

**GAO**

Report to the Chairman, Committee on  
Small Business and Entrepreneurship,  
U.S. Senate

---

September 2008

# SMALL BUSINESS ADMINISTRATION

## Opportunities Exist to Build on Leadership's Efforts to Improve Agency Performance and Employee Morale





Highlights of [GAO-08-995](#), a report to the Chairman, Committee on Small Business and Entrepreneurship, U.S. Senate

## Why GAO Did This Study

Over the past 6 years, the Small Business Administration (SBA) has sought to transform the agency and improve its operations. A major focus of transformation was to centralize the remaining loan functions performed by 68 district offices. SBA's implementation of early transformation efforts did not reflect key practices GAO recommended in a 2003 report as important for successful transformations. Consequently, its centralization of the guaranty purchase process for one of its loan programs resulted in backlogs and other problems reported by SBA's Inspector General. Some of SBA's actions also led to a reduction in staff at district offices and a decline in employee morale. GAO was asked to assess how SBA has (1) responded to GAO's 2003 recommendations, (2) addressed the impacts of transformation on employees, (3) defined the roles and responsibilities of district offices, and (4) assessed the centralization of loan functions. GAO reviewed documents related to SBA's transformation and reform efforts, interviewed SBA officials, and analyzed SBA employee survey data. GAO also visited 10 district offices and two centers and interviewed groups of employees.

## What GAO Recommends

GAO recommends that SBA (1) develop a strategic training plan and (2) develop measures to track and monitor quality assurance of its centralized loan guaranty purchase process. In its comments, SBA agreed with these recommendations.

To view the full product, including the scope and methodology, click on [GAO-08-995](#). For more information, contact William B. Shear at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov).

## SMALL BUSINESS ADMINISTRATION

### Opportunities Exist to Build on Leadership's Efforts to Improve Agency Performance and Employee Morale

#### What GAO Found

In the past 2 years, SBA has applied key practices that support successful transformations to improve agency operations and, thereby, has taken actions to address recommendations GAO made in its 2003 report, including improving communication, performance management, and employee involvement. The Administrator appointed in 2006 emphasized the importance of transparency in his reform agenda and took actions to improve communications across the agency. The development of a performance management framework was a key step in linking the agency's reforms with strategic goals and employee roles. The Administrator also made a concerted effort to engage SBA's employees in improving the agency, and meetings with employees affirmed that these efforts had a positive effect. Some employees continued to feel that management does not consider their ideas and concerns. SBA recently conducted focus groups to understand these concerns and plans to implement initiatives to address them. SBA senior officials also said that they are taking steps to institutionalize these improvements. SBA leadership's commitment will be important to ensure that the agency's transformation and reforms are successful.

SBA took some actions to address its low employee morale, which had declined significantly following the centralization efforts, as shown in the 2004 and 2006 Federal Human Capital Surveys. SBA's 2007 survey results suggest that these recent actions, such as improving communication and training, have had a positive impact on employees. The creation of SBA University in 2007 was an important action since it provided training and also showed that the agency was willing to invest resources in the development of employees. SBA officials said they are developing a core training program. However, SBA has not developed a training plan that lays out goals, strategies, and milestones. Such a plan would help to establish priorities and could assure employees that SBA remains committed to developing its employees.

SBA continues to define the roles and responsibilities of the district offices, as evidenced by its recent determination that district offices should retain a role in loan processes that have been centralized. District directors and employees made positive comments about the flexibility they had in using resources to meet office goals. But they also said that they still were adjusting to new responsibilities and the reduction of staff in their offices.

SBA recently re-engineered its guaranty purchase process. Its measures to track progress have emphasized the timeliness of the process, completeness of packages lenders submit, and customer service. SBA reviews each purchase decision and is developing a new quality assurance review process, but has not yet developed performance measures to track the quality of its purchase reviews. SBA Inspector General audits have noted concerns about the quality of purchase reviews and found that the center's purchase reviews do not adequately prevent improper payments. Performance measures could provide more attention to the quality of reviews.

---

# Contents

---

<b>Letter</b>		<b>1</b>
	Results in Brief	4
	Background	9
	SBA Has Applied Key Practices to Implement Change and Has Begun Addressing Employee Concerns about Involvement and Continued Leadership Commitment	12
	Actions to Address Effects of Transformation on Employees Have Had Some Success, but SBA's Plan for Training and Development Is Limited	25
	Focus of District Offices Is on Marketing and Outreach as Their Role Continues to Evolve, and Challenges Include Decreased Staffing	31
	SBA Had Begun Assessing Centralization Efforts but It Has Not Yet Developed Measures to Assess the Quality of Guaranty Purchase Decisions	38
	Conclusions	44
	Recommendations for Executive Action	46
	Agency Comments and Our Evaluation	46
<b>Appendix I</b>	<b>Objectives, Scope, and Methodology</b>	<b>48</b>
<b>Appendix II</b>	<b>Comments from the Small Business Administration</b>	<b>54</b>
<b>Appendix III</b>	<b>GAO Contact and Staff Acknowledgments</b>	<b>56</b>
<b>Table</b>		
	Table 1: SBA's Efforts to Apply Key Practices for Successful Organizational Transformation	13
<b>Figures</b>		
	Figure 1: SBA's Performance Management Framework	20
	Figure 2: Percentage of SBA Employees Responding to Survey Question on Satisfaction with Involvement in Decisions That Affected Their Work in 2004, 2006, and 2007	23

---

Figure 3: Percentage of SBA Employees Responding to Employee Survey Questions Related to Leadership and Communication by Management in 2004, 2006, and 2007	27
Figure 4: Percentage of SBA Employees Responding to Employee Survey Questions Related to Training in 2004, 2006, and 2007	29
Figure 5: Sample District Office Organizational Chart and Position Descriptions	35
Figure 6: Example of Standard Compliance Requirements and Goals on District Office Scorecards	37

---

### Abbreviations

BPR	Brand Promises Restored Campaign
CFO	Chief Financial Officer
FHCS	Federal Human Capital Survey
FAC	Field Advisory Council
HUBZone	Historically Underutilized Business Zone
NGPC	National Guaranty Purchase Center
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PART	Program Assessment Rating Tool
PMF	Performance Management Framework
PMO	Performance Management Office
SCORE	formerly Service Corps of Retired Executives
SBA	Small Business Administration
SBDC	Small Business Development Center
WBC	Women's Business Center

