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United States General Accounting Office
Washington, DC 20548

Accounting and Information
Management Division

B-284716

February 24, 2000

The Honorable Christopher S. Bond
Chairman, Committee on Small Business
United States Senate

Subject: Small Business Administration: Status of Mandated Planning for Loan Monitoring System

Dear Mr. Chairman:

The Small Business Reauthorization Act of 1997 required the Small Business Administration (SBA) to complete eight planning actions to serve as a basis for funding the development and implementation of its proposed loan monitoring system.¹ As SBA completes its mandated actions, we have been evaluating the resulting products at the request of the House Small Business Committee and its Subcommittee on Government Programs and Oversight. As you requested on February 22, 2000, we are providing information on the status of SBA's efforts to complete the mandated actions.

The purpose of SBA's proposed loan monitoring system is to use technology and new processes to manage its loan portfolios, identify and effectively mitigate risks incurred through loans guaranteed by SBA, implement oversight of internal and external operations, and calculate subsidy rates. This system is intended to support the management of over \$40 billion in loans under SBA programs, including the section 7(a) General Business Loan Guaranty Program and the section 504 Certified Development Company Debenture Program.

In July 1998 we testified that SBA had developed a project plan for the loan monitoring system that delineated the project's goals and objectives, resource requirements, quality standards and control systems, assumptions, methodologies, work breakdown structure with a timetable for completion of tasks, and estimated costs.² The plan estimated that a

¹ The eight planning actions are performing benchmarking and reengineering, identifying data inputs and outputs, determining data quality standards, analyzing benefits and costs, ensuring consistency with an information architecture, identifying an acquisition strategy, defining system requirements, and estimating cost to completion. As required by the act, we reported on SBA's compliance with the planning actions in June 1998 (GAO/AIMD-98-214R, June 30, 1998).

² *Small Business Administration: Planning for Loan Monitoring System Has Many Positive Features But Still Carries Implementation Challenges* (GAO/T-AIMD-98-233, July 16, 1998).

staff of 18 would be needed for the first phase of the project, which was to address the mandated eight planning actions, and scheduled completion of the mandated actions by the end of August 1999.

While development of the project plan was a good start, we also testified that SBA faced formidable technical and management challenges and risks in executing the plan, including

- establishing software project management capability while undertaking its largest information technology project ever;
- using methodologies and practices for the first time while conducting a large, complex project; and
- implementing the loan monitoring system project without having an information technology architecture in place.

SBA acknowledged these challenges and committed to providing the loan monitoring system project with the necessary management support. The first product completed by SBA, which addressed a major part of a mandated action, was a December 1998 report on the results of its benchmark study. Benchmarking is the comparison of core process performance with other components of the agency or organization (internal benchmarking) and/or with leading agencies or organizations (external benchmarking). Through this comparison, best practices are identified for adaptation into an organization's operations. The Small Business Reauthorization Act of 1997 required SBA to benchmark loan monitoring business processes and systems against comparable industry processes and, if appropriate, simplify and/or redefine work processes based on these benchmarks.

In reporting on SBA's benchmark effort,³ we noted that SBA's benchmark study was an important first step in SBA's actions to develop a loan monitoring system. However, the study had a number of weaknesses, including inadequate performance measurement data for SBA and the benchmark partners' processes. SBA agreed with our analysis and stated it planned to collect additional benchmarking information during its business process reengineering activities.

SBA subsequently provided us with two additional products related to its benchmarking and business process reengineering activities in August and September 1999. SBA also provided other products for mandated actions in late 1999 and early 2000, as shown on table 1 below, which summarizes the status of SBA's products for the eight mandated planning actions.

³ *Small Business Administration: Enhancements Needed for Loan Monitoring System Benchmark Study* (GAO/AIMD-99-165, May 14, 1999).

Table 1: Status of Products for Mandated Actions as Reported by SBA, as of February 23, 2000

Mandated Action	SBA Product	Date Provided	Status of Product
Benchmark loan monitoring business processes and systems against comparable industry processes and, if appropriate, simplify or redefine work processes based on these benchmarks	Analysis of "as is" baseline cost and time	2/15/00	Final
	Concept of operations	1/31/00	Final
	Implementation strategy	1/31/00	Final
Identify all data inputs and outputs necessary for timely report generation	Needs statement (logical data model)	2/15/00	Final
Determine data quality standards and control systems for ensuring information accuracy	Data quality guidance	1/10/00	Final
	Data quality issues	1/10/00	Final
	Data quality management plan	1/10/00	Final
Analyze the benefits and costs of alternatives and use them to demonstrate the advantages of final project	Business case for reengineering	2/15/00	Final
Ensure that proposed information system is consistent with agency's information architecture	"As is" information technology architecture	11/5/99	Final
	Technology policy statement	11/5/99	Final
	Enterprise information technology architecture report	11/5/99	Draft
	Gap analysis, migration strategy, and transition plan	11/5/99	Draft
	Plan to synchronize loan monitoring system with information technology architecture	10/5/99	Final
Identify acquisition strategy and work increments to completion	Acquisition strategy	2/15/00	Final
Fully define the requirements for the system that uses on-line, automated capabilities to the extent feasible	Statement of need for the loan monitoring system	2/15/00	Final
	Systems requirements	2/15/00	Draft
Estimate cost to system completion, identifying essential cost elements	Needs statement (total cost to completion)	2/15/00	Final

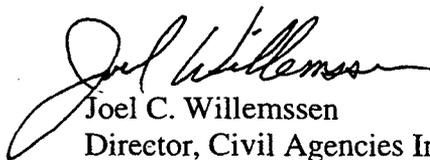
As reflected in the table above, SBA did not complete the required planning actions by its expected milestone of August 1999. SBA officials advised us that they expect to complete these actions by March 2000, and then proceed into design and development for the first segment of the proposed system.

We are in the process of analyzing the SBA products, and plan to testify on the results of our analysis before the House Subcommittee on Government Programs and Oversight at a hearing on February 29, 2000.

We provided SBA with a draft of this correspondence for comment on February 23, 2000. SBA officials, including the loan monitoring system project manager, acknowledged that the start-up phase of the loan monitoring system project was slower than originally anticipated. They said they are confident that the emphasis on planning and the time devoted to implementing a solid system development methodology with associated standards will pay significant dividends for staying on track as SBA moves forward on the first phase of system acquisition.

We are sending copies of this correspondence to Senator John F. Kerry, Ranking Minority Member, Senate Committee on Small Business; Representative James M. Talent, Chairman, and Representative Nydia M. Velazquez, Ranking Minority Member, House Committee on Small Business; Representative Roscoe G. Bartlett, Chairman, and Danny K. Davis, Ranking Minority Member, Subcommittee on Government Programs and Oversight; the Honorable Aida Alvarez, Administrator, Small Business Administration; and other interested parties. Copies will also be made available to others upon request. If you have any questions on matters discussed in this letter, please contact me at (202) 512-6253 or James Hamilton, Assistant Director, at (202) 512-6271. We can also be reached by e-mail at willemsenj.aimd@gao.gov and hamiltonj.aimd@gao.gov, respectively.

Sincerely yours,



Joel C. Willemsen
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