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

Resources, Community, and
Economic Development Division

B-282361

July 20, 1999

The Honorable Dick Armey
Majority Leader
House of Representatives

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

The Honorable Fred Thompson
Chairman, Committee on Governmental Affairs
United States Senate

Subject: Observations on the Small Business Administration's Fiscal Year 2000 Performance Plan

As you requested, we have reviewed and evaluated the fiscal year 2000 performance plans for the 24 Chief Financial Officers (CFO) Act agencies that were submitted to Congress as required by the Government Performance and Results Act of 1993 (Results Act). Enclosure I to this letter provides our observations on the fiscal year 2000 performance plan for the Small Business Administration (SBA). Enclosure II lists the management challenges SBA's Inspector General identified that the agency faces and the applicable goals and measures in the fiscal year 2000 annual performance plan.

Our objectives were to (1) assess the usefulness of the agency's plan for decisionmaking and (2) identify the degree of improvement the agency's fiscal year 2000 performance plan represents over the fiscal year 1999 plan. Our observations were generally based on the requirements of the Results Act, guidance to agencies from the Office of Management and Budget (OMB) for developing the plan (OMB Circular A-11, Part 2), our previous reports and knowledge of SBA's operations and programs, and our observations on SBA's fiscal year 1999 performance plan. Our summary report on the CFO Act agencies' fiscal year 2000 plans contains a complete discussion of our objectives, scope, and methodology.¹

¹ Managing for Results: Opportunities for Continued Improvements in Agencies' Performance Plans (GAO/GGD/AIMD-99-215, July 20, 1999).

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As agreed, unless you announce the contents of this letter earlier, we plan no further distribution until 30 days from the date of the letter. Please call me on (202) 512-7631 if you or your staff have any questions. Major contributors to this report were Carol Anderson-Guthrie, John Finedore, Stan Ritchick and LaSonya Roberts.

Sincerely yours,

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

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

Enclosures - 2

Observations on the Small Business Administration's Performance Plan for Fiscal Year 2000

The Small Business Administration's (SBA) fiscal year 2000 annual performance plan provides a general picture of intended performance across the agency. For example, the plan's 13 performance goals are objective and measurable through the plan's 55 performance measures, all of which have targeted levels of performance for fiscal year 2000. At the same time, the plan is limited in its discussion of the strategies and the resources that SBA will use to achieve its goals. For example, the plan states that during fiscal year 2000, SBA will spend \$3 million to train its staff in the skills needed to meet its current programs and responsibilities. However, the plan does not discuss the types of human resource skills that are needed to achieve the fiscal year 2000 performance goals or the types of training to be provided to help ensure that staff have those skills. Also, the plan is limited in the degree of confidence that it provides that SBA's performance data will be credible. For example, means identified in the plan to validate performance data are typically one or two word descriptors, such as "publications" or "SBA records," which are sources of data rather than ways to validate or verify the data. Figure 1 highlights the plan's major strengths and key weaknesses.

Figure 1: Major Strengths and Key Weaknesses of SBA's Fiscal Year 2000 Annual Performance Plan

Major Strengths

- Created a set of performance goals and measures that addresses SBA's program performance
- Included baseline and trend data for performance measures
- Identified the agencies whose programs and activities complement those of SBA

Key Weaknesses

- Did not identify performance goals and measures that specifically address the major management problems identified by SBA's Inspector General
- Did not link the strategies to the performance goals and describe how they will help achieve those goals
- Did not describe strategies or actions SSBA could take to mitigate the effects of external factors on the achievement of performance goals
- Did not identify how SBA will use its human capital to help achieve its performance goals
- Did not describe efforts to verify and validate data used to assess performance
- Did not discuss the limitations of internal and external data sources for assessing performance