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office

Washington, DC 20548

September 24, 2008

The Honorable John F. Kerry  
Chairman  
Committee on Small Business and Entrepreneurship  
United States Senate

Dear Mr. Chairman:

Over the past 6 years, the Small Business Administration (SBA) has sought to transform the agency and improve its ability to fulfill its primary mission—to promote small business development and entrepreneurship. SBA’s transformation efforts also focused on improving the efficiency of its business and loan processes to help mitigate budget constraints and other resource issues, such as the impending retirement eligibility of a large portion of its workforce. SBA carries out its mission of supporting small businesses primarily with programs providing access to credit, mostly by guaranteeing loans through its 7(a) and other loan programs and by providing entrepreneurial assistance through partnerships with private entities that offer small business counseling and technical assistance.<sup>1</sup> SBA also administers various small business procurement programs and its 8(a) Business Development program that are designed to assist small and small disadvantaged businesses in obtaining federal contracts and subcontracts.<sup>2</sup> Additionally, SBA makes loans to businesses or individuals trying to recover from a major disaster.

SBA’s approach to transformation evolved from restructuring the agency to emphasizing agency performance. Initially, a major focus of transformation was SBA’s intent to centralize loan functions and some of its other small business programs. As centralization freed up employees in the district offices, SBA also intended to better define the role of district offices to focus on marketing and outreach to small businesses and

---

<sup>1</sup>The 7(a) Loan Program is SBA’s largest loan program for small businesses. The loan program guarantees loans made by commercial lenders to small businesses and assures lenders that they will receive from 50 to 85 percent of the outstanding loan balance if a borrower defaults.

<sup>2</sup>SBA’s 8(a) program provides eligible socially and economically disadvantaged small businesses with a range of business development assistance to help them gain access to federal contracting opportunities and compete in the U.S. economy.

---

managing SBA's relationships with lenders and other private-sector partners. In 2003, we assessed SBA's implementation of the initial phase of its transformation strategy and made several recommendations to address weaknesses that we found, such as SBA overlooking two-way communication with and involvement of employees in the process. We recommended that SBA follow key practices important to successful organizational transformation involving leadership, setting goals and timelines, communication, and employee involvement.<sup>3</sup>

Following the issuance of our 2003 report, SBA created a new center—the National Guaranty Purchase Center (NGPC)—for handling the guaranty purchase of defaulted 7(a) loans guaranteed by SBA and loan liquidations. SBA staffed the NGPC by requiring certain employees in district offices to either take the reassignment and relocate to the new center in Herndon, Virginia, or accept a buyout and lose their job with SBA. This action contributed to a significant reduction in employee morale, as indicated in employee survey results in the 2004 and 2006 Federal Human Capital Survey (FHCS), which the Office of Personnel Management (OPM) administers on behalf of federal agencies.<sup>4</sup> The FHCS data are used to rank agencies on a “Best Places to Work” index score, which measures employee satisfaction. According to the Best Places rankings for 2007, which are based on the 2006 employee survey results, SBA ranked lowest among the 30 large federal agencies.<sup>5</sup> In 2004, SBA's Office of Inspector General (OIG) also reported problems arising from SBA's centralization efforts at the NGPC and noted that the implementation of the center had not been well planned.<sup>6</sup> In addition, district offices lost staff as a result of the centralization as employees moved to Herndon, lost their jobs, or accepted the buyout. In 2006, SBA completed its loan centralization efforts

---

<sup>3</sup>GAO, *Small Business Administration: Progress Made, but Transformation Could Benefit from Practices Emphasizing Transparency and Communication*, [GAO-04-76](#) (Washington, D.C.: Oct. 31, 2003).

<sup>4</sup>OPM analyzes the results of the FHCS that are reported biennially. The results are reported for nearly the entire federal government (about 97 percent of executive branch agencies), as well as by individual agencies.

<sup>5</sup>The Partnership for Public Service and the Institute for Study of Public Policy Implementation created a statistical model to transform raw FHCS data into specific measures of workplace satisfaction, including an index score for “Best Places to Work.” The 2007 rankings include 283 federal organizations (30 large federal agencies, 31 small agencies, and 222 subcomponents).

<sup>6</sup>Small Business Administration, Office of Inspector General, *Management Advisory Report on the Transfer of Operations to the National Guaranty Purchase Center, Herndon, Virginia*, Report No. 4-39 (Washington, D.C., Aug. 31, 2004).

---

with the creation of the Standard 7(a) Loan Guaranty Processing Center operating out of two locations in Citrus Heights, California, and Hazard, Kentucky. This center has responsibility for processing 7(a) loan guaranty applications for lenders who do not have delegated authority to make 7(a) loans without SBA's final approval.<sup>7</sup>

In response to your request, we reviewed the status of SBA's efforts to transform and improve agency operations since our 2003 report and SBA's actions to address the impacts some efforts have had on employees and morale. Specifically, this report examines (1) SBA's progress in transforming agency operations and addressing GAO's recommendations on key practices for successful transformation, (2) how SBA has addressed the impacts of transformation on its employees, (3) how SBA has defined the roles and responsibilities of its district offices, and (4) how SBA's approach for implementing centralization of its loan functions has changed since transformation began and how it has assessed its centralization efforts.

To respond to these objectives we reviewed agency planning and implementation documents related to SBA's efforts to transform and improve agency performance, analyzed SBA employee survey data, and interviewed key officials at SBA headquarters in Washington, D.C. We also reviewed information documenting SBA's actions to implement recommended practices important to successful organizational transformation.<sup>8</sup> We conducted site visits at 10 district offices and the two loan centers in Citrus Heights, California, and Herndon, Virginia, that were created under SBA's transformation efforts.<sup>9</sup> To provide national coverage, one district office was selected from each of SBA's 10 geographical regions. We conducted site visits in California, Georgia, Indiana, Iowa,

---

<sup>7</sup>SBA delegates authority to lenders who meet certain standards. For example, some lenders, referred to as "preferred" lenders, have authority to make SBA-guaranteed loans, subject only to a brief eligibility review and assignment of a loan number by SBA. In contrast, SBA provides final approval for loans made under the standard 7(a) program for loans made by lenders who do not have delegated authority to make SBA loans.

