manager

Examiner

Licensee

Determines Schedule & Establishes Priorities

Assigns Examiner

Determines On-Site Date if necessary

Sends Notification Letter

Licensee is informed re on-site visit

Receives Pre-Visit Memo

Obtains Previous Documents from Regional Office

Obtains Information from Operations

Obtains Documents from Licensee

Provides requested documents

Shares Information About Previous Findings

Reviews Licensee Docs

Completes Workpapers

Updates E-Workbook

Completes Pre-Travel Setup

Entrance Conference On phone

Attends meetings, and provides necessary documents to Examiner

Reviews Docs not found in Pre-visit

Reviews Internal Minutes

Reviews Accounting & Portfolio

Reviews Corporate Governance

Exit Conference On phone

Drafts Post-Exam Memo

Drafts Exam Report

Obtains Manager's Comments

Completes E-Workbook

Reviews Exam Report & Comments

Receives Email with Findings

Submits Exam Report to Operations

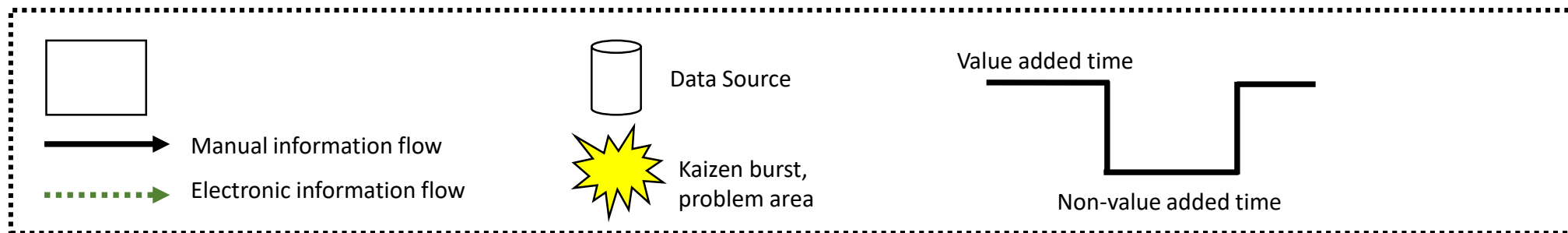
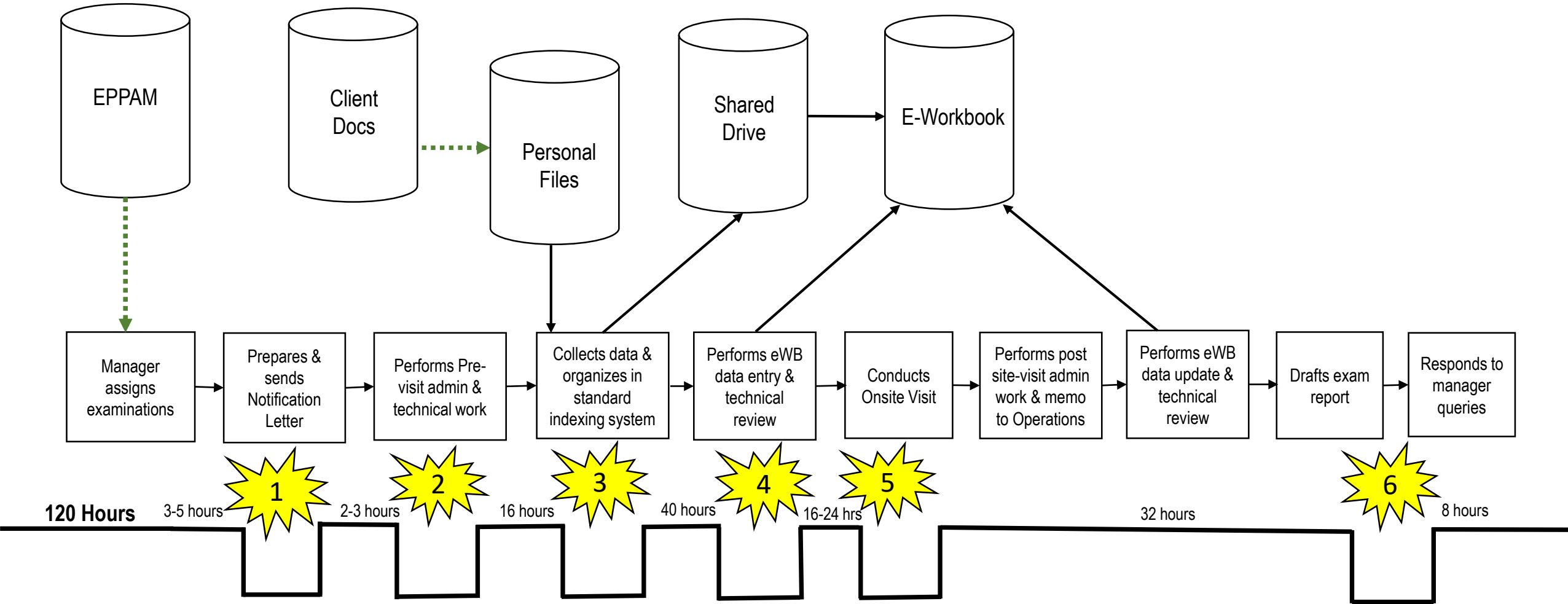
Incorporates Comments & Submits Draft Exam Report to Manager

Issues Final Exam Report & Sends to Licensee

Licensee Receives Exam Report

Performs remaining administrative work

Examiner Value Stream Map of SBIC Examination Process



Exam Manager Value Stream Map of SBIC Examination Process