SBA's fiscal year 2000 plan has made little, if any, improvement over the agency's fiscal year 1999 plan. While the fiscal year 2000 performance plan recognizes the weaknesses that we identified in our assessment of the fiscal year 1999 performance plan and makes specific

commitments to address those weaknesses, real progress is not yet evident. In reviewing the fiscal year 1999 plan, we noted that it did not discuss SBA's efforts to coordinate with other agencies whose programs and activities complement those of SBA.¹ For example, SBA's strategic goal to help businesses and families recover from disasters is a mission shared by the Federal Emergency Management Agency (FEMA) and by other federal, state, and local disaster agencies. Other than noting that SBA and FEMA would continue efforts to develop a joint home-loss inspection report, SBA's fiscal year 1999 plan did not discuss how SBA had coordinated or would coordinate its disaster-relief activities with FEMA and the other agencies. Also, the fiscal year 1999 plan did not identify the technological and human resources SBA needed to achieve its intended performance, did not clearly link the plan's performance goals and measures with the program activities in SBA's budget, and did not discuss the limitations that affect the credibility of data used to assess performance. We noted that the fiscal year 1999 plan contained over 100 performance measures and that such an array of measures might be excessive and obscure, rather than clarify, performance issues. We also pointed out that 14 of the measures did not have targeted levels of performance for fiscal year 1999. We observed that, to be more useful, SBA's fiscal year 1999 plan should more completely describe SBA's strategies for achieving its performance goals; explicitly discuss how information technology would help SBA achieve its performance goals; more thoroughly discuss the actions that SBA could take to mitigate the effects of external factors on its performance; and describe how SBA would attribute achievement of, or changes in, the plan's performance goals specifically to the agency's programs and activities.

SBA improved its fiscal year 2000 performance plan by reducing the number of performance measures from over 100 in the fiscal year 1999 plan to 55 and by establishing targeted levels of performance for fiscal year 2000 for each performance measure. In addition, the fiscal year 2000 plan discusses SBA's difficulty in isolating the effects of its 7(a) guaranteed business loans and other assistance in achieving the plan's performance goals as well as SBA's efforts to deal with the agency's Year 2000 computer problems.

SBA's Performance Plan Provides a General Picture of Intended Performance Across the Agency

SBA's fiscal year 2000 performance plan provides a general picture of intended performance across the agency. The plan's 13 performance goals are objective and measurable through the plan's 55 performance measures. Each performance measure has a targeted level of

¹Results Act: Observations on the Small Business Administration's Fiscal Year 1999 Annual Performance Plan (GAO/RCED-98-200R, May 28, 1998).

performance established for fiscal year 2000, and all but one of the measures have baseline and trend data based on SBA's performance during fiscal years 1997 or 1998. However, the plan does not include performance goals and measures to specifically address SBA's 10 most serious management challenges identified by SBA's Inspector General. Also, while the plan discusses agencies whose programs and activities complement those of SBA, the plan would benefit from a discussion of SBA's specific actions to coordinate its activities in each of these areas.

SBA's fiscal year 2000 performance plan indicates some degree of progress in addressing the weaknesses that we identified in our assessment of SBA's fiscal year 1999 performance plan as it relates to providing a clear picture of intended performance across the agency. In reviewing the fiscal year 1999 plan, we noted that it contained over 100 performance measures and that such an array of measures might be excessive and obscure, rather than clarify, performance issues. We also observed that while the plan identified federal agencies whose programs and activities are similar to those of SBA, it did not discuss how SBA had coordinated or would coordinate with the other agencies. We also noted that 14 of the performance measures in the fiscal year 1999 plan did not have any targeted levels of performance for fiscal year 1999 and that some of these performance measures also lacked baseline levels against which to compare SBA's performance.