<sup>8</sup>For more information on key practices, see GAO, *Results Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, [GAO-03-669](#) (Washington, D.C.: July 2, 2003).

<sup>9</sup>We randomly selected eight district offices for site visits. For two of the regions, we purposefully selected an office in each based on its proximity to a GAO office where staff assigned to this review were located. We conducted site visits to these two offices first for the purposes of developing and field testing our interview questions and site visit procedures.

---

Montana, New Jersey, Oregon, Texas, Vermont, and Virginia. Additionally, at these locations we met with employees to obtain their perspectives on the implementation and results of SBA's transformation efforts. While the limited number of offices we visited is too small for generalizing the information obtained to all district offices, the recurring nature of the observations and perspectives expressed across these offices, along with other material we examined, suggest that these views were not limited to the offices we visited. To facilitate frank discussions, we met with district and center directors and employees separately. We also analyzed responses to certain questions in SBA's 2004 and 2006 FHCS and its 2007 annual employee survey to identify issues related to transformation's impact on employees, including morale. Additionally, we met with representatives of a lenders' organization directly affected by SBA's transformation and SBA union officials to discuss the impact of transformation on staff. Finally, we reviewed recent and ongoing OIG audit work addressing SBA's centralization initiative and also met with representatives from that office to discuss their audit results, including recommendations they made to the agency. In conducting our work, our focus was on the transformation process itself and its impacts, rather than on assessing SBA's administration of its various programs.

We conducted this performance audit from August 2007 to September 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I provides a detailed description of our objectives, scope, and methodology.

---

## Results in Brief

SBA has made progress in applying key transformation practices and has begun addressing employee concerns about their involvement in decisions that affect their work and the commitment of future leadership to continue positive efforts. In 2003, we recommended that SBA apply key practices for successful organizational transformation, including improving communications with employees, identifying who would lead transformation efforts, and developing a performance management system that reflected agency goals and employees' roles. In July 2006, 3 years after transformation began and following the unsuccessful outcome of some transformation initiatives and other agency challenges, SBA came under the leadership of a new Administrator. The new Administrator shifted the focus of transformation efforts from organizational restructuring to improving agency performance. In doing so, he introduced a "reform



---

agenda” that is generally consistent with key transformation practices that we identified. The agenda focused on four initiatives—meeting all compliance requirements, ensuring that all SBA programs operated efficiently and effectively, improving communication, and improving training. He also established a Performance Management Office (PMO) to provide the infrastructure for SBA’s performance management efforts, including a new system that encompasses program office priorities and compliance goals. In turn, the priorities and goals have been reflected in new operating plans, streamlined performance scorecards, and employees’ personal business commitment (individual performance) plans. Management and employees we interviewed in 10 SBA district offices told us that, under the new leadership, agencywide communication had improved significantly since transformation first began, and they reported greater opportunities for communication at the district office level and some improvement in communication with other areas in the agency. While agency leadership appears to have also been making efforts to involve employees in decisions related to improving SBA’s programs, operations, and performance, officials from SBA’s employee union told us that the union had limited involvement in management decisions, and SBA’s employee survey results in 2007 showed that over 30 percent of the respondents were unsatisfied with their involvement in decisions that affect their work. SBA recently conducted focus groups with employees to better understand their concerns and is planning to implement pilot initiatives to address them. In June 2008, SBA’s Administrator was sworn in as the Secretary of Housing and Urban Development. Prior to the announcement of his nomination, some SBA employees already had expressed uncertainty about future leadership’s commitment to progress at SBA; however, senior officials told us that they were developing a transition plan for the next administration. Furthermore, SBA officials told us that a group of senior career officials were working together to identify the practices and initiatives that had a positive impact and determine how these officials could ensure that those efforts continue. Steps such as these and leadership commitment will be important in ensuring that SBA’s transformation and agency reforms are successful.

Although SBA has taken actions, such as improving communication and training, to address low employee morale and the impact of transformation, the agency has not yet developed a comprehensive plan for future training efforts. Following the 2003 centralization of loan liquidation and purchase guaranty functions, employee morale declined significantly, as indicated in results from a 2004 OPM survey. Around the time a new Administrator was appointed in 2006, SBA received the results of the 2006 survey, which continued to indicate low morale. The 2004 and 2006 results showed a lack of trust in leadership and a concern about

---

training opportunities. According to SBA officials, the new Administrator made employee morale a priority. He strengthened communication in the agency and personally solicited feedback from employees and shared his priorities through visits to district offices and “town hall” meetings. SBA’s 2007 survey and our interviews with SBA staff show some improvements in morale since 2006, suggesting that the Administrator’s efforts had some impact. For example, there was a 21 percentage point increase between 2007 and the previous year’s survey in SBA employees agreeing with the statement, “I have a high level of respect for my organization’s senior leadership.” In 2007, SBA also began SBA University, a training program for managers and employees. SBA held three sessions in 2007 for more than 1,300 district office employees whose roles and responsibilities had been affected by transformation. District office employees and management with whom we spoke generally were positive about SBA University and employees’ positive responses on satisfaction with training increased by 12 percentage points in the 2007 survey compared to 2006. SBA continued SBA University in 2008 with training for supervisors and managers. According to an SBA official, the agency is developing a core curriculum that will identify courses for the agency’s mission-critical positions. However, SBA has not yet documented a comprehensive plan for future training efforts. Without a plan that links core competencies and positions with goals, strategies and, milestones, SBA lacks some accountability for ensuring the continuity of training efforts. In addition, without a plan, employees may not be able to anticipate future training opportunities and, thus, judge agency efforts negatively.

