



# **SBA's Citizens' Report: The FY 2008 Summary of Performance and Financial Results**

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*Helping Small Business Start, Grow and Succeed*

## FY 2008 Pilot Program for Alternative Approaches to Performance and Accountability Reporting

Until FY 2007, the Performance and Accountability Report was a consolidated document that presented financial, budgetary and performance information to OMB, the Congress and the Public. A common complaint of the PAR was that so much information was presented in it that it was hard to identify the target audience for this report. The Office of Management and Budget addressed this issue in FY 2007 by allowing Agencies to participate in a Pilot PAR program that replaced the consolidated PAR with three separate reports - The Agency Financial Report, the Annual Performance Report, and the Citizens' Report. With this Pilot option, instead of having one report that catered to a multitude of audiences (financial, performance, Budget, Congressional, OMB, the Public), the three separate reports can be targeted to their distinct audiences.

The Small Business Administration chose to participate in the FY 2007 "Pilot" program. For FY 2008, the SBA has again chosen to participate in this "Pilot" program. This report, the Citizens' Report, is the third of the three reports. The Annual Performance Report will be released January 15, 2009, under separate cover. The APR and Citizens' Report will be available at [http://www.sba.gov/aboutsbabudgetsplans/serv\\_budget\\_links.html](http://www.sba.gov/aboutsbabudgetsplans/serv_budget_links.html) or by writing or calling the contacts below.

Information about SBA's programs is available at:

[www.sba.gov](http://www.sba.gov)

SBA's plans and reports are available at:

[http://www.sba.gov/aboutsba/budgetsplans/serv\\_budget\\_links.html](http://www.sba.gov/aboutsba/budgetsplans/serv_budget_links.html)

Para información acerca de los programas de la SBA:

<http://www.negocios.gov>

Requests for printed copies, or questions and comments regarding the content, presentation and usefulness of this report are welcome and may be addressed to: [performancereports@SBA.gov](mailto:performancereports@SBA.gov)

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*In recognition of your outstanding efforts in preparing the Small Business Administration*

**Performance and Accountability Report**

*for the fiscal year ended September 30, 2006 & 2007*



2006



2007

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## Executive Summary

### Purpose

This FY 2008 Citizens' represents SBA's effort to provide a summary of: (1) SBA's mission; (2) key goals; (3) how funds are spent relative to performance goals; and (4) actions SBA plans to take to build on successes and address shortcomings.

### Overview

The U.S. Small Business Administration promotes small business development and entrepreneurship through business financing, government contracting, and management assistance. The SBA also works with other federal agencies to reduce the regulatory and paperwork burdens on small businesses, and it serves as the government's long-term lender to homeowners, renters, and businesses affected by disasters.

The importance of small businesses to the country is clear—there have been more than eight million new American jobs created in just over four years, more than in all the other industrialized nations combined. Two-thirds of these new jobs were created by small businesses. Entrepreneurs enable an economy driven by innovation and regeneration, which keeps the country competitive and growing. Small business can also be a powerful source of community transformation and a bridge to ownership and opportunity for Americans of all backgrounds.

### Financial Results

The SBA is the smallest of the major federal credit agencies. Most of SBA's available budgetary resources are devoted to its credit programs. For FY 2008 the Agency's available budgetary resources were \$3.0 billion and non-budgetary resources in the loan financing funds were \$6.1 billion. As of September 30, 2008, the SBA had guaranteed \$61.7 billion of loan principal, up 5.6 percent from the \$58.4 billion guaranteed as of September 30, 2007. At the end of FY 2008, the total outstanding balance of SBA's total loan portfolio of loan guaranties and loan receivables was \$88.1 billion, an increase of 4.3 percent above FY 2007. SBA's portfolio has increased 70 percent since FY 2001. The Agency's portfolio of loans receivable also continued to grow. Loan program receivables for the SBA are comprised of business and disaster

direct loans and defaulted guaranteed loans purchased per the terms of SBA's loan guaranty programs. These receivables were valued at \$8.5 billion this year, an increase of 2 percent over last fiscal year. These loan receivables include disbursements to the victims of hurricanes Katrina, Rita and Wilma. We expect an additional growth in our receivables as loans are disbursed to the victims of Hurricanes Gustav, Ike and other disasters.

The Agency received an unqualified audit opinion in FY 2008 for the fourth year in a row. Also, the FY 2008 audit found no material internal control weaknesses in SBA's financial reporting for the second year in a row. During FY 2008, the Agency continued to strengthen its internal control over financial reporting and credit subsidy cost modeling through refinements of our quality assurance procedures. Also, the Agency completed actions to address most of the issues raised in its FY 2007 financial audit, including weaknesses in information technology system security. The FY 2008 audit, however, found a duplicate payment issue related to IT change control, and IT security is still considered an area of significant deficiency, but not a material weakness. The SBA also conducted its review of the internal controls over financial reporting required by OMB's Circular A-123 since FY 2006. The Agency evaluated 16 business processes which are material to the Agency's financial statement. Although the SBA did identify a number of deficiencies, only five were categorized as significant deficiencies, and none were identified as material weaknesses.

### Program Results

FY 2008 was another year of considerable accomplishment for the SBA. A total of 78,324 new 7(a) and 504 loans were funded. Although this is a decrease from FY 2007's record setting 110,272 loans, the FY 2008 loans represent \$18.2 billion in new lending to America's small businesses. Despite the more difficult market conditions, these small businesses were able to get started, or to expand and grow, through access to capital that likely would not have been available without the SBA.

The SBA continued its comprehensive campaign to improve the responsiveness and efficiency of its disaster assistance operations. This year, the SBA launched an electronic loan

application to simplify the application process and speed delivery of assistance to disaster victims. For FY 2008, SBA approved 15,128 disaster loans for \$954 million.

The SBA continues to support the Administration in meeting its statutory commitment to provide a fair share of federal contracting dollars to small businesses. The Agency oversees a small business goal-setting program across all federal agencies to assist in the achievement of this government-wide goal. In FY 2007 (the most recent fiscal year for which data is available), federal agencies reported that a total of \$83.3 billion in federal prime contract dollars went to small businesses. This is a \$5.6 billion increase from FY 2006, when \$77.7 billion was reported. SBA is committed to improve its oversight over the HUBZone program, and during FY 2008, the agency stepped up efforts to gather and verify more data from applicant firms.

In FY 2008 an estimated 1.4 million small businesses and entrepreneurs utilized the expertise of the SBA's resource partners: the Small Business Development Centers, the Women's Business Centers, and SCORE. The SBA leverages its resource partner network counseling and training in a broad range of areas including: developing business plans, implementing new technologies, accessing capital, winning government contracts, developing marketing plans, and many other undertakings vital to the success of a small business

throughout its lifecycle. SBA's investment of \$115 million in FY 2008 in grant funding for these programs provides imperative, targeted technical services to entrepreneurs throughout the nation.

## Management Results

As of September 30, 2008 the SBA ranked "green" in status on four President's Management Agenda items, (Financial Performance, Electronic Government, Improved Program Performance and Eliminating Improper Payments), an improvement from last year when only Performance Improvement was rated "green." Three initiatives remained "yellow" (Human Capital, Commercial Services Management and Faith Based and Community) and one (Improved Credit Management) remained "red". As of September 30, 2008, the SBA was rated "green" on progress for all initiatives except Commercial Services Management and the Faith Based and Community Initiative, where our progress was rated "yellow." No new programs were evaluated using the Office of Management and Budget's Program Assessment Rating Tool; however, the SBA and OMB completed an assessment of the performance measures used to manage the ten programs evaluated in prior years. Based on the results of the assessment the SBA is refining or developing new measures for several of the programs.

# Budget, Performance and Financial Snapshot FY 2008

## Who We Are

**Mission:** The mission of the Small Business Administration is to maintain and strengthen the Nation's economy by enabling the establishment and the vitality of small businesses and by assisting in the economic recovery of communities after disasters.

**Organization:** Headquartered in the District of Columbia with a total FTE workforce of approximately 2,112 employees, the SBA has a full service SBA district office in every state, 800 SCORE chapters, and Small Business Development Centers (SBDCs) in all 50 states and U.S. territories, with more than 950 locations across the country. Additionally, SBA has 5 functional Centers responsible for providing affordable, timely and accessible financial assistance to homeowners, renters and businesses of all sizes located in a declared disaster area.

**Personnel:** The SBA's workforce includes 1,189 headquarters employees (726 in Washington, DC, and 463 in other locations) and 923 district office employees. Headquarters employees comprise 61 percent of the SBA workforce with field employees taking the remaining 39 percent. Sixty percent of all SBA employees are in mission critical occupations directly supporting SBA's mission accomplishment. Additionally, SBA has a disaster reserve workforce of approximately 3,700 that can be activated as needed.