SBA improved its fiscal year 2000 plan by reducing the number of performance measures from over 100 to 55 and by including targeted levels of performance for fiscal year 2000 for each performance measure. All of the performance measures, except the one involving a program created in December 1997 to provide contracting opportunities to small businesses that locate in and employ residents of economically distressed areas, have baseline or trend data based on SBA's performance during fiscal years 1997 or 1998. However, the plan's performance goals and measures continue to focus on outputs rather than outcomes. For example, with the exception of the plan's performance measure to increase the success rate of firms once they leave SBA's 8(a) minority business development program, the 41 performance measures associated with SBA's strategic goal to increase opportunities for small businesses to succeed are all outputs that reflect an increase in the number of loans made by SBA, the number of clients served, the number of bonds issued, the amount of dollars invested in small businesses, or some other output measure. SBA has identified job creation as an outcome measure for this strategic goal and the plan discusses SBA's difficulty in determining or isolating the effects of its programs on creating jobs; yet the plan fails to discuss steps to overcome these difficulties. Also, the plan contains a detailed discussion of the research, business development, and other types of programs and activities of other agencies, such as Commerce and FEMA, that crosscut or complement those of SBA. While this section discusses coordinating the activities and programs in general, the plan would

benefit from discussing SBA's specific actions to coordinate its activities in each of these areas.

SBA's Performance Plan Provides a Limited Discussion of the Strategies and the Resources SBA Will Use to Achieve Its Goals

SBA's fiscal year 2000 performance plan provides a limited discussion of the strategies and the resources the agency will use to achieve its performance goals. While the plan identifies the goals, their connection to the strategies and the resources could be clearer. The plan contains a cross walk or table that allocates SBA's fiscal year 2000 funding among the plan's strategic goals and objectives and provides some insight into the level of funding associated with achieving various sets of performance goals. However, the plan does not provide sufficient information to determine which performance goals in the plan cover which program activities in SBA's budget and whether all the program activities in the budget are covered by performance goals. Also, the plan does not link strategies to performance goals or describe how they will help SBA achieve the plan's performance goals. For example, the performance goal under SBA's strategic goal to become a 21st century leading-edge institution encompasses acting promptly on recommendations made by SBA's Inspector General, but the plan contains no strategies to accomplish this aspect of the goal.

Additionally, some performance goals and measures do not have strategies that describe how they will be achieved. The plan points out that external factors, such as the state of the economy, the passage of supporting legislation, and the cooperation of resource partners, could affect SBA's ability to achieve its fiscal year 2000 performance goals. However, the plan does not identify which performance goals could be affected by which factors and how or what strategies or actions SBA could take to mitigate the effects of such factors. The plan discusses SBA's need to "transition" and "reshape" its workforce to become a 21st century leading-edge institution and the agency's intention to spend \$3 million to train its staff in the skills needed to meet SBA's current responsibilities. However, the plan does not discuss the types of human resource skills that are needed to achieve SBA's fiscal year 2000 performance goals or the types of training that will be provided to help ensure that SBA's staff have the needed skills. While the plan discusses SBA's 5-year effort to modernize its programmatic, financial, and management and information systems and generally links this effort to the strategic goal of SBA becoming a 21st century leading-edge institution, the linkage to specific performance goals and measures in the plan and how the modernization effort will help to achieve them is not clear.

SBA's fiscal year 2000 performance plan represents no improvement in that it does not appear to recognize the weaknesses that we identified in our assessment of the fiscal year 1999 performance plan as it relates to providing a specific discussion of the strategies and the

resources the agency will need to achieve performance goals. In reviewing the fiscal year 1999 plan, we observed that certain performance goals and measures in the plan were not clearly linked to strategies while other strategies did not clearly convey how the performance goals would be achieved. We noted that the plan did not identify the human or technological resources SBA needed to achieve its fiscal year 1999 performance goals, did not link the management and information system improvements planned by SBA to specific performance goals and measures in the plan, and did not discuss how the improvements in SBA's management and information systems would provide the agency with more credible information to measure performance. We also noted that the plan did not discuss the external factors that could affect SBA's ability to achieve each strategic goal during fiscal year 1999 or the strategies or the actions that SBA could take to mitigate their effects.

As in the fiscal year 1999 plan, SBA's fiscal year 2000 plan includes a cross walk or table that allocates SBA's fiscal year 2000 budget among its programs and offices and the plan's strategic goals. However, because the funding allocations and the program and office titles do not always clearly tie to program activities in the President's budget request for SBA, the information in the cross walk would be clearer if it explicitly related the programs and the offices to the accounts and the program activities in SBA's budget. Because the programs and the offices are generally allocated to only one strategic goal or objective, the cross walk does provide an understanding of how funding has been allocated to the strategic goals and their associated performance goals.