SBA continues to clarify and refine the district office role. While district offices have the flexibility to determine how they will achieve their office goals, some offices said they face challenges adjusting to reductions in staffing that accompanied the centralization of loan functions they used to perform. Since our 2003 report, the roles and responsibilities of SBA district offices have shifted from performing loan processing, purchase, and liquidation functions, to promoting SBA programs and services through marketing and outreach, training lenders, providing support to SBA resource partners, developing small businesses, and conducting annual reviews under SBA’s 8(a) Business Development program. District office employees, particularly those who used to process loans, reported that their roles had changed substantially as a result of transformation. Many of the employees indicated that their work had become less structured and some had less regular interaction with lenders now than they did prior to transformation. However, the key roles in a district office, such as lender relations specialist, continue to be refined. For example, designated district office employees received training on SBA’s guaranty purchase process to help lenders prepare requests for SBA to purchase, or

---

honor, its guaranteed portion of a defaulted loan, and district offices also are involved in an agencywide customer service and marketing initiative to engage the top SBA lenders in their local markets. Moreover, district offices have a more formalized support role in processing disaster loans than they did previously and will be required to help process loans and coordinate local media outreach and resources during the next large-scale disaster. SBA defines district office roles and responsibilities through a variety of mechanisms, including a district office scorecard that outlines key compliance requirements and goals. SBA gives district offices the flexibility to determine the actions they need to take to achieve these goals. However, some district offices told us that it can sometimes be a challenge to meet goals and carry out SBA's mission, given limited staffing resources. For example, the business development specialists responsible for conducting annual reviews to ensure that participants are still eligible for the 8(a) Business Development program reported that the time and resources devoted to these reviews has lessened their ability to conduct business development activities, which are also part of their current job duties. District office employees also said that they have to take on multiple responsibilities for which they do not necessarily receive training due to decreased staffing levels.

SBA improved the communication and transparency of its centralization initiatives, addressed problems following the centralization of its guaranty purchase and liquidation functions at the NGPC between 2003 and 2004, and developed some performance measures to assess its operations. However, it still needs to develop measures to ensure that its decisions to purchase, or honor, SBA's guaranteed portion of a defaulted loan comply with SBA policies, procedures, and legal requirements. Between 2006 and 2007, SBA centralized the processing of its 7(a) loan guaranty applications, which represents SBA's most recent centralization effort. Based on our meetings with SBA staff and review of agency documentation, the 7(a) loan processing centralization was better planned and implemented than the NGPC centralization. SBA conducted the 7(a) loan processing centralization in phases, and it did not use any directed reassignments or forced relocations to staff the center as it did for the NGPC. Moreover, SBA's approach to centralization has changed to employ greater transparency and communication, which was evident in the most recent loan centralization, as well as in the ongoing reforms at the NGPC. In contrast, the 2003 to 2004 implementation of the NGPC was problematic. In 2004, the SBA OIG identified several key problems with the planning and implementation of the NGPC centralization, which resulted in inadequate staffing, backlogged purchase requests, and the inadequate handling and review of files. The actions SBA has taken to address the problems at the NGPC include the re-engineering of NGPC's operations to

---

streamline and standardize processes. One key aspect of the re-engineering effort is the Brand Promise Restored (BPR) Campaign, which aims to restore the SBA product reputation with lenders that had been frustrated by delays in purchase decisions.<sup>10</sup> Specifically, the campaign goals are to reduce the center's backlog of guaranty purchase requests and improve turnaround times, the completeness of purchase packages submitted to the center, and customer service. In addition, SBA has established performance measures focused on timeliness, lender submissions, customer service and volume to assess the progress of its re-engineering efforts at the NGPC, including the number of files reviewed, number of backlogged files, and a 45-day turnaround deadline for all new files received since 2007. It has also reported progress on key milestones to the Administrator. SBA has developed certain quality controls for its purchase process, such as establishing a review process for each purchase decision and basing individual loan officer performance ratings on the number of purchase decisions they make that do not require substantial revisions. While SBA has developed a process to reduce lender errors—thereby improving the completeness of the purchase packages that lenders submit to the NGPC—and implemented certain quality controls, it has yet to establish an overall quality assurance process and performance measures to ensure that its purchase decisions are made in accordance with its policies and procedures. SBA's review of guaranty purchase requests is an important tool for assessing lender compliance on individual loans and protecting SBA from making erroneous payments. The OIG has found in past audits that SBA inadequate purchase reviews have resulted in improper payments and has noted concerns that SBA's improper payment rate may be higher than reported. SBA indicated that an initiative to establish a new quality assurance process is under way, but is still in the initial stages. Without measures that track the quality of its purchase decisions, SBA lacks an important tool to help it ensure the appropriateness, quality, and effectiveness, of its purchase decisions on loan guarantees, as well as to measure the overall effectiveness of its centralization efforts.

This report includes two recommendations to the Administrator of SBA. First, to support SBA's development of a core curriculum for SBA University and to communicate SBA's training development efforts to employees, SBA should develop a strategic training plan with specific goals, strategies, and milestones. Second, to ensure that its streamlined purchase guaranty process also provides an incentive to focus on quality,

---

<sup>10</sup>When borrowers default on SBA-guaranteed loans, SBA honors its guaranty by purchasing the guaranteed portion of the outstanding loan balance from lenders.

---

and thereby results in good purchase decisions, SBA should develop performance measures that will provide information on the quality of its guaranty purchase reviews.

We provided a draft of this report to SBA for review and comment. SBA agreed with our recommendations and provided information on how they planned to address each of them. For example, SBA stated that it will develop measures that focus on the quality of purchase reviews by building on the quality processes in place and is developing new quality assurance review plans for NGPC and other processing centers that will be implemented during fiscal year 2009. SBA also provided additional information on how it measures quality in its processes for reviewing, recommending, and approving guaranty purchases. For example, NGPC tracks the number of work items of its loan specialists returned for substantial revision and randomly samples processed guaranty purchase disbursements to test them for accuracy and uses information from these actions to identify areas for training. Though these actions were not reflected in the NGPC weekly management reports provided to us and therefore it is unclear to what extent these measures are regularly tracked by SBA management, we agree that these actions help SBA improve the quality of its purchase reviews. Additionally, SBA stated it will continue to ensure that employees have access to the training and tools provided through the development of SBA University and has begun developing a draft plan for future training. SBA's comments are reprinted in appendix II.

---

## Background

In response to budget reductions in the 1990s, SBA streamlined its field structure by downsizing the 10 regional offices, shifting its workload to district or headquarters offices, eliminated most of the region's role as intermediate management layer between headquarters and the field (district offices), and created the Office of Field Operations to assume the intermediary role. Prior to this restructuring, SBA had changed its service delivery model—moving from making loans directly to small businesses to guaranteeing loans made by commercial lenders. SBA previously had provided loans directly to small businesses largely through its district offices. SBA's 7(a) loan guaranty program exemplifies how the service delivery model changed. The program has several delivery methods—such as the certified and preferred lender programs—in which SBA has delegated different functions to lenders. For instance, certified lenders must perform a thorough credit analysis on the loan application packages they submit to SBA so that SBA can heavily rely on that analysis in making SBA's credit and eligibility decisions, thereby shortening the time for SBA loan processing. Preferred lenders have delegated authority to make SBA-guaranteed loans, subject only to a brief eligibility review and assignment

---

of a loan number by SBA. SBA provides final approval for loans made under the regular 7(a) program for loans made by lenders who have not been approved as certified or preferred lenders.