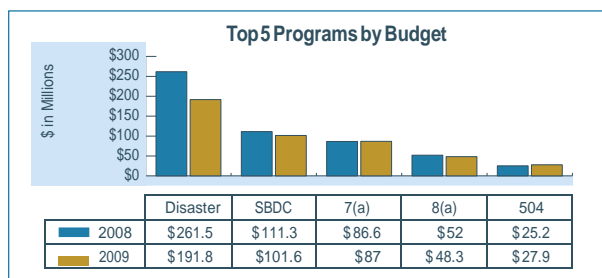
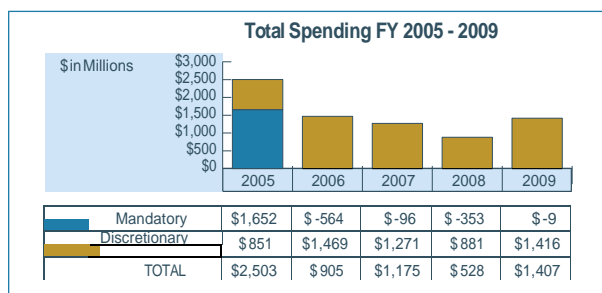
**Budgetary Resources:** The budgetary resources (both mandatory and discretionary) for FY 2008 totaled \$528 million or \$1.75 per taxpayer.

## Performance Snapshot

**Accomplishments:** SBA has made tremendous progress in improving its programs and operations, training its employees, and strengthening internal controls, financial management, and information technology across the agency. In the Office of Disaster Assistance, the Agency completely restructured operations to establish a more customer-centered process. For the Section 7(a) Guaranteed Loan Program, the purchase process was redesigned and additional staff was added to reduce outstanding backlogs of lender claims. In the Office of Government Contracting & Business Development, SBA made significant progress in enhancing transparency and accountability in federal agency small business contracting. The Agency finished the backlog in our 8(a) certification process and cut the application turnaround times in half. In SBA's FY 2007 employee satisfaction survey conducted by the Office of Personnel Management, SBA employees indicated dramatic improvements in most areas over the FY 2006 results.

**Challenges:** Despite these many accomplishments, however, much remains to be done at SBA. While progress has been made in improving transparency and accountability in small business procurement, more needs to be done to address errors in reported contracting data and the potential for businesses to be inaccurately considered small businesses, and other efforts to ensure that SBA benefits flow to only those eligible. Numerous challenges in the HUBZone program were identified by the Government Accountability Office this year, and SBA is taking aggressive action to address the problems. The recent difficulty in the financial markets are putting our loan servicing and guaranty process improvements to the test and it is anticipated that this will require continued attention in the coming year.

## Budget Snapshot



## Financial Snapshot

*\$ in millions*

Clean Opinion on Financial Statements		Yes
Timely Financial Reporting	Yes	0
Improper Payment Rate	53%	Total Assets \$12,448
Total Liabilities	\$12,114	Net Cost of Operations \$1,565

## Summary of Small Business Administration Ratings for fy 2008

### FY 2008 Performance Results per Strategic Goal



<p><b>Strategic Goal: 1 - Expand America's ownership society, particularly in underserved markets</b></p> <p>Improve access to SBA programs and services by small businesses to drive business formation, job growth, and economic activity; support entrepreneurship in markets with higher poverty and unemployment, and in our military community; ensure stewardship and accountability over taxpayer dollars through prudent financial portfolio management and oversight.</p>					
		<p>Budget for Strategic Goal 1 \$427 million</p>			
Key Strategic Goal 1 Indicator	2006 Results	2007 Results	2008 Target	2008 Results	2009 Target
7(a) Small Business Assisted (#)	80,303	84,666	91,016	59,019	60,486
7(a) Jobs Created/Retained (#)	790,170	864,947	864,947	649,271	925,493
504 Jobs Created/Retained (#)	135,479	140,778	152,040	121,723	158,122

<p><b>Strategic Goal: 2 - Provide timely financial assistance to homeowners, renters, nonprofit organizations and businesses affected by disaster</b></p> <p>Respond quickly, efficiently and effectively to disaster applicants.</p>					
		<p>Budget for Strategic Goal 2 \$262 million</p>			
Key Strategic Goal 2 Indicator	2006 Results	2007 Results	2008 Target	2008 Results	2009 Target
Disaster Customer satisfaction rate (%)	57%	66%	72%	65%	71%
Disasters having field presence within 3 days (%)	100%	100%	95%	100%	95%
Time to process 85% of business physical applications (days)	66 days	11 days	16 days	11 days	18 days

<p><b>Strategic Goal: 3 - Improve the economic environment for small business</b></p> <p>Protect, strengthen and effectively represent the Nation's small businesses to minimize the regulatory burden and foster a more small-business-friendly environment.</p>					
		<p>Budget for Strategic Goal 3 \$15 million</p>			
Key Strategic Goal 3 Indicator	2006 Results	2007 Results	2008 Target	2008 Results	2009 Target
Regulatory cost savings to small business (\$ in Billions)	\$ 7.25	\$ 2.6	\$ 5.5	\$ 107	\$ 5.5

<p><b>Strategic Goal: 4 - Ensure management and organizational excellence to increase responsiveness to customers, streamline processes, and improve compliance and controls</b></p> <p>Deploy a skilled workforce; provide a safe and secure IT environment to support business decisions and Agency operations; and provide financial and performance management services to support efficient and effective program delivery</p>					
		<p>Budget for Strategic Goal 4 \$121 million</p>			
Key Strategic Goal 4 Indicator	2006 Results	2007 Results	2008 Target	2008 Results	2009 Target
Financial Reporting – Unqualified Opinions for Audit Year	Yes	Yes	Yes	Yes	Yes



## sba by the Numbers

<i>(All Dollars in Millions)</i>		FY 2005	FY 2006	FY 2007	FY 2008
<b>Financial Assistance</b>					
7(a) Regular Loans <sup>(1)</sup>	Dollars of Loans Approved	\$ 15,407	\$ 14,728	\$ 14,479	\$ 12,819
504 Regular Loans <sup>(1)</sup>	Dollars of Loans Approved	\$ 5,140	\$ 5,861	\$ 6,463	\$ 5,419
Microloans	Dollars of Loans Funded	\$ 21	\$ 19	\$ 21	\$ 20
SBIC	Dollars of Financings Approved	\$ 363	\$ 477	\$ 759	\$ 1,030
7(a) Loans <sup>(1)</sup>	Number of New Loans Approved	95,900	97,290	99,603	69,441
504 Loans <sup>(1)</sup>	Number of New Loans Approved	9,194	9,943	10,669	8,883
Microloans	Number of New Loans Funded	2,436	2,395	2,427	2,682
SBIC	Number of Small Businesses Financed	2,298	2,121	2,057	1,905
<b>Disaster Assistance <sup>(1)</sup></b>					
	Dollars of Loans Funded	\$ 2,371	\$ 11,675	\$ 1,407	\$ 954
	Number of Loans Funded	41,651	137,803	13,716	15,128
<b>Total Portfolio <sup>(1)(2)</sup></b>					
	Outstanding Principal Balance	\$ 71,480	\$ 78,107	\$ 84,512	\$ 88,095
<b>Management Assistance</b>					
SCORE	Number Small Businesses Assisted	403,724	308,710	336,411	360,559
SBDC	Number Small Businesses Assisted	706,501	667,660	600,665	558,847
WBC	Number Small Businesses Assisted	144,316	129,373	146,828	159,879
District Offices Counseling & Training	Number Small Businesses Assisted	409,276	315,665	348,855	305,755
<b>Procurement Assistance</b>					
Prime Contracting <sup>(3)</sup>	Annual Value of Federal Contracts	\$ 80,000	\$ 77,670	\$ 83,275	N/A
Surety Bond	Number of Final Bonds Guaranteed	1,680	1,706	1,640	1,576
HubZone <sup>(3)</sup>	Annual Value of Federal Contracts	\$ 6,186	\$ 7,162	\$ 8,463	N/A
8(a) Program <sup>(3)</sup>	Number of Small Businesses Assisted	9,458	9,600	9,479	N/A
<b>Regulatory Assistance</b>					
Advocacy <sup>(4)</sup>	Regulatory Cost Savings	\$ 6,600	\$ 7,250	\$ 2,568	N/A

<sup>(1)</sup> In prior fiscal years, this table has presented "Disbursement/funded" loans for the Financial Assistance, Disaster Assistance and Total Portfolio. This table now presents "Gross Approvals" of both the value and number of total loans approved. The SBA prefers this measure because it better represents the loan portfolio processed by the SBA. There is a substantial difference in the two measures. The "Gross Approvals" loan numbers are approximately 15 percent higher for guaranteed loans (7(a) and 504 loans), and 46 percent higher for Disaster direct loans, than "Disbursement/funded" loans. Disaster loans are substantially higher when counting Gross Approvals because many potential borrowers are initially approved and then decide that they do not need the funds for a variety of reasons like receiving insurance payments, grants, or maybe deciding not to rebuild.

<sup>(2)</sup> This includes all Disaster and Business Loans.

<sup>(3)</sup> Federal Agencies have not yet certified their FY 2008 data. We should receive the FY 2008 certified data by the 3rd or 4th quarter of FY 2009.

<sup>(4)</sup> The FY 2008 data will be available Feb/March 2009.