SBA's fiscal year 2000 plan lists certain external factors, such as the state of the economy, the passage of supporting legislation, and the cooperation of stakeholders and business partners, that could affect SBA's ability to achieve its performance goals. However, the plan does not identify which performance goals could be affected by which factors and how or what strategies or actions SBA could take to mitigate the effects of such factors. For example, the plan's section that discusses external factors pertaining to SBA's strategic goal to help small businesses and families recover from disasters states only that SBA must work closely with federal, state, and local agencies and must coordinate closely with FEMA to, among other things, establish disaster assistance centers when disasters occur. Similar discussions regarding SBA's need to coordinate with other federal agencies appear in sections of the plan that discuss external factors pertaining to SBA's two other strategic goals--to lead small business participation in welfare-to-work and to serve as a voice for America's small businesses. Each of these sections lacks adequate information on the external factors that could affect SBA's ability to achieve the performance goals for these three strategic goals and on the actions that SBA could take to mitigate the effects of such factors should they occur.

Furthermore, the plan still does not fully identify the human resources SBA will need to achieve its fiscal year 2000 performance goals. For example, the plan discusses SBA's need to "transition" and "reshape" its workforce to become a 21st century leading-edge institution. The plan states that during fiscal year 2000, SBA will recruit employees with the skills needed to meet its future needs and will spend \$3 million to train its staff in the skills needed to meet its current programs and responsibilities. However, the plan does not discuss the types of human resource skills needed to achieve SBA's fiscal year 2000 performance goals or the types of training to be provided by SBA to help ensure that staff have the needed skills.

Also, certain performance goals and measures lack strategies. For example, the performance goal under SBA's strategic goal of becoming a 21st century leading-edge institution encompasses acting promptly on the Inspector General's recommendations, but the plan contains no strategies to accomplish this aspect of the goal. Furthermore, the plan's linkage between the performance goals and the strategies for accomplishing them could be stronger. For example, three performance measures in the plan that will help SBA to assess its progress in fiscal year 2000 toward becoming a 21st century leading-edge institution are to (1) increase the amount of cash collected on 7(a) guaranteed business loan purchases, (2) reduce the 7(a) loan purchase rate, and (3) reduce the 7(a) loan charge-off rate. However, the plan's strategies for achieving the performance goals do not provide any rationale as to how SBA will achieve these levels of performance. As another example of a weak connection between the goals and the strategies, the plan discusses critical issues that are associated with SBA's strategic goal of becoming a 21st century leading-edge institution. This discussion identified seven major strategies for dealing with SBA's employment needs that include developing and training staff to perform new roles and responsibilities and seeking staff attrition incentives, including legislation to offer employee buyouts. However, the plan does not discuss the role, if any, that these strategies will have in helping SBA achieve its goal during fiscal year 2000.

SBA's Performance Plan Provides Limited Confidence That the Agency's Performance Information Will Be Credible

SBA's fiscal year 2000 performance plan provides limited confidence that the agency's performance information will be credible. The plan does not describe how SBA will specifically verify and validate its performance data. The means identified by SBA to validate data for each of the plan's 55 performance measures are often one- or two-word descriptors, such as "report," "publication," or "SBA records" that are primarily sources of data rather than means of data verification or validation. In other cases where terms, such as "quarterly reports/biennial examination" or "loan audit" are used that indicate a verification or validation technique for a performance measure, the plan does not provide details on how SBA will specifically verify or validate the data. In addition, the plan does not identify the

limitations that exist with the data sources that SBA will use to assess its performance and the implications of these limitations. In addition, the plan notes that SBA's systems modernization efforts will upgrade lender oversight and credit risk management and improve data quality and validity; yet, the plan does not discuss specifically which current problems with data quality will be addressed, when such problems will be addressed, or how they will be addressed.