SBA has 68 district offices that operate as the frontline provider or conduit of SBA services and programs. Specifically, district offices provide counseling and training services to individuals or businesses that aid in the formation, management, financing, or operation of a small business enterprise. District offices provide information on and promote SBA products to lending partners, the small business community, and groups such as chambers of commerce and trade associations. Finally, district offices are charged with completing statutorily mandated reviews, such as section 8(a) program participant reviews that ensure participants continue to qualify for the program and are meeting program requirements.

When we reported on SBA in 2003, the agency had started or was planning transformation efforts to better align resources and functions with the changed organizational structure. The transformation effort was to be done in three phases that included two key initiatives. We reported on the first phase of these efforts. The first initiative focused on changing the role of district offices (through a pilot in three district offices) to emphasize outreach to small businesses about SBA's products and services and linking these businesses to the appropriate resources, including lenders. For instance, SBA provided training to employees on marketing and outreach, developed new job descriptions for its marketing and outreach specialist positions, and reorganized staff in the offices. However, we found that budget constraints impeded work on this initiative and could continue to do so. We also found that the agency's budget requests for transformation were inconsistent and lacked a detailed plan that showed priorities and linked resources to desired results.

The second initiative focused on centralizing loan functions to improve efficiency and consistency of the loan approval, guaranty purchase, and liquidation processes for SBA's 7(a) loan program.<sup>11</sup> In March 2003, the liquidation center in Santa Ana, California, that typically worked on disaster loans began a pilot program to process new 7(a) liquidations and

---

<sup>11</sup>At the time we completed our 2003 report, SBA largely had completed centralization of servicing and processing functions for its loan programs.

---

guaranty purchase cases from the three pilot district offices.<sup>12</sup> According to SBA, the centralization achieved processing efficiencies. In phases two and three of its transformation, SBA had planned to establish a new 7(a) liquidation and guaranty purchase center near Washington, D.C., and expand the centralization initiative until all of the loan functions performed by its 68 district offices were centralized. However, we found that SBA's centralization efforts also could be impeded by the challenge of trying to ensure that job realignments and relocations from multiple field offices would result in having experienced staff at the centralized locations. We also noted that relocations could prove disruptive for employees by decreasing morale and productivity and, thus, could negatively affect SBA's operations. Between 2004 and 2006, SBA created two centers to conduct work that had been previously performed in the district offices. As part of their respective missions, these centers provide assistance and oversight, as necessary, to lenders. Specifically, the NGPC in Herndon, Virginia, processes guaranty purchase requests and assists lenders during loan liquidation and the Standard 7(a) Loan Guaranty Processing Center (operating out of two locations in Citrus Heights, California, and Hazard, Kentucky) has responsibility for processing 7(a) loan guaranty applications for lenders who have not been approved as preferred lenders.<sup>13</sup>

SBA's workforce has declined significantly since the 1990s. During the restructuring in the 1990s, SBA's workforce decreased from over 3,800 employees to about 3,100 employees—a decrease of about 19 percent. Between 2000 and 2007, when additional restructuring occurred, SBA's

---

<sup>12</sup> Loan approval, guaranty purchase, and liquidation processes for SBA's 504 program were also part of the second initiative with the preferred lender program loan processing center in Sacramento, California, processing new 504 loan origination applications from the pilot district offices. Under the 504 program, SBA provides its guaranty through certified development companies—private nonprofit corporations—that sell debentures that are fully guaranteed by SBA to private investors and lend the proceeds to qualified small businesses for acquiring real estate, machinery, equipment, and for building or improving facilities.

<sup>13</sup> SBA also operates the Sacramento Loan Processing Center, created in 1994 prior to the transformation efforts discussed in this report, that processes 7(a) loans for preferred lenders.

---

workforce decreased further by about 26 percent. As of September 2007, SBA had 2,166 employees.<sup>14</sup>

Our 2003 report noted that transforming an organization is challenging. We further concluded that while SBA had made progress with its endeavors, weaknesses we identified in SBA's approach could be mitigated by using the key practices discussed in the report. Moreover, comprehensive and strategic planning would minimize challenges, including problems with employee morale and productivity. In particular, we said that more two-way communication, transparency, and employee involvement would improve the effort as the agency moved forward with transformation. Accordingly, we made recommendations related to how SBA could use the key practices to increase the potential for a successful transformation. We discuss our recommendations related to best practices, including actions taken by SBA, in this report.

---

## SBA Has Applied Key Practices to Implement Change and Has Begun Addressing Employee Concerns about Involvement and Continued Leadership Commitment

SBA has made progress in applying key practices to implement change and has begun addressing remaining employee concerns about involvement and continued leadership commitment. SBA's current leadership has emphasized transparency and communication. Additionally, it refocused agency priorities with a new performance management system, which prioritizes agency goals and links them to operating plans for offices, performance scorecards, and employee performance plans. SBA also has made efforts to solicit employees' ideas and feedback and has begun to examine employees' continued concerns about their involvement in decisions that affect their work. Finally, some SBA employees expressed concerns about the commitment of future leadership to the current initiatives, but senior career officials said that they planned to continue positive efforts.

---

## SBA Leadership Has Emphasized Transparency and Communication

SBA's current leadership has emphasized transparency and communication, addressing our prior recommendation that the agency improve its communication strategy. In 2003, during the early stages of its transformation, we made this and five other recommendations to SBA because we found the agency's transformation plans were not transparent enough to allow related

---

<sup>14</sup>The SBA employee numbers from the 1990s to 2007 do not include employees in SBA's Office of Disaster Assistance because these numbers fluctuate year to year and include temporary employees, depending on the disaster assistance workload. These numbers also do not include employees in SBA's OIG.



progress to be tracked and frequent two-way communication was lacking within SBA (see table 1). In July 2006, 3 years after transformation began and following the unsuccessful outcome of some transformation initiatives and other agency challenges that we discuss elsewhere in this report, SBA underwent a change in leadership with the appointment of a new Administrator.<sup>15</sup> Under its new Administrator, SBA's leadership took steps to increase transparency in the agency's actions and improve its communication efforts. For fiscal year 2008, SBA developed a comprehensive communications plan that addressed challenges from the previous year with regard to negative reports about its disaster program, primary loan program, and other aspects of the agency. The plan included strategies for improving internal and external communications and detailed steps for making these improvements. It also assigned responsibility for each communication area such as SBA's Web site, marketing, and internal communications to specific individuals within SBA's communications office. Senior leaders at SBA acknowledged that effective communication had become a key area of focus when the Administrator began his term, and identified communication deficiencies.