N/A - Not Available

## sba's history and Organization

### Mission and History

Congress created the Small Business Administration in 1953 to "aid, counsel, assist and protect, insofar as is possible, the interests of small business concerns." The charter also stipulated that the SBA would ensure small businesses a "fair proportion" of government contracts and sales of surplus property. SBA's mission is to maintain and strengthen the nation's economy by enabling the establishment and viability of small businesses and by assisting in the economic recovery of communities after disasters. Agency programs also include management assistance and specialized outreach to veterans, women and underserved markets. Since its inception, the SBA has made or guaranteed in excess of the \$211 billion in business loans.

The Investment Company Act of 1958 established the Small Business Investment Company. The SBA licenses, regulates and helps provide funds for privately owned and operated venture capital investment firms. They specialize in providing long-term debt and equity investments to high-risk small businesses. Its creation was the result of a Federal Reserve study that discovered that small businesses could not get the credit they needed to keep pace with technological advancement. Since program inception, the Small Business Investment Companies have invested over \$54.9 billion in financing with over \$2.4 billion invested in FY 2008.

The SBA plays a vital role in enabling America's entrepreneurs and has stamped its mark on many small businesses that have grown to become household names and leaders in their field. These firms include Federal Express, Staples, Jenny Craig, Under Armour, Intel, Sun Microsystems, Radio One, Hewlett Packard, and a host of others. For 2008 the SBA celebrates Richmond, Virginia's SnagAJob.com. Barely eight years after its start, SnagAJob.com has become a hugely successful site for posting and finding hourly and part-time jobs, connecting millions of registered job seekers with active job postings. SnagAJob was named the National Small Business of the Year. It's CEO "Shawn Boyer is a perfect example of the creativity and inspiration it takes to become a highly successful entrepreneur in America today," said the SBA Administrator. "He identified an unmet need and filled it. In doing so, Shawn demonstrated the qualities that make small businesses such a powerful force in the American economy, and in their communities.

For more detailed information on other success stories for 2008, please visit <http://app1.sba.gov/sbsuccess/2008>

### SBA Organization by Key Assistance Areas

The SBA is an organization with a nationwide presence that serves to aid, counsel, assist and protect the interests of small businesses. The SBA's headquarters is located in Washington, D.C., while its business products and services are delivered with the help of 10 regional offices, 68 district offices and a vast network of resource partners in all 50 states, the District of Columbia, Puerto Rico, American Samoa, the U.S. Virgin Islands, and Guam.

The SBA is organized around five key functional areas: Financial Assistance, Procurement Assistance, Management Assistance, Disaster Assistance and Regulatory Assistance. Other Assistance captures all other activities. Below are brief descriptions of the SBA offices and programs of some of the products and services they provide.

#### Financial Assistance

The Office of Capital Access assists small businesses in obtaining capital via the 7(a), 504 and Microloan programs and the Small Business Investment Company program. OCA is also responsible for the Surety Bond Guarantee and the International Trade Assistance programs.

#### Procurement Assistance

The Office of Government Contracting and Business Development provide assistance to small business in obtaining federal procurement opportunities through the governmentwide Prime and Subcontracting programs. Additionally, the 8(a) Business Development program assists small businesses to be better prepared to take advantage of procurement opportunities. GC/BD also sets size standards for small businesses which determine when a business will be considered a small business.

#### Management Assistance

The Office of Entrepreneurial Development provides business counseling and training through its partner's network composed of Small Business Development Centers, Women Business Centers and SCORE. In addition, District Office

provide counseling and training that complements the assistance provided by the SBA's partners.

The National Ombudsman receives complaints and comments from small businesses and acts as a "trouble shooter" between small businesses and federal agencies.

Disaster Assistance

The Office of Disaster Assistance provides affordable, timely and accessible financial assistance to homeowners, renters and businesses following a disaster.

Other Assistance

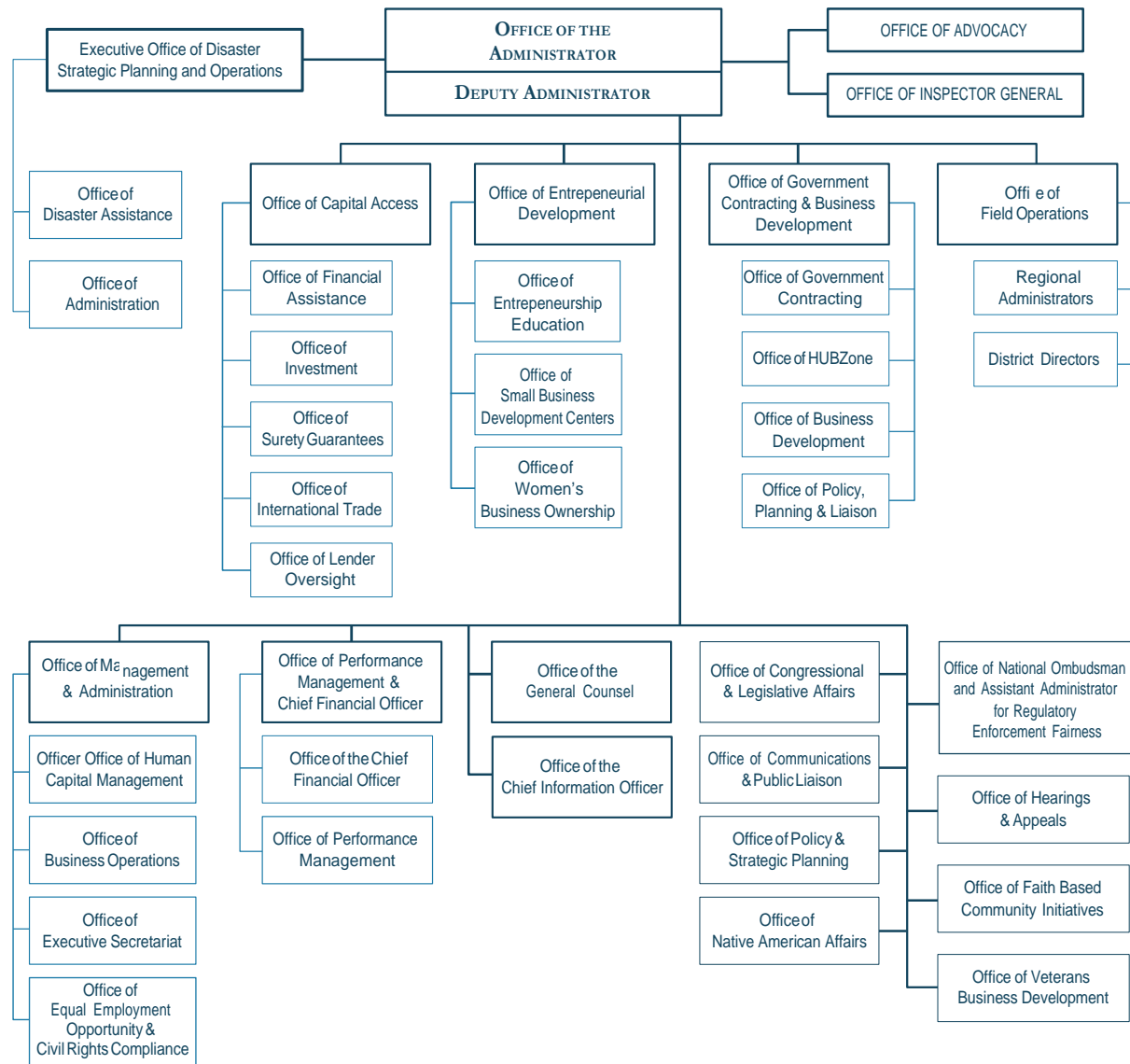
The Office of Veterans Business Development formulates and delivers policies and programs that provide assistance to veterans seeking to start and develop small businesses.

Regulatory Assistance

The Office of Advocacy provides an independent voice for small business to advance the views, concerns, and interests of small business before Congress, federal government, federal courts, and state policy makers.

The Office of Native American Outreach focuses on the assistance provided to American Indians, Alaska Natives, Native Hawaiians, and the indigenous people of Guam and American Samoa.

SBA's Organizational Chart



## Performance Results

### How the SBA Assesses Performance

The SBA uses a standardized performance system designed to emphasize the interrelationship between its various offices and to illustrate that the achievement of the mission of the Agency is the ultimate goal. Each of the components of SBA's performance structure is defined below.

**Mission** – The mission of the SBA is established by the Small Business Act, and it is the overarching principle that governs all actions of the Agency.

**Strategic Goals** – The SBA has four Strategic Goals. The first Strategic Goal highlights programs that assist small business directly or through SBA's partners. The second Strategic Goal focuses on the assistance that the Agency lends in cases of disasters. The third Strategic Goal shows how the SBA improves the economic environment for small businesses. The fourth Strategic Goal defines the responsibility of the Agency's executive leadership and support functions in helping to accomplish the programmatic goals.

**Long-Term Objectives** – Long-Term Objectives describe in general terms the results the SBA needs to achieve in order to accomplish its Strategic Goals, at the same time making the focus of the Agency more specific.