SBA's fiscal year 2000 performance plan does not appear to recognize the weaknesses that we identified in our assessment of SBA's fiscal year 1999 performance plan as it relates to providing full confidence that the agency's performance information will be credible. In reviewing SBA's fiscal year 1999 plan, we noted that the means identified in the plan to verify and validate performance measure data were more sources of data than methods of validating the data. Where terms in the plan indicated a verification or validation technique, such as "sampling," "survey," or "audit," the plan did not discuss how SBA would verify or validate performance data. SBA's fiscal year 1999 plan also did not discuss SBA's efforts to resolve its Year 2000 computer problems or provide assurance that SBA's information systems are secure from risks, such as tampering, that could affect the availability and reliability of performance data. We also noted that the plan did not discuss the limitations that might exist with internal and external data sources and the implications of such limitations for assessing performance. Finally, we observed that SBA's fiscal year 1999 plan would benefit from a discussion of how achievement of, or changes in, the plan's performance goals would be attributed specifically to SBA's programs and activities.

While SBA's fiscal year 2000 plan includes a discussion of SBA's efforts to deal with its Year 2000 computer problems, other weaknesses remain regarding the credibility of SBA's performance data. The means identified by SBA to validate data for the individual performance measures typically continue to be one- or two-word descriptors, such as "publications" or "SBA records," that are sources of data rather than means of validating or verifying the data. In fact, SBA changed the table headings used in its fiscal year 1999 plan from "Verification/Validation" to "Source/Validation" in its fiscal year 2000 plan. Also, where the plan uses terms that indicate a verification or validation technique, such as "quarterly reports/biennial examination" or "loan audit," it does not provide details on how SBA will specifically verify or validate the data.

Audits of SBA's financial statements provide a means of data verification and several of the performance measures, such as loan purchase rates and charge-off rates, are currently verified through such audits. However, SBA does not refer to the financial statement audits as a

means of verifying and validating data.² SBA continues to rely on internal sources, such as its loan database, and on external data sources, such as the Federal Procurement Data System, for data to measure its fiscal year 2000 performance. However, the plan does not address the limitations that may exist with these data sources and the implications of these limitations for assessing performance.

Although program evaluations identified in the plan appear to be relevant to specific performance goals and measures in the plan and could be used to validate performance data, the plan does not draw clear connections between the performance goals and the program evaluations. For example, in one evaluation, SBA plans to use records from its 8(a) minority business development program, surveys, and other external databases to measure the agency's efforts to build viable firms. Increasing the success rate of firms that complete SBA's 8(a) business development program is a major component of one of the plan's performance goals, and such an evaluation could validate the data that SBA will use to assess its progress in achieving this goal. Also, the plan notes that SBA will test data validity when it assesses its programs' effectiveness and that the analysis of data validity will be a natural component of the performance reviews to be conducted by SBA's new Office of Policy Analysis. However, the plan provides no information regarding the possible scope and methodology of such analyses.

The plan also discusses SBA's 5-year effort to modernize its programmatic, financial, and management and information systems. While the plan generally links this modernization effort to SBA's strategic goal to become a 21st century leading-edge institution, the linkage to specific performance goals and measures in the plan and how the modernization effort will help to achieve them is not clear. In addition, the plan notes that the modernization effort will help upgrade lender oversight, manage credit risk, and improve data quality and validity, but the plan does not discuss the specific quality problems with current data that the systems modernization efforts will address, when such problems will be addressed, or how they will be addressed.

SBA's fiscal year 2000 performance plan states that data validity will be improved by implementing new data systems with technical measures to comply with the data quality

²SBA received an unqualified opinion on its fiscal year 1997 financial statements. However, the independent auditor's report cited a material weakness relating to SBA's financial statement process. Specifically, extensive adjustments were required to SBA's underlying financial information in order to develop materially correct financial statements. SBA has not issued its fiscal year 1998 statements, which were to be submitted to OMB by March 1, 1999. SBA requested an extension from OMB because of problems in preparing two new financial statements that were required in fiscal year 1998.

criteria that SBA is developing, by considering data validity elements when making changes to existing data systems, and by testing data validity as part of performance analysis. However, SBA's performance plan does not discuss when the new data systems will be developed and implemented or what steps will be taken by SBA in the interim to produce the needed data. Also, SBA does not explain the processes and the management controls that it will use to control changes in existing systems and to ensure the reliability of the systems' data. In addition, SBA does not describe the methodology that it plans to use to test the data's validity during its performance reviews.