**Table 1: SBA's Efforts to Apply Key Practices for Successful Organizational Transformation**

GAO recommendation	Examples of actions taken
Develop a communication strategy that facilitates and promotes frequent and two-way communication between senior managers and employees and between the agency and its stakeholders, such as Congress and SBA's lenders.	<ul style="list-style-type: none"> <li>• Comprehensive communications plan</li> <li>• Direct updates from Administrator, including video broadcast messages</li> <li>• District directors' field advisory council provides input and feedback directly to Administrator and senior management</li> <li>• Regular conference calls within regions, between field and headquarters managers, and within program areas</li> <li>• Intranet employee comments and suggestions tool</li> </ul>
Finalize the draft transformation plan that clearly states SBA's strategic goals for transformation and includes implementation goals, timeline, and resource requirements and share the plan with stakeholders and employees. <sup>a</sup>	<ul style="list-style-type: none"> <li>• Use of operating plans with milestone dates to report on and track initiatives</li> <li>• Program offices meet monthly with Administrator to discuss progress</li> <li>• Operating plans are accessible to all employees on SBA's intranet site</li> </ul>
Clarify for employees, congressional, and other stakeholders the leadership and implementation team members who are guiding transformation.	<ul style="list-style-type: none"> <li>• Agencywide outreach by Administrator, including to field employees</li> <li>• Creation of Performance Management Office (PMO) and appointment of Associate Administrator for Performance Management</li> <li>• Initiative teams with employee "champions"</li> </ul>

<sup>15</sup>Steve Preston was sworn in as the 22nd Administrator on July 11, 2006. He was officially appointed to this position in April 2006 when former Administrator Hector Barreto resigned with 29 months remaining in his term.

GAO recommendation	Examples of actions taken
Develop performance goals that reflect the strategic goals for transformation and more clearly link the strategic goals of transformation to existing performance goals. In addition, develop budget requests that clearly link resource needs to achieving these strategic and performance goals.	<ul style="list-style-type: none"> <li>• New performance management framework (PMF)</li> <li>• Streamlined scorecards that reflect the PMF</li> <li>• Major area operating plans</li> </ul>
Ensure that the new performance management system is clearly linked to well-defined goals to help individuals see the connection of their daily activities and organizational goals and encourage individuals to focus on their roles and responsibilities to help achieve those goals.	<ul style="list-style-type: none"> <li>• New PMF</li> <li>• Streamlined scorecards that reflect the PMF</li> <li>• Major area operating plans</li> <li>• Employee personal business commitment plans</li> <li>• Employee individual development plans</li> </ul>
Facilitate employees' involvement by soliciting ideas and feedback from its union and staff, ensuring that their concerns and ideas are considered.	<ul style="list-style-type: none"> <li>• Initiative teams with employee "champions"</li> <li>• Intranet employee comments and suggestions tool</li> </ul>

Source: GAO analysis of SBA information.

<sup>a</sup>While SBA did not finalize a plan for transformation SBA officials stated that transformation, as defined in 2002, had ended, and the Administrator's reform agenda was an effort to refocus the entire agency on its mission and priorities. Therefore, we assessed how SBA has tracked the implementation of the reform agenda.

When we met with managers and staff in SBA's district offices, many told us that under new leadership, agencywide communication had improved significantly and that employees were more informed about ongoing agency initiatives. Both managers and staff attributed these improvements to the Administrator's commitment to transparency and communication, noting that he had personally taken steps to directly communicate agency plans and updates to all employees. In previous work reviewing practices that empowered and involved federal employees, we noted that top leadership commitment is crucial to instilling a common vision across the organization and creating an environment that is receptive to innovation.<sup>16</sup> SBA officials told us that, early in his term, the Administrator had visited the district offices and informed employees that they could contact him directly by e-mail, and in two of the locations that we visited, district directors told us that employees had communicated with the Administrator. The Administrator also continued town hall meetings, as the previous Administrator had done, and implemented video broadcast meetings and messages that were accessible to all employees, including those in the field.

<sup>16</sup>GAO, *Human Capital: Practices That Empowered and Involved Employees*, GAO-01-1070 (Washington, D.C.: Sept. 14, 2001).

---

In addition to the Administrator's individual efforts, SBA has used e-mail and conference calls to improve its internal communications. For example, employees said that SBA distributes agencywide e-mails on procedural notices. Regular conference calls also provide headquarters and field employees with opportunities to share information. For example, the Office of Field Operations—which acts as a liaison between headquarters and the field—participates in a weekly conference call with the district offices that various program offices in headquarters also sometimes participate in, and the program offices hold conference calls with field employees who work in those areas. On the local level, the district offices also participate in weekly regional conference calls with their respective regional Administrators.

As part of its efforts to improve communications specifically between headquarters and the field, SBA also developed a 10-member field advisory council (FAC), comprising one district director from each region, which gives district office management an opportunity to communicate field issues and concerns directly to headquarters. The FAC's purpose is to provide input and feedback directly to the Administrator and senior management regarding the implementation of agency policy and programs on operations in the field level and on SBA's customers. District directors serve on the FAC on a rotational basis for an initial period of 18 months and can be reconfirmed for subsequent terms. The FAC participates in weekly conference calls with senior leaders and meets with the Administrator several times a year. During our visits to the district offices, several district directors told us that the FAC was an effective tool for two-way communication between headquarters and the field, particularly for sharing the field perspective with headquarters officials. For example, one district director said that the FAC was useful for discussions related to staff resources in the field, and several identified their regional representatives or said that they could share issues with their regional representatives to be raised in FAC meetings. SBA has also updated its internal (intranet) and external (Internet) Web sites to provide more useful information than provided in the past, such as program area resources to its employees and revised program guidance to its customers. Although some employees indicated that SBA's Internet site was more user-friendly than its intranet site in searching for information, others provided examples of intranet improvements, such as resources to help with conducting marketing and outreach with lenders—a major aspect of the district offices' role following centralization.