**Outcomes** – Outcomes are defined and measured at the level of the Agency. Outcomes measure the effect program outputs have on their stakeholders. More than one program may contribute to the achievement of an outcome.

**Outputs** – Outputs are the quantifiable targets that directly measure the results of a program. A program may have many outputs, but each output is associated with only one program.

**Efficiency Measures** – An efficiency measure is the cost to produce one output or intermediate unit. This allows for cost comparison among programs. Every SBA program has at least one efficiency measure.

### Strategic Goal Structure

**STRATEGIC GOAL 1** – Expand America's ownership society, particularly in underserved markets

- y Improve access to SBA programs and services by small businesses to drive business formation, job growth, and economic activity.

- y Support entrepreneurship in markets with higher poverty and unemployment, and in our military community.
- y Ensure stewardship and accountability over taxpayer dollars through prudent financial portfolio management and oversight.

**STRATEGIC GOAL 2** – Provide timely financial assistance to homeowners, renters, nonprofit organizations and businesses affected by disaster

- y Respond quickly, efficiently, and effectively to disaster applicants.

**STRATEGIC GOAL 3** – Improve the economic environment for small business

- y Protect, strengthen and effectively represent the nation's small businesses to minimize the regulatory burden.
- y Foster a more small-business-friendly environment.

**STRATEGIC GOAL 4** – Ensure management and organizational excellence to increase responsiveness to customers, streamline processes, and improve compliance and controls

- y Deploy a skilled workforce capable of executing high quality programs.
- y Provide a safe and secure information system environment to support business decisions and agency operations.
- y Provide financial and performance management services to support efficient and effective program delivery.

### Performance Data Collection and Validation

Managing for results and producing an Annual Performance Plan and Performance and Accountability Report requires valid, reliable and high-quality performance measures and data. The SBA is committed to the continuous improvement of its performance and financial management data. To this end the Agency has established a multifaceted strategy to achieve this goal which includes: an excellent data validation system; mandatory source documentation policy; documentation of calculation methodology for all estimates; and standardization of client definitions.

All indicators are fully supported by documentation. This documentation is available for review.

## Summary Performance Information on Key SBA Programs

### Program Performance Indicators

The following table presents "Key" SBA FY 2008 performance data. The first three programs – 7(a), 504, and Disaster loans – are the three largest SBA guarantee and direct loan programs. These programs make up the bulk of SBA's loan portfolio. The other two indicators have been included as an

example of the impact of other SBA programs and to highlight the soundness of the SBA's financial systems (appropriate for the Agency's Financial Report). Detailed performance information on all the SBA's programs will be presented, and all variances explained, in the FY 2008 Annual Performance Report which will be submitted January 15, 2009.

### Strategic Goal 1 - Expand America's Ownership Society, Particularly in Underserved Markets

Program	Performance Indicator	Type of Indicator	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Goal	FY 2008 Actual	FY 2008 Variance
7(a)	Small Businesses Assisted (#)	Outcome	83,102	80,303	84,666	91,016	59,019	-35% R
7(a)	Jobs Created/Retained (#)	Outcome	662,133	790,170	864,947	864,947	649,271	-25% R
504	Small Businesses Assisted (#) <sup>(1)</sup>	Outcome	7,629	7,569	9,708	10,436	8,084	-23% R
504	Jobs Created/Retained (#)	Outcome	135,022	135,479	140,778	152,040	121,723	-20% R

### Strategic Goal 2 - Provide Timely Financial Assistance to Homeowners, Renters, Nonprofit Organizations and Businesses Affected by Disaster

Disaster	Customer satisfaction rate	Outcome	66%	57%	66%	72%	66%	-10% Y
Disaster	Disasters having field presence within 3 days (%)	Output	100%	100%	100%	95%	100%	5% G
Disaster	Time to process 85% of business physical applications (days)	Output	35	66	11	16	11	31% G

### Strategic Goal 3 - Improve the Economic Environment for Small Business

Advocacy <sup>(2)</sup>	Regulatory Cost Savings to Small Businesses (\$ in billions)	Outcome	660	725	260	550	1070	95% G
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### Strategic Goal 4 - Ensure Management and Organizational Excellence to Increase Responsiveness to Customers, Streamline Processes and Improve Compliance and Controls

Financial Reporting	Unqualified Opinions for Audit Year	Outcome	Yes	Yes	Yes	Yes	Yes	0% G
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G	Actual results meets or exceeds target
Y	Actual results is within 10% of meeting the target
R	Actual results is less than 90% of target

<sup>1</sup> FYs 2005 and 2006 totals only include data for existing businesses. Start-up businesses were not included. Starting in FY 2007, all small businesses assisted are included.

<sup>2</sup> The FY 2008 Actual will be available February 2009.

## fy 2008 budgetary resources to achieve results

### Total Obligations by Strategic Goal

Based on FY 2008 Cost Allocation Model

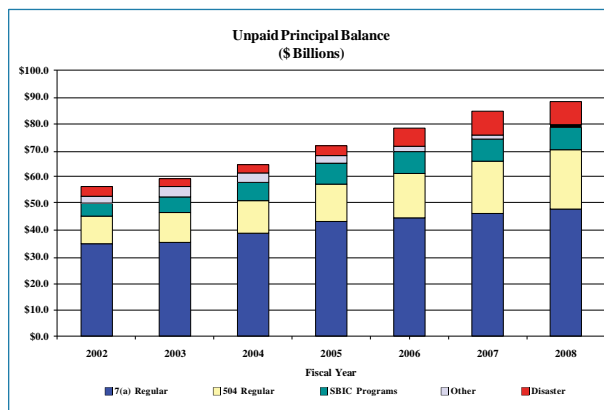
(\$in Millions)

		<b>Total</b>	
<b>STRATEGIC GOAL 1 - Expand America's ownership society, particularly in underserved markets.</b>		<b>\$ 427,014</b>	<b>61%</b>
<b>Financial Assistance</b>			
7(a) Loans	\$ 86,626		
504 Loans	25,206		
SBIC Loans	17,165		
Microloans	18,399		
International Trade Program	4,170		
New Market Venture Capital	282		
Prime Technical Assistance	2,813		
<b>Management Assistance</b>			
SCORE	\$ 10,609		
Small Business Development Centers	111,288		
Small Business Training Network	578		
Women's Business Ownership	22,783		
Drug Free Workplace	1,085		
National Women's Business Council	983		
Native American Outreach	1,511		
Veteran's Business Development	5,029		
Field Offices - Counseling, Training and Information	17,900		
8(a) Program	\$ 52,001		
HUBZone Program	8,679		
Surety Bond Program	4,431		
7(j) Program	4,780		
<b>Contracting Assistance</b>			
Prime Contracting	\$ 24,260		
Subcontracting Program	3,045		
Small Disadvantaged Business	1,086		
Business Matchmaking	2,305		
<b>STRATEGIC GOAL 2 - Provide timely financial assistance to homeowners, renters, nonprofit organizations and businesses effected by disasters.</b>		<b>\$ 261,535</b>	<b>37%</b>
Disaster Assistance	\$ 261,535		
<b>STRATEGIC GOAL 3 - Improve the economic environment for small business.</b>		<b>\$ 14,663</b>	<b>2%</b>
<b>Regulatory Assistance</b>			
Advocacy	\$ 9,170		
National Ombudsman	1,524		
Business Gateway	3,969		
<b>Total Budgetary Resources</b>		<b>\$ 703,212</b>	<b>100%</b>
<b>STRATEGIC GOAL 4 - Ensure management and organizational excellence to increase responsiveness to customers, streamline processes, and improve compliance and controls.</b>			
<i>(These budgetary resources are treated as Overhead and have been allocated to Strategic Goals 1, 2, and 3 above)</i>			
<b>Overhead</b>			
General Planning and Management	\$ 51,427		
Information Technology Management	36,139		
Procurement and Contracting Services	15,085		
Improved Financial Performance	12,906		
Budget and Performance Integration	2,110		
Competitive Sourcing	204		
E-Government	2,372		
Human Capital Management	893		
Improper Payments	9		
<b>Total Budgetary Resources allocated to Strategic Goals 1-3</b>	<b>\$ 121,145</b>		

## Operational Portfolio Analysis

### Portfolio Analysis

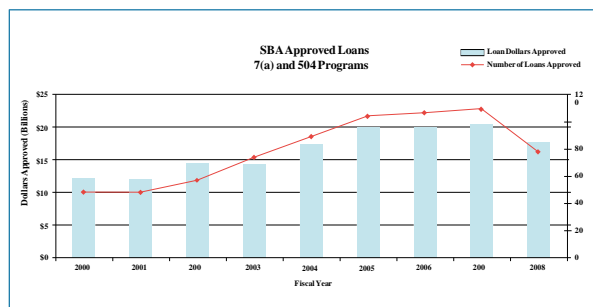
The SBA is the taxpayers' custodian of a loan portfolio of \$88.1 billion, as shown below. This portfolio includes both guaranteed and direct business loans and direct disaster loans. In FY 2008, the total outstanding portfolio of guaranteed and direct loans grew by 4.3 percent. The Agency's portfolio of direct disaster loans declined by 4.0% in FY 2008 to \$8.6 billion.