Unlike the fiscal year 1999 plan, SBA's fiscal year 2000 plan provides information on SBA's efforts to deal with its Year 2000 computer problems. For example, the plan notes that in fiscal year 1998, SBA performed Year 2000 computer assessments of all of its 42 mission-critical systems and that SBA expects to have integrated testing completed and all systems verified and fully operational by the established deadline. However, as with the fiscal year 1999 plan, SBA's fiscal year 2000 plan does not discuss or provide assurance that SBA's information systems are secure from risks, such as tampering, that could affect the availability and the reliability of performance data.

Other Observations on SBA's Implementation of Performance-Based Management

SBA has introduced performance-based initiatives that include establishing annual performance goals for its district-director in such areas as capital lending to small businesses and developing a system to track the performance of the district offices against the agency's targets.³ If effectively implemented, these initiatives should help SBA ensure that the goals in its annual performance plan become the basis for business with the agency. At the same time, SBA faces challenges in its efforts to implement performance-based management. SBA district offices are responsible for promoting the interests of small businesses and, at the same time, conducting oversight of lenders participating in SBA's programs. Our work has shown that it is difficult for SBA's staff to maintain a balance between these two objectives and that SBA's emphasis on promoting the growth of small businesses and increasing the number of loans to underserved small businesses has resulted in less emphasis by SBA's staff

³Performance Management: Aligning Employee Performance With Agency Goals at Six Results Act Pilots (GAO/GGD-98-162, Sept. 4, 1998).

on oversight issues.⁴ As such, it appears that SBA's success in achieving one objective could have an adverse impact on its ability to achieve the others.

Agency Comments

We provided a draft of our analysis of SBA's fiscal year 2000 annual performance plan to SBA for review and comment. SBA disagreed with our overall observation that its fiscal year 2000 performance plan is of limited usefulness to decision makers. SBA noted that its program managers found the plan useful in showing, for example, how SBA's performance has changed over the past 3 years and that the Office of Management and Budget found the plan useful in its budgetary deliberations. We do not intend to infer by our observation that SBA's plan is of limited usefulness to everyone. Instead, our point is that because of the weaknesses we observed with the plan, it is of limited usefulness to decision makers in providing a clear picture of SBA's intended program performance during fiscal year 2000, discussing the strategies and resources that SBA will use to achieve the performance goals in the plan, and providing confidence that the data SBA will use to assess its performance will be credible.

SBA also disagreed with our overall judgement that SBA's fiscal year 2000 plan had improved little, if any, over the agency's fiscal year 1999 plan. SBA noted several improvements to the fiscal year 2000 plan, including a more comprehensive discussion of other public and private sector programs that cross-cut those of SBA and a reduction in the number of measures that SBA will use to assess its performance during the fiscal year. Our analysis recognizes that SBA improved its fiscal year 2000 performance plan and gives SBA credit for such improvements. For example, our analysis notes that, unlike the fiscal year 1999 plan, the fiscal year 2000 plan includes a discussion of SBA's efforts to address its Year 2000 computer problems. In addition, we point out that SBA reduced the number of performance measures from over 100 in its fiscal year 1999 plan to 55 measures in its fiscal year 2000 plan. At the same time, it is our position that SBA's fiscal year 2000 plan has improved little, if any, over the agency's fiscal year 1999 plan because of the number of key weaknesses in the fiscal year 1999 plan that remain in the fiscal year 2000 plan.

In commenting on our observation that its fiscal year 2000 performance plan did not identify performance goals and measures that specifically address the major management problems identified by SBA's Inspector General, SBA acknowledged that the plan does not discuss SBA's management problems in the same format as the other performance goals but stated that the plan contains substantial information on actions that SBA is taking to address these

⁴Small Business Administration: Few Reviews of Guaranteed Lenders Have Been Conducted (GAO/GGD-98-85, June 11, 1998).

problems. Our analysis recognizes and describes the actions referred to by SBA to address its management problems.