As noted, many district office employees we interviewed indicated that SBA's current leadership had improved agencywide communication significantly. Employees said they were aware that communication was

---

now a priority for the agency and said that in the past, leadership's actions had been unclear or not communicated to them. Partly because of more open communication from the top and because district directors were more informed than in the past, some district office employees said that communication had improved in their offices. Some also noted that communication with other areas in the agency, such as the loan centers, had improved. However, several district office employees said they experienced challenges communicating with headquarters officials. For example, they said that headquarters officials were not consistently responsive to their communications or were unable to answer their questions during scheduled conference calls.

---

### SBA Leadership Has Refocused Agency Priorities with a New Performance Management System

In addition to a new Performance Management Office (PMO) and a comprehensive performance management system, SBA also applied other key transformation practices that we recommended the agency adopt, including finalizing a transformation plan, identifying who would lead transformation efforts, and developing a performance management system that reflected agency goals and employees' roles. As discussed above, SBA came under new leadership in 2006, and with the appointment of a new Administrator, SBA's existing draft transformation strategy was never approved. Instead, the Administrator introduced a strategy to carry out remaining transformation objectives in a manner that addressed deficiencies in past implementation efforts and focused on SBA's mission and priorities.

The new strategy, which shifted SBA from organizational restructuring to improving performance, emphasized four specific priorities that made up the Administrator's reform agenda: (1) meeting all compliance requirements, (2) ensuring that all SBA programs operated efficiently and effectively, (3) improving communication, and (4) providing effective employee training. This agenda is generally consistent with key transformation practices that we identified. Several SBA officials with whom we spoke pointed out that some of the negative impacts of past transformation efforts—including a significant reduction in SBA's overall workforce and directed reassignments of district office employees to a new centralized loan center—had caused transformation to take on a negative tone across the agency. Our discussions with employees in many of the district offices confirmed this. Thus, the Administrator replaced "transformation" with the term "reform agenda" to describe SBA's efforts to move forward, although it still aimed at accomplishing important transformation objectives. For example, transformation objectives included (1) focusing on SBA's customers, (2) empowering employees, and (3) becoming more results-driven and performance-based. Similarly,

---

the reform agenda was created on the foundation of SBA being (1) outcomes-driven; (2) customer-focused; (3) employee-enabled; and (4) accountable, efficient, and transparent. While we found that SBA's earlier transformation strategy remained a draft plan, the new strategy, which has been presented as its performance management framework (PMF) (discussed below), has been implemented.

To provide the infrastructure for SBA's performance management efforts, including overseeing SBA's strategic plan and goals, in January 2007, the Administrator established a new office, the Performance Management Office (PMO) and a new position, the Associate Administrator for Performance Management. At SBA, the Chief Financial Officer (CFO) serves concurrently in this new position. The PMO serves as an internal resource for SBA's program offices, assisting them with data analysis, project management, and operational improvement. It reports on agency performance internally and externally (for example, performance and accountability and Program Assessment Rating Tool (PART) reporting).<sup>17</sup> It also oversees and tracks SBA's implementation and progress on the President's Management Agenda initiatives and recommendations. In a report discussing action steps proposed by selected performance management experts for improving performance management in federal agencies, such experts stated that creating an office such as the PMO increases the focus on performance as an organizational priority.<sup>18</sup> Additionally, the report lists "performance tracking and dialogue," for which the PMO is responsible, as one of eight management practices that contribute to a performance culture. Moreover, the PMO is in line with

---

<sup>17</sup>The Office of Management and Budget's (OMB) Program Assessment Rating Tool (PART) is a questionnaire designed to help assess the management and performance of federal programs. It is used to evaluate a program's purpose, design, planning, management, results, and accountability to determine its overall effectiveness.

<sup>18</sup>Howard Risher and Charles H. Fay, IBM Center for The Business of Government, *Managing for Better Performance: Enhancing Federal Performance Management Practices*. (New Jersey, 2007).

---

recent efforts by the Office of Management and Budget (OMB) to promote program performance across the federal government.<sup>19</sup>

SBA further encouraged a collaborative approach to performance accountability by designating managers at various levels to lead initiative teams as “champions” or “project owners” of specific activities, thereby allowing them the opportunity to participate in leadership’s vision for SBA and addressing employees’ concerns about being uninformed and uninvolved in past transformation efforts. In our report on practices that empowered employees, we also note that using employee teams to help accomplish agency missions and involving employees in planning and sharing performance information with them are effective tools.<sup>20</sup> In some instances, SBA designated employee champions to oversee improvements in specific programs or agency functions, and some initiatives had champions in headquarters and the field. For example, for initiatives involving staff support and training and SBA’s work with small businesses in underserved markets, program managers served as headquarters champions, while regional Administrators or district directors served as field champions.

Following this approach, at the district office level, district directors also designated individual employees as champions of local initiatives related to the district offices’ mission and goals. District office initiatives are separate from output-related goals that SBA establishes for the district offices, such as loan volume.<sup>21</sup> Instead, SBA considers initiatives to be “value-added” activities, such as leveraging resource partner services to serve small businesses and outreach to faith-based and community

---

<sup>19</sup>Executive Order 13450: Improving Government Program Performance, Nov. 13, 2007. In response to the executive order, OMB established a Performance Improvement Council comprising individuals appointed as Performance Improvement Officers of federal agencies. Individuals in this role are responsible for developing and improving their agencies’ strategic plans, annual performance plans, and annual performance reports, as well as ensuring the use of such information in agency budget justifications. Among other tasks, the council will establish program performance standards and evaluation criteria and exchange information among agencies. As Associate Administrator for Performance Management, SBA’s CFO serves on this council.

<sup>20</sup>[GAO-01-1070](#).

<sup>21</sup>District office annual loan-related goals are for the number and dollar amount of new loans approved based on their marketing and outreach efforts.

---

organizations, women, veterans, and other groups.<sup>22</sup> District directors told us that SBA requires each office to submit a plan each fiscal year to accomplish the initiatives that are key to its local market and allocate resources from its existing budget. In some cases, district office employees had responsibility for initiatives that were related to their primary roles.