### SBA Loan Volume in the Current Economy

During FY 2008, the downturn in the nation's housing market that began in 2007 continued to impact the overall economy, including small businesses. In September 2008 the U.S. Treasury placed two of the nation's largest housing finance agencies, Fannie Mae and Freddie Mac, into federal conservatorship. In the subsequent six weeks, the economic crisis grew to even more historic proportions and resulted in the failure of additional major financial institutions, the passage of a \$700 billion federal rescue package, and the decision by the U.S. Treasury to make equity investments in many of the nation's banks.

The current economic situation has affected small business borrowing as well. Economic uncertainty has led to diminished loan demand by small business owners and those looking to start a small business. Borrowers are on average less creditworthy than previous years. Lenders have also tightened credit standards for borrowers. The SBA's loan volume as well as the performance of the Agency's portfolio have been impacted by these national economic trends. In FY 2008 total loan approvals declined by 29 percent compared to FY 2007. Total loan dollars approved declined by approximately 13 percent compared to FY 2007.



### Economic Trends Infl

### Loan Volume

Many factors influence small businesses' decisions to seek financing, including the current and anticipated economic environment, the cost and availability of credit, and alternatives to borrowing. Several indicators of decreased borrowing and lending activity are visible for FY 2008, including diminished confidence in the economy, falling housing prices, tightened credit standards, increasing costs of funds for lenders and overall liquidity problems.

In this uncertain time, some small business owners decide not to start or expand their businesses. According to quarterly Senior Loan Officer Opinion Surveys released by the Federal Reserve Board, demand for commercial and industrial loans has weakened for small firms. About 15 percent of large domestic banks, on net, reported weaker demand from small firms in the July survey, and 30 percent reported weaker demand in the October survey. Additionally, borrower credit-worthiness can be influenced by the value of assets, such as homes. The SBA has found that volume for SBA's 7(a) loan program tracks housing prices closely. Chart 3 below compares volume for SBA's loans with the Case-Shiller National Housing Price Index, which measures change in home prices. Over 2008, as housing prices declined, SBA loan demand also fell.

At the same time, SBA lenders are affected by the economic situation. Several lenders pulled back on their small business lending as increased delinquencies spilled from the housing market to other parts of the credit markets. In the July Senior Loan Officer Survey 65 percent of lenders say they have tightened their lending standards for commercial and industrial loans to small businesses. This was a 15 point increase from April 2008. In the October survey, 75 percent reported tightened lending standards to small businesses. Significant majorities of domestic respondents also indicated

that they had tightened selected price terms on commercial and industrial loans to firms of all sizes – with 70 percent reporting that they widened spreads on loans to small firms in July and 93 percent reporting widening spreads in October.

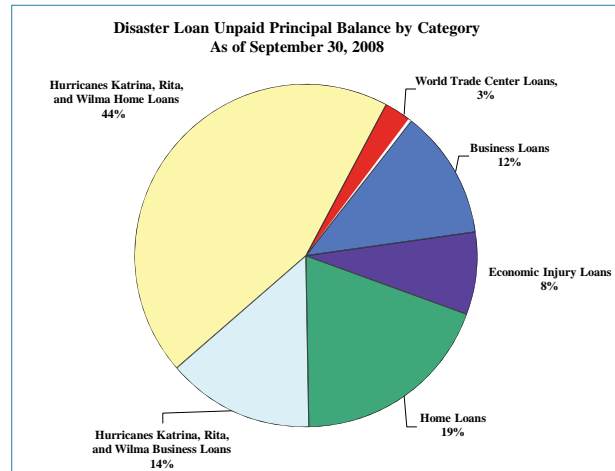
All of these factors combined to significantly reduce FY 2008 approvals of SBA-guaranteed small business loans.

#### Credit Risk Management and Oversight

To ensure the SBA's effective stewardship of its loan portfolio, the Agency's Office of Credit Risk Management has a state of the art loan and lender monitoring system that incorporates credit scoring metrics to track and monitor the risk in the Agency's 7(a) and 504 loan programs. Data are used to analyze performance for the overall portfolio, portfolio segments and subprograms, and for individual lender and lender peer groups. In addition, the SBA has data on the credit quality of the loan portfolios in the form of portfolio credit scores (not origination credit scores) for almost all outstanding 7(a) and 504 loans. The SBA loan and lender performance data are updated monthly. Additionally, contractor-provided credit quality and other data are updated quarterly. Credit data are also used to predict future performance of the loan portfolio and to forecast potential future risk. The SBA is developing a similar portfolio monitoring system for the Agency's direct disaster loan programs that will be introduced in FY 2009. All of this information is used by the Agency to make informed management decisions about loan program policies.

#### Disaster Portfolio Trends

The SBA's portfolio of direct disaster loans consists of both business and home loans. As of September 30, 2008, approximately 63 percent of the outstanding balance in the disaster portfolio is comprised of home loans. Roughly two-thirds of the \$8.6 billion in outstanding loans are located



in Gulf Coast states; approximately \$3.0 billion in loans are for business or home loans in Louisiana, with more than \$1 billion each in Florida and Mississippi and \$0.7 billion in Texas. Nearly all of the loans from these states were a result of hurricanes Katrina, Rita and Wilma that occurred in late 2005. As a result of those disasters, SBA's disaster loan portfolio increased significantly, from less than \$4 billion at the beginning of FY 2006 to nearly \$9 billion at the end of FY 2007. The Agency's portfolio of direct disaster loans declined by 3.9 percent in FY 2008 to \$8.6 billion.

#### SBA's Loan Processing and Servicing Centers

SBA's loan processing and servicing centers, along with its National Guaranty Purchase Center, are responsible for loan origination and guaranty purchase activity on all SBA business loans, and the servicing and liquidation of all disaster loans. Given the substantial increase in default activity, the SBA has been working to achieve appropriate and balanced staffing levels in these critical functions to continue to effectively service the needs of its borrowers.



## Highlights of Financial Results

For the years ended September 30, 2008 and 2007

*(Dollars in Thousands)*

AT END OF FISCAL YEAR	2008 <sup>1</sup>	2007 <sup>1</sup>	% Change
<b>CONDENSED BALANCE SHEET DATA</b>			
Fund Balance with Treasury	\$ 3,880,755	\$ 6,095,443	-36.33%
Credit Program Receivables	8,522,941	8,337,462	2.22%
All Other Assets	44,519	62,084	-28.29%
<b>Total Assets</b>	<b>\$ 12,448,215</b>	<b>\$ 14,494,989</b>	<b>-14.12%</b>
Liability for Loan Guaranties	\$ 1,825,551	\$ 1,737,860	5.05%
Debt with Treasury	9,473,227	11,383,188	-16.78%
Downward Reestimate Payable to Treasury	466,887	645,826	-27.71%
All Other Liabilities	348,420	325,247	7.12%
<b>Total liabilities</b>	<b>12,114,085</b>	<b>14,092,121</b>	<b>-14.04%</b>
Unexpended Appropriations	1,696,866	974,211	74.18%
Cumulative Results of Operations	(1,362,736)	(571,343)	-138.51%
<b>Total Net Position</b>	<b>334,130</b>	<b>402,868</b>	<b>-17.06%</b>
<b>Total liabilities and Net Position</b>	<b>\$ 12,448,215</b>	<b>\$ 14,494,989</b>	<b>-14.12%</b>

## FOR THE FISCAL YEAR

## STATEMENT OF NET COST BY STRATEGIC GOAL

Goal 1: Expand America's Ownership Society			
Loan Subsidy Cost including Reestimates*	\$ 441,919	\$ (34,144)	1394.28%
All Other Cost Net of Revenue	404,490	376,361	7.47%
Goal 2: Provide Timely Financial Assistance Affected by Disaster			
Loan Subsidy Cost including Reestimates	351,816	307,462	14.43%
All Other Cost Net of Revenue	233,046	318,912	-26.92%
Goal 3: Improve Economic Environment for Small Business			
Costs Not Assigned	119,931	67,305	78.19%
<b>Total Net Cost of Operations</b>	<b>\$ 1,565,316</b>	<b>\$ 1,060,590</b>	<b>47.59%</b>

\*Negative Cost due to downward subsidy reestimates that reduce prior loan subsidy costs

## STATEMENT OF NET COST BY EXPENSE TYPE

Loan Subsidy Cost and Required Annual Reestimates	\$ 793,735	\$ 273,318	190.41%
Goal 1 Administrative Costs	404,490	376,361	7.47%
Goal 2 Administrative Costs	233,046	318,912	-26.92%
Goal 3 Costs	14,114	24,694	-42.84%
Congressional Initiative Grants	63,065	60,435	4.35%
Other Costs Not Assigned	56,866	6,870	727.74%
<b>Total Net Cost of Operations</b>	<b>\$ 1,565,316</b>	<b>\$ 1,060,590</b>	<b>47.59%</b>

<sup>1</sup> Condensed from SBA's financial statements audited by KPMG, LLP.