In commenting on our observation that its fiscal year 2000 plan did not link strategies to performance goals and describe how they will achieve those goals, SBA stated that its plan followed a consistent format that summarized the major strategies and other factors (e.g., funding levels, major initiatives, and critical external factors) for each performance goal. SBA further stated that the clear logical assumption is that completing the strategies and the initiatives would contribute to accomplishing their goals. While SBA's plan summarizes information regarding strategies, initiatives, and other factors for each of its strategic goals, such information is not summarized separately for each performance goal in the plan as SBA contends. Of the 13 performance goals in the plan, 10 are associated with SBA's strategic goals of increasing opportunities for small business success and of serving as a voice for America's small businesses. None of the 10 goals have a separate strategy and other information sections as SBA implies. Furthermore, we disagree with SBA's contention that the clear logical assumption is that completing the strategies and initiatives will contribute to accomplishing the agency's goals. As our analysis notes, certain performance goals and measures in the plan lack strategies that describe how the goals or the measures will be achieved while, in the case of other performance goals and measures, it is not clear how the strategies will help SBA to achieve them.

In commenting on our observation that SBA's fiscal year 2000 plan did not describe strategies or actions SBA could take to mitigate the effects of external factors on accomplishing its performance goals, SBA agreed that it could improve and expand its efforts to mitigate the effects of external factors on the achievement of its goals, and stated that it would do so.

In commenting on our observation that SBA's fiscal year 2000 plan did not identify how SBA will use its human capital to help achieve its performance goals, SBA stated that the plan describes strategies for SBA's use of its human resources to achieve its goals. SBA further stated that in its revision of the plan, it would incorporate additional human resource data into the plan's discussion of SBA's goals and objectives. As our analysis notes, the plan discusses SBA's desire to transition and reshape its staff in order for SBA to become a 21st century leading-edge institution. However, the plan does not discuss the types of human resource skills SBA will need to achieve the fiscal year 2000 performance goals set forth in the plan.

In commenting on our observation that SBA's fiscal year 2000 plan does not describe efforts to verify and validate the data used to assess performance, SBA stated that it does not agree with this conclusion. Although SBA recognizes data validity is a major challenge and critical success factor, the plan does not describe how SBA will specifically verify and validate its performance data. Also, the discussion of data validity in the section entitled Reinventing

Enclosure I

Observations on the Small Business Administration's Performance Plan for Fiscal Year 2000

SBA Systems and Information Management is an acknowledgment of the importance of data validity, but it does not provide details on how SBA will verify or validate data. Even though SBA did not agree with our conclusion, it stated that it plans to expand on the discussion of data validity and verification issues.

In commenting on our observation that SBA's fiscal year 2000 plan does not discuss the limitations of internal and external data sources for assessing performance, SBA stated that it discusses the limitations of internal data sources by reference in the section on data validity. Regarding external data sources, SBA stated that it discusses the need to conduct surveys and to evaluate and improve the performance measurement methods of SBA's resource partners. Although the plan discusses SBA's plans to improve data validity, the plan does not address the limitations that may exist with the internal and external data sources that SBA will use to assess its performance and the implications of these limitations for assessing performances.

Management Challenges

SBA's fiscal year 2000 performance plan does not contain performance goals and measures that specifically address the top 10 management problems identified by SBA's Inspector General. However, as the following table shows, the plan does contain related goals and measures and discusses other SBA activities that may help to mitigate these management problems.