SBA's new PMF is the core component of its efforts to improve agency performance. According to SBA, the objectives of the PMF are to (1) prioritize objectives, (2) manage existing resources to meet priorities, (3) target items that produce measurable impacts, (4) discontinue activities not critical to success, (4) improve accountability, and (5) foster agency collaboration to achieve collective priorities. SBA documents state that the PMF allows SBA and its program offices to be more accountable, performance-oriented, transparent, and customer-focused—in line with the reform agenda—and provides the agency with flexibility by allowing prioritization of limited resources to best fit the needs of SBA's customers.

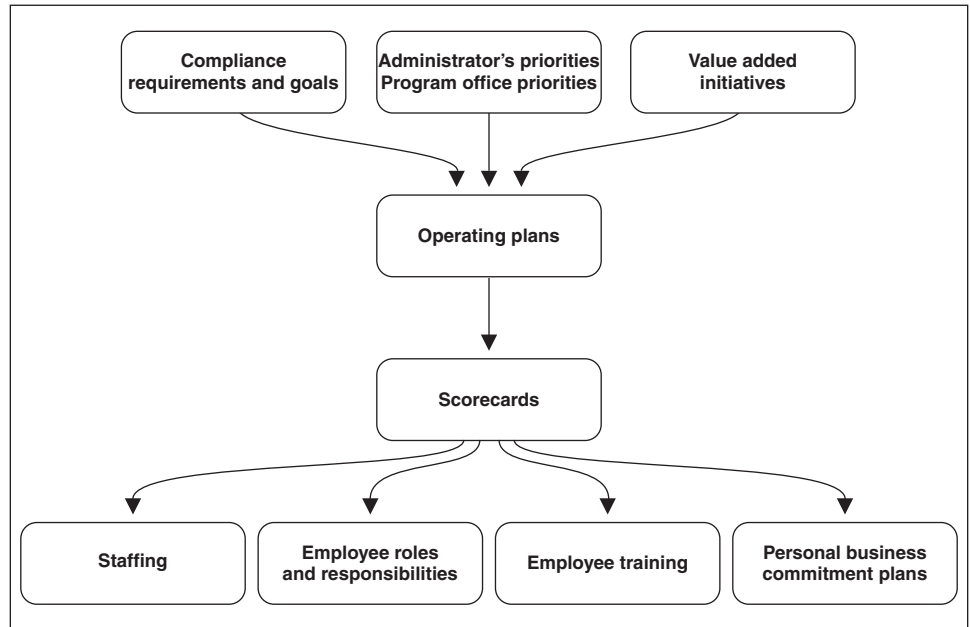
In the PMF, SBA's priorities—including the reform agenda and other Administrator priorities, program office priorities, and goals and initiatives—form the basis for major area (program and district office) operating plans (see fig. 1). In developing its operating plans, SBA looks at the resources available to accomplish the metrics or milestones for each activity (compliance requirement, goal, or value-added initiative) performed in a given area. For example, district office operating plans include metrics for loans made to certain groups or communities that SBA targets, as well as the staff and budget allocation for achieving the loan goal. In turn, the agency assesses operations by using performance scorecards that include metrics and other measures for tracking the progress of goals and other activities.<sup>23</sup> The scorecard then provides detailed information on the progress made toward achieving each metric within the operating plan.

---

<sup>22</sup>SBA partners with SCORE (formerly the Service Corps of Retired Executives), Small Business Development Centers (SBDC), Women's Business Centers (WBC), and other small business resources to provide training, counseling, and other assistance to small businesses.

<sup>23</sup>SBA scorecards track the status of goals and other activities designed to support the implementation of performance management efforts.

**Figure 1: SBA's Performance Management Framework**



Source: GAO analysis of SBA data.

For fiscal year 2007, SBA developed new operating plans and streamlined scorecards to show fewer, higher-impact items, making 100 percent compliance with statutory requirements a priority. For the district offices, the number of scorecard items decreased from about 40 to less than 10. District office employees said that they preferred having fewer scorecard goals that they could work toward and that they had greater autonomy to achieve. In the past, district office scorecard items included some goals for which the district offices depended on local resource partners such as SCORE (formerly the Service Corps of Retired Executives), Small Business Development Centers (SBDC), and Women's Business Centers (WBC) to achieve. For example, while the district offices have goals for training and counseling that they provide to small businesses, they previously also had goals for training and counseling that their resource partners provided to small businesses. Although some employees viewed the new scorecard as an improvement, others noted that some of their current responsibilities were not reflected in the new scorecard and that the district office did not receive credit for work on these additional responsibilities. For example, since SBA centralized its loan functions, the scorecard does not account for any of the assistance that district offices provide to the loan centers. Because district office staff resources were



---

limited, the employees felt that they should receive credit for all the work they performed.

As figure 1 indicates, the priorities set within the PMF also are reflected in SBA's staffing decisions, employee roles and responsibilities, employee training, and personal business commitment plans that serve as individual performance contracts for employees.

Scorecards then help measure performance on goals and objectives related to these functions and documents. For example, the personal business commitment plans of senior officials link their performance to goals in the scorecards for their respective areas.

Finally, accountability for achieving results related to agency priorities is a key aspect of the PMF. SBA senior officials track the progress of PMF priorities monthly, and program managers are required to prepare monthly reports on scorecard metrics and meet with the Administrator and Deputy Administrator to discuss targets that have been met and action plans for addressing outstanding targets. (We provide an example of district office scorecard compliance requirements and goals in our discussion of the district offices' roles and responsibilities.) Additionally, SBA holds regular progress review meetings at various levels in the agency, in part to create a culture of peer-based accountability and facilitate performance improvements agencywide. Several SBA employees with whom we spoke said that they understood the PMF, and others noted that it clarified the agency's goals. One program office official added that SBA had made progress with the PMF by helping managers to make the connection between agency goals and their individual program offices.

---

### **SBA Has Made Some Efforts to Solicit Employees' Ideas and Feedback and Has Begun to Examine Employees' Continued Concerns about Their Involvement**

SBA's current approach to organizational change offers some avenues for employee involvement, but some employees, including union representatives, expressed concerns about limited involvement or about providing input and seeing results. SBA has taken steps to involve district offices and solicit their feedback and ideas, but most of these initiatives involve district directors who may not always reflect district employees' concerns or ideas. As noted above, district directors have an opportunity to serve on