## Analysis of Financial Results

The SBA prepares its financial statements as a critical aspect of ensuring the accountability and stewardship for the public resources entrusted to it. The financial statements are prepared in accordance with guidance issued by the Office of Management and Budget pursuant to the Chief Financial Officers Act of 1990.

This analysis is intended to help readers understand the entity's financial results, position and condition as portrayed in the principal financial statements and notes. It explains major changes in assets, liabilities, costs, and budgetary resources; includes comparisons of the current year to the prior year; and discusses the relevance of particular balances and amounts reflected in the principal financial statements and notes. This section also depicts trends via the use of charts and graphs to further understanding of the financial condition and results of the Agency. The SBA is primarily a credit agency and therefore the trends and financial condition of credit program receivables and reestimates are emphasized in this analysis.

### Background

The SBA is the smallest of the major federal credit agencies, behind the Department of Agriculture, the Department of Education, the Department of Housing and Urban Development and the Department of Veterans Affairs. Most of SBA's available budgetary resources are devoted to its credit programs. For FY 2008 SBA's available budgetary resources were \$3.0 billion, and nonbudgetary resources in the loan financing funds were \$6.1 billion. The budgetary resources are the amounts available to enter into new obligations and to liquidate them. Budgetary resources are made up of new budget authority and unobligated balances of budget authority provided in previous years. The loan financing funds are nonbudgetary accounts that record all the cash flow activity resulting from post 1991 direct loans and loan guaranties. This activity in the financing account is reported separately in the Budget of the United States Government and is excluded from the budget surplus/deficit totals.

The portion of the outstanding principal guaranteed by the SBA as of September 30, 2008, was \$61.7 billion. This amount is up 6 percent from the \$58.4 billion guaranteed at September 30, 2007. The downturn in the nation's economy in FY 2008, however, impacted the demand for SBA loans and resulted in a decrease in the approval and

disbursement of new SBA guaranteed loans. New guaranties disbursed by the SBA during FY 2008 were down 3 percent compared to FY 2007 (see footnote 6C for further detail on loans disbursed and outstanding at yearend). SBA's portfolio of loans receivable continued to grow but at a slower pace than in recent years. Credit program receivables for the SBA are comprised of business and disaster direct loans and defaulted business loans purchased per the terms of SBA's loan guaranty programs. These receivables are valued at \$8.5 billion this fiscal year, an increase of only 2 percent over last fiscal year. As reflected in Chart I, there was a steep upward trend in the credit program receivables from FY 2005 to FY 2007 driven primarily by the significant volume of disaster direct loans to the victims of hurricanes Katrina, Rita, and Wilma that struck the Gulf Coast in September and October 2005. The primary reason for the increase in credit program receivables from FY 2007 to FY 2008 is due to an increase in defaulted guarantied business loans. This resulted partially from expected increased purchases as a result of the guaranty portfolio increasing in recent years. Also, this increase reflects more efficient program operations in purchasing and liquidation of business loans and the reduction of a backlog from prior years. Finally, it reflects an increase in defaults due to the downturn in the economy and credit markets during FY 2008.

SBA's assets and liabilities primarily result from its credit program activities. They consist of Fund Balances with Treasury, credit program receivables, liabilities for loan guaranties, and Debt with Treasury. SBA's loans and guaranties are financed by a combination of subsidy appropriations, fees charged to lenders and borrowers, and borrowings from the Treasury. Congress provides appropriations to cover the estimated long term costs of SBA's disaster loans, while SBA's guarantied business loan program costs are financed through fees. These costs are defined as the net present value of the estimated cash outflows and inflows associated with the loans.

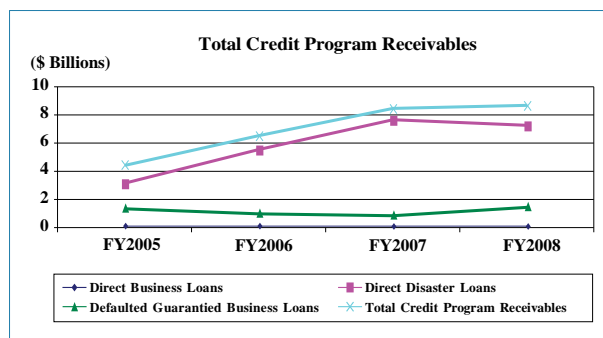


Chart I

The remaining portion of each new direct loan disbursed is financed under permanent indefinite authority to borrow funds from Treasury's Bureau of Public Debt. Borrowings are repaid to the Treasury as loans are repaid to the SBA.

## Financial Position

### Assets

The SBA had total assets of \$12.4 billion at the end of FY 2008, down 14 percent from FY 2007. Assets decreased primarily due to a \$2.2 billion decrease in the Fund Balance with Treasury primarily because of large repayments of excess borrowings in the Disaster financing fund associated with the Gulf Coast hurricanes. This decrease in Fund Balance with Treasury correlates with the decrease in the Debt with Treasury in the Liability section as well as the Permanently Not Available line on the Statement of Budgetary Resources. Per the provisions of the Federal Credit Reform Act of 1990, credit program receivables are valued at the present value of expected future cash flows.

### Liabilities

The SBA had total liabilities of \$12.1 billion at the end of FY 2008, down 14 percent from FY 2007. Liabilities consist primarily of the Liability for Loan Guaranties and Debt with Treasury. The Liability for Loan Guaranties is defined as an estimate of the future amount the SBA will pay, net of fee collections, to liquidate expected purchases of guaranteed loans under its guaranteed loan programs. Debt with Treasury decreased \$2 billion as a result of the repayment of excess borrowings to the Treasury in the Disaster financing fund associated with the Gulf Coast hurricanes. This decrease in Debt with Treasury is consistent with the decrease in the Fund Balance with Treasury and is the primary change in SBA's liabilities.

### Net Position

Net position, which is the sum of Unexpended Appropriations and Cumulative Results of Operations, decreased in FY 2008 to \$334.1 million. Cumulative Results of Operations is the accumulated difference between expenditures and financing sources since the inception of the Agency. The loss shown as Cumulative Results of Operations increased to \$1.36 billion at the end of FY 2008 (from \$571.3 million last year) due to unfunded upward subsidy reestimates that increased in FY 2008 on the Disaster Direct Loan program, the 7(a) Program, and the 504 Program from FY 2007. Unfunded expenses do not yet have a financing source. They result in

an increase in the loss the SBA reports as Cumulative Results of Operations. The largest category of unfunded expenses at the SBA is year-end reestimates which are funded in the following year. Unexpended Appropriations increased \$722.7 million this year because the appropriations used in FY 2008 were less than the appropriations received. This is due to the funding in the Disaster Relief and Recovery Supplemental Appropriation Act of 2008 that provided \$799 million of appropriations to the SBA in September 2008 to fund the costs of loans made to the victims of Hurricanes Gustav, Ike and other disasters. The SBA has not apportioned or expended these funds; and therefore, these funds resulted in a direct increase in the unexpended appropriation balance at the end of the year on SBA's Balance Sheet. The SBA would expect to see a decrease in the unexpended appropriation balance in FY 2009 as these loans are disbursed.

## Results of Operations

The Results of Operations primarily reflects the costs of SBA credit programs from subsidy expenses during the year for new loans and subsidy reestimates at yearend. The credit subsidy cost is the net present value of expected cash inflows and outflows over the life of a guaranteed loan, or the difference between the net present value of expected cash flows and the face value of a direct loan. The SBA receives appropriations annually to fund its credit programs. When loans are disbursed, the SBA records subsidy expense. In accordance with the FCRA, the subsidy costs are reestimated annually. Reestimates update original loan program cost estimates to reflect actual experience and changes in forecasts of future cash flows. Increased reestimated costs are funded in the following year by permanent indefinite authority, while decreased costs are returned by the SBA to a Treasury general fund. During FY 2008, the reestimated cost for the 7(a) Loan Guaranty Program, the 504 Program, and the Disaster Direct Loan program all significantly increased. Those increases were the largest components of the change (net increase) in the Agency's net cost. Chart II reflects the increases in the reestimates for the Disaster Direct Programs as well as the Guaranteed Business Loan Program from FY 2007 to FY 2008.

The increase in the overall Net Cost from FY 2007 to FY 2008 is primarily due to the increase in Strategic Goal 1 from the upward reestimates for the business loan guaranty and business direct loan programs in FY 2008. The 7(a) Loan Guaranty Program and the 504 Program both had upward

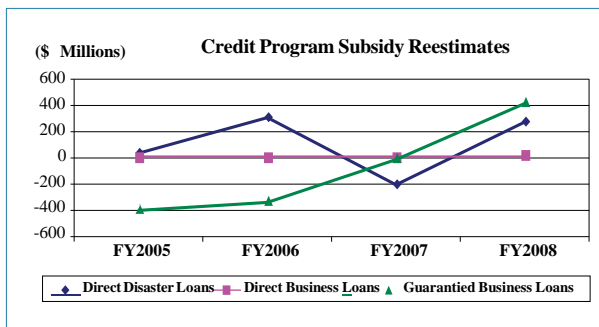


Chart II

reestimates that were partially offset by net downward reestimates in the SBIC programs. SBA's flagship 7(a) Loan Guaranty Program had upward reestimates of \$574.8 million that were partially due to the downturn in the economy that resulted in higher than projected purchases during FY 2008 and an increase in projected purchases for the remaining years within the cohorts.