Table II.1: Management Challenges in SBA's Fiscal Year 2000 Performance Plan

Management problem identified by SBA's Inspector General	Applicable goals and measures in plan that specifically address the problem
Loan programs: Lenders are not held accountable for errors in loan processing and servicing.	None. However, one of the performance goals in the plan is to ensure a strong internal control environment; identify and manage risks; reduce costs (through increasing productivity, reducing defaults, increasing recoveries, and shifting risks to resource partners); ensure customer satisfaction; and act promptly on Inspector General's recommendations. The plan states that to address this and the following two problems with loan program management, SBA has established a Risk Management Committee to identify the program data to be used to manage risk, has restructured its Office of Financial Assistance to clarify loan program authority and responsibility, and is testing purchase centralization as a means to improve lender oversight.
Loan programs: Borrowers are not held accountable for misuse of funds.	None. However, one of the performance goals in the plan is to help ensure a strong internal control environment, identify and manage risk, and reduce costs. One of the performance indicators for this goal is to increase the net amount of cash collected by SBA on 7(a) guaranteed business loan purchases from 22.5 percent in fiscal year 1999 to 23.0 percent in fiscal year 2000.
Loan programs: Recoveries in servicing and liquidation are not maximized.	None. However, one of the performance goals in the plan is to ensure a strong internal control environment, identify and manage risks, and reduce costs. Three performance measures for this goal are to (1) increase the net amount of cash collected on 7(a) guaranteed business loan purchases from 22.5 percent in fiscal year 1999 to 23.0 percent in fiscal year 2000, (2) reduce the dollar value of 7(a) loan purchases from 2.06 percent in fiscal year 1999 to 1.96 percent in fiscal year 2000, and (3) reduce the dollar value of 7(a) loans charged off from 1.52 percent in fiscal year 1999 to 1.48 percent in fiscal year 2000.
Fraud deterrence and detection require continued emphasis.	None. However, one of the performance goals in the plan is to ensure a strong internal control

Enclosure II
Management Challenges

Management problem identified by SBA's Inspector General	Applicable goals and measures in plan that specifically address the problem
	environment, identify and manage risks, and reduce costs. The plan also states that to address this problem SBA has implemented a new examination program for Small Business Lending Companies, has begun drafting regulatory changes to emphasize risk-weighted capital requirements, and implemented an aggressive Preferred Lenders Program review process to verify that lenders are following SBA's regulations and procedures.
Minority Enterprise Development: Contract dollars are concentrated among relatively few companies in SBA's 8(a) minority business development program whose owners remain in the program after amassing substantial wealth.	None. However, one performance goal under SBA's objective to enhance entrepreneurial development assistance is to increase the number and dollar volume of federal contracts going to SBA's 8(a) minority business development program and the success rate of firms participating in the program. Two performance measures for this objective are to increase (1) the number of contracts for the 8(a) program from 5,500 in fiscal year 1999 to 6,000 in fiscal year 2000 and (2) the dollar value of such contracts from \$6.5 billion in fiscal year 1999 to \$7.0 billion in fiscal year 2000. The plan also states that regulations SBA issued in June 1998 that require a greater mix of both federal and commercial contracts for firms in the 8(a) program should reduce the excessive concentration of contracts.
Minority Enterprise Development: SBA does not enforce its own rules precluding excessive subcontracting.	None. However, the plan states that review procedures SBA added to the annual plan submission process for firms in the 8(a) business development program will focus on the firms' compliance with the subcontracting rule.
Minority Enterprise Development: SBA's monitoring of companies in its 8(a) minority business development program is mismanaged.	None. However, the plan states that SBA is changing its compliance review procedures for firms in SBA's 8(a) minority business development program to include random annual audits and expedited termination procedures.
SBA needs to develop and implement a program-based cost accounting system.	None. However, the plan states that to address this and the following two management problems, SBA has embarked on a multiyear systems modernization program, which will be modeled after the industry's best practices and which will provide more risk management data and a better tool to evaluate loan, lender, and program performance.
Information system controls need improvement.	None. See information above for management problem "SBA needs to develop and implement a program-based cost accounting system."
The Paperwork Reduction Act and the Privacy Act need	None. See information above for management

Enclosure II
Management Challenges

Management problem identified by SBA's Inspector General	Applicable goals and measures in plan that specifically address the problem
to be rationalized with the Government Performance and Results Act to permit effective measurement of performance outcomes.	problem "SBA needs to develop and implement a program-based cost accounting system."

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