The 504 Program had net upward reestimates of \$484.9 million that was also due to the downturn in the economy that resulted in higher than projected purchases during FY 2008 and an increase in projected purchases for the remaining years within the cohorts.

The improvement in performance of SBA's venture capital programs continued into FY 2008. SBIC Participating

Securities and SBIC Debentures programs had net downward reestimates of \$492.4 million and \$158.4 million, respectively. The downward reestimates for these programs are due to a reduction in projected purchases and an increase in actual and projected recoveries in the remaining performance years within the cohorts based on additional actual performance data.

Strategic Goal 2 includes a decrease in administrative and subsidy expenses during FY 2008 offset by a net upward reestimate in the Disaster Direct Loan program at year-end. The disaster program had net upward reestimates of \$208.4 million primarily in the 2006 cohort that mostly consists of loans from the Gulf Coast hurricanes in 2005. Those loans currently account for about 60 percent of the outstanding portfolio of direct disaster loans. The upward reestimates are primarily the result of performance probabilities being updated with actual performance during FY 2008 that resulted in an increase in projected defaults. Subsidy and administrative expenses declined in FY 2008 after a big year in FY 2007 in lending, borrowing authority, and subsidy related to hurricanes Katrina, Rita, and Wilma. This resulted in an overall decrease in total net costs in this strategic goal from FY 2007 to FY 2008.

## analysis of sba's systems, Controls and legal Compliance

### Internal Control

The Agency believes that maintaining integrity and accountability in all programs and operations is an essential responsibility of the government to the taxpayers. The SBA has developed and implemented management, administrative and financial system controls to reasonably ensure that:

- y Programs and operations achieve intended results efficiently and effectively;
- y Resources are used in accordance with the mission of the Agency;
- y Programs and resources are protected from waste, fraud and mismanagement;
- y Program and operations activities are in compliance with laws and regulations; and
- y Reliable, complete and timely data are maintained for decision-making at all levels.

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires Federal agencies to conduct an annual assessment of internal control and report the results to the President. The FMFIA assurance is based on the self-assessments of program heads, internal control reviews, and audits and reviews done by the Government Accountability Office (GAO) and the SBA's Office of the Inspector General (OIG).

During FY 2008, the SBA conducted its third annual assessment of internal control over financial reporting to comply with the Office of Management and Budget's (OMB) revised Circular No. A-123 Appendix A, Internal control Over Financial Reporting, which is similar to that imposed on publicly traded companies by the *Public Company Accounting Reform and Investor Protection Act of 2002 (the "Sarbanes-Oxley Act" or "SOX")*.

The Senior Assessment Team (SAT) chaired by the Chief Financial Officer (CFO) and composed of SBA managers from the major programs and support offices directed this effort. The SBA reviewed the key business processes impacting financial operations and the financial statements. Based on the evaluation of 16 business processes, the SBA identified a number of deficiencies in the area of internal control over financial reporting. However, only six were systematic. These were:

- y The Operation division of the Small Business Investment Company program did not monitor SBIC companies in a timely manner which may put the SBA at risk of additional liability in the future;
- y Some charged-off loans were not referred to Treasury for debt collection accurately and in a timely manner in violation of the Debt Collection Improvement Act of 1996;
- y The reconciliation between SBA payroll records and National Finance Center's (NFC) payroll reports was not done on a regular basis to detect errors and/or irregularities.
- y The reviews done by the National Guaranty Purchase Center did not consistently detect lender failures to administer loans in full compliance with SBA requirements and prudent lending practice;
- y Inadequate monitoring of Congressional grants (a finding carried over from FY 2007);
- y Inaccuracies in 7(a) loan guaranty reporting (a finding carried over from FY 2006).

These findings have been communicated to the responsible offices for remediation, and some of the remediation had taken place by the end of FY 2008.

Given the size of its \$88 billion loan portfolio, the SBA's lender and loan monitoring and review activities represent a critical component of the Agency's internal control framework. The Office of Credit Risk Management rates and ranks, according to risk level, lenders disbursing SBA-guaranteed loans. This analysis allows the SBA to focus resources on those lenders who represent the most risk in terms of exposure and credit quality. Larger lenders are subject to on-site reviews. The SBA also conducts reviews of Certified Development Companies, examinations of Small Business Investment Companies, guaranteed loan purchase reviews and reviews of improper payments for business and disaster loans.

### Legal Compliance

During the FMFIA Assurance process, the SBA management also identified the following two areas with programmatic problems. Although management has not categorized these as material weaknesses, it is management's opinion that these problems, left uncorrected, could lead to material weaknesses:

y The SBA's procurement office on occasion may have provided contractors with verbal authority to begin work on an urgent contract or contract modification without properly documenting such action in a timely manner. The procurement office will add a new chapter to the procurement SOP and issue a Policy Notice to regulate this activity. Additionally, OBO/DPGM will issue a Policy Notice regarding UCAs requiring the Contracting Officer to obtain written approval from the Head of the Contracting Activity before entering into a UCA or modifying the scope of a contract after performance has begun.

y The mechanisms that the HUBZone program office used to certify and monitor eligibility provided limited assurance that only eligible firms participate in the program. In order to correct this problem a number of actions are underway.

#### Audit Follow-up

The SBA's OIG conducts audits and reviews of the Agency's operations, and the Office of the Chief Financial Officer (OCFO) works closely with SBA management and the OIG to complete actions necessary to respond to OIG audits. The Agency's financial and program-related internal control has substantially improved over the years through the remediation of audit recommendations made by the Agency's independent auditor in the annual financial statements audit. Finally, the SBA also considers and responds to recommendations from audits and reviews conducted by the GAO. The Agency has addressed a significant number of audit recommendations this year:

- y The total number of open OIG audit recommendations was reduced by 35% by the end of the year;
- y 30% of GAO open recommendations were closed during the second half of the year; and
- y Management made improvements in all Agency management challenges.

The SBA continued to strengthen its financial management team through continued communication on emerging issues and training activities. As a result, the SBA's auditor did not report any material weaknesses in the financial reporting process again this year.

#### Information Systems

The SBA's auditor did find a continuing significant deficiency in information technology security controls. During FY 2008, the SBA made significant progress to address prior-year findings on IT security controls by instituting several processes and taking a multitude of corrective actions. The Office of the Chief Information Officer (OCIO) closed 24 out of 41 open OIG audit recommendations. In addition, the OCIO made improvements in service continuity controls and computer security training that improved the rating issued by the OIG in its report of SBA Management Challenges. The SBA plans to remediate this continuing significant deficiency in FY 2009.

Summary of Financial Statement Audit

Following, as required by OMB Circular A-136, Section II.5.6,  
is the summary of the SBA's financial statement audit:

Summary of Financial Statement Audit

Audit Opinion – Unqualified  
Restatement – No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	\$0	\$0	N/A	N/A	\$0	\$0

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	\$0	\$0	N/A	N/A	N/A	\$0

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	\$0	\$0	N/A	N/A	N/A	\$0

Conformance With Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
None	\$0	\$0	N/A	N/A	N/A	\$0

Conformance With Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1 System Requirements	Yes	
2 Accounting Standards	Yes	
3 USSGL at Transaction Level	Yes	

## Management Assurances

### FMFIA and FFMA Assurance Statement for FY 2008

The Small Business Administration continued to strengthen the internal control over its programs and operations during FY 2008. Accountability to our stakeholders and U.S. taxpayers is one of the four pillars of my management philosophy. I am pleased to report that the SBA's internal controls at September 30, 2008 are operating effectively.

The SBA's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers Financial Integrity Act (FMFIA). The SBA conducted its annual assessment of the effectiveness of internal control over the Agency's operations and compliance with applicable laws and regulations in accordance with OMB Circular A-123, Management's Responsibility for Internal Control. Based on the results of this assessment, the SBA provides reasonable assurance that its control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2008, was operating effectively and that no material weakness were found in the design or operation of the internal controls.

In addition, the SBA's management is responsible for establishing and maintaining effective internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations. The SBA

conducted its assessment of the effectiveness of the SBA's internal control over financial reporting in accordance with the Appendix A of OMB Circular A-123. Based on the results of this evaluation, the SBA provides reasonable assurance that internal control over financial reporting as of June 30, 2008 was operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting.

The Federal Financial Management Improvement Act (FFMIA) requires Federal agencies to implement and maintain financial management systems that are in substantial compliance with Federal financial management systems requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. The SBA provides reasonable assurance that its financial management systems substantially comply with FFMIA for FY 2008.



Sandy K Baruah  
Administrator  
November 17, 2008

## Improper Payments

The Small Business Administration's Improper Payment program achieved outstanding results in FY 2008. The 7(a) loan guaranty program had an improper payment rate of only 0.53 percent for purchased guaranties (however, this rate is under review by the SBA IG) and zero percent for new guaranties issued. The SBA tracks the reasons for any improper payments and makes appropriate changes in its purchase and guaranty operations and quality assurance procedures to reduce the error rate. The Section 504 Certified Development Company debenture program had an assumed improper payments rate of zero percent and Development Company loans results found a zero percent improper payment rate in FY 2008. These results confirm the success of SBA's program controls and quality assurance program.

The Small Business Investment Company program had a zero improper payment rate in FY 2008 (target rate of .20%). This result verifies the success of SBA's management of the SBIC program that includes strict program eligibility requirements, training, periodic examinations of SBIC companies and management oversight of the SBIC investment operations. Finally, the Disaster direct loan program attained an improper payment rate of only 0.74 percent in FY 2008 (target rate of .75%). This demonstrates SBA's sound management of its Disaster program that includes thorough multi-layered application review, on-site verification of the damage caused by disasters, loan repayment terms geared to the disaster victim's payment ability and the Agency's Quality Assurance Review program to monitor program activity and to address issues as they arise.



## Office Of the Inspector General Audit Follow-up

### Summary of OIG Follow-up

Throughout the year, the OIG conducts audits of the SBA's processes, procedures and programs, and makes recommendations for improvement. Many of these recommendations are not material, relative to their dollar impact on the SBA's financial and administrative operation, but are very beneficial to the SBA's management. Program management has the option to agree or disagree with OIG recommendations. If agreement cannot be reached, the issue can be raised to a higher level by the OIG. Once both management and the OIG agree with a recommendation, it becomes a "management decision." The manager also develops a specific action plan and provides a target date for completion as part of the "management decision." The corrective action is referred to as a "final action."

The OCFO is responsible for monitoring the final actions and reporting on their status of implementation. To track and

report these to management, the OCFO maintains a database and provides a status report available on the SBA intranet page. This is updated as corrective actions are completed. Program offices also provide regular updates on final action status that are used to update the database.

The OCFO continues to take aggressive steps to improve management's attention to these issues, resulting in 183 final actions during FY 2008. Of these final actions, 15 were monetary and 168 were non-monetary.

The following two charts depict the SBA's monetary final action activity: audit recommendations with disallowed or questioned costs, and audit recommendations with funds put to better use. The status of all audit recommendations is reconciled with the OIG to ensure actions are posted promptly and accomplished in accordance with the agreed-upon target dates.

Table I

Final Action On Audit Recommendations With Disallowed / Questioned Costs October 1, 2007 – September 30, 2008		
	Number of Recommendations	Disallowed Costs (Rounded to Thousands)
A Recommendations with management decisions on which final action had not been taken at the beginning of the period	15	\$ 29,595
B Recommendations on which management decisions were made during the period	4	\$ 15,917
C Total recommendations pending final action during period	19	\$ 45,509
D Recommendations on which final action was taken during the period		
1 Recoveries:		
(a) Collections and Offsets	3	\$ 326
(b) Property	0	\$ 0
(c) Other	0	\$ 0
2 Write-Offs	9	\$ 37,757
3 Total	12	\$ 38,083
E Recommendations needing final action at the end of the period	7	\$ 7,429

Table II

<b>Final Action On Audit Recommendations With Funds Put To Better Use</b> October 1, 2007 – September 30, 2008		
	<b>Number of Recommendations</b>	<b>Funds to be Put to Better Use (Rounded to Thousands)</b>
A Recommendations with management decisions on which final action had not been taken at the beginning of the period	2	\$ 436
B Recommendations on which management decisions were made during the period	3	\$ 36,400
C Total recommendations pending final action during period	5	\$ 36,836
D Recommendations on which final action was taken during the period		
1 Value of recommendations implemented (completed)	2	\$ 436
2 Value of recommendations that management concluded should not or could not be implemented or completed	1	\$ 29,200
3 Total	3	\$ 29,636
E Recommendations needing final action at the end of the period	2	\$ 7,200






For further information regarding shortcomings that the Agency is addressing please refer to SBA, Office of Inspector General, Report No 09-02, "Fiscal Year 2009 Report" on the Most Serious Management and Performance Challenges Facing the Small Business Administration" The report can be found on the following link <http://www.sba.gov/ig/challenges.html>




## Other Management Information, Initiatives, and Issues

### Summary of the President's Management Agenda

The President's Management Agenda (PMA) contains five government-wide goals, augmented by agency-specific program goals, to improve Federal management and deliver results that matter to the American people. The SBA has three agency-specific goals — Faith-based and Community Initiatives; Eliminating Improper Payments; and Improved Credit Management.

The chart below displays the ratings as of September 30, 2008 and describes significant achievements for each PMA goal.

Key to Status and Progress Ratings	
	Success/ Meets Established Standards
	Mixed Result/ Some Standards Not Met
	Unsatisfactory/ Serious Flaws Present
	Improved During FY 2008
	Declined During FY 2008

	Status	Progress
<b>Human Capital: Improve the Effectiveness of the Workforce</b>		
In FY 2008 SBA completed a 360 Review for grades GS-14, GS-15 and SES. Competency gap analysis were conducted and provided for inclusion in the continuous development and training plans for FY 2009		
<b>Commercial Services Management: Promote Competition to Improve Performance</b>		
In FY 2008 due to budgetary constraints and consistent with SBA's submission to OMB of a revised Competitive Sourcing Green Plan, emphasis has been shifted from active competitions to enhancing SBA's post-competition accountability activities. SBA began to put in place mechanisms to conduct Post Competition Accountability and began a validation effort of its largest competitions to date. In FY 2009 SBA continues the validation effort and has identified additional areas for Post Competition Accountability reviews. Also, SBA has identified areas for business process reengineering efforts		
<b>Improved Financial Performance: Improve Transparency and Accountability</b>		
In FY 2008 SBA received a clean annual audit report and met reporting deadlines. SBA completed action on audit remediation and financial initiatives. In addition, the agency is working to expand the use of financial information to inform decision making		
<b>Electronic Government: Streamline Services &amp; Improve Communication With the Public</b>		
Over the past year, SBA has steadily improved its score in both categories of the Presidential Management Agenda OMB Scorecard and has consistently maintained green-green for two consecutive quarters. Specific activities that supported this rating include: establishing an interagency team to design, develop, and implement a secure communications plan to support NCS Directive 3-10 Continuity of Government operations; establishment of an IT project management office to strengthen the design, development, and management oversight of IT investments; and the development of Segment Architecture roadmaps representing core mission, business services and enterprise services segmentation of the SBA Enterprise Architecture		
<b>Improved Program Performance: Align Performance and Resources</b>		
In FY 2008, SBA maintained a solid "Green" for status and progress on this initiative. All SBA programs have at least one efficiency measure; marginal costs were calculated for major programs and used for setting goals for the FY 2010 OMB budget submission		
<b>Faith-Based and Community Initiatives: Improve Relationships with Religious &amp; Grassroots Organizations</b>		
In FY 2008 SBA developed and implemented new outreach and technical assistance strategies for the Initiative. We also worked with the White House Office of FBCI on Regional Conferences and Compassion-in-Action Roundtables		
<b>Eliminating Improper Payments: Reduce Erroneous Payments</b>		
SBA attained a "green" rating in the first quarter of FY 2008 as a result of its FY 2007 results. Error rates for all SBA programs have historically been very low. SBA's 7 (a), 504 Certified Development Companies, SBIC and Disaster program all had low rates of Improper Payments again in FY 2008. Future target rates have been established at this level for FY 2009 thru FY 2011		
<b>Improved Credit Management: Improve Oversight of loan Portfolios</b>		
Improved Credit Management was established as a new initiative in FY 2006. SBA met all its 200 milestones for this initiative including analytics on the disaster loan portfolio and 7a, 504 and some disaster loan program unit costs. The remaining milestone needed to achieve Yellow for Status is to finalize loan program unit costs for disaster loan making		

More information on the PMA is available on the following web site - <http://www.whitehouse.gov/results/agenda/index.html>

## Summary of the Program Assessment Rating Tool (PART) Status

The Office of Management and Budget uses the Program Assessment Rating Tool to assess Federal programs. The PART represents a series of diagnostic questions used to assess and evaluate programs across a set of performance-related criteria, including program design and purpose, strategic planning, program management, and results. PART results are then used to inform the budget process and improve program management to ensure the most effective and efficient use of taxpayer dollars. Rating results are classified into one of five categories: Effective, Moderately Effective, Adequate, Ineffective, and Results Not Demonstrated.

To date, the SBA, in conjunction with OMB, has initiated ten formal PART assessments for SBA's programs

Program	Year of Most Recent PART	Status
SCORE	2004	Moderately Effective
SBDC	2004	Moderately Effective
Disaster Assistance	2004	Effective
8(a) Program	2005	Adequate
HUBZone	2005	Moderately Effective
Surety Bonds	2005	Adequate
WBC	2006	Moderately Effective
504 loans	2007	Moderately Effective
7(a) loans	2007	Moderately Effective
SBIC Program	2007	Moderately Effective

Please go to [www.ExpectMore.gov](http://www.ExpectMore.gov) for detailed information on the status of improvement plans.

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U.S. Small Business Administration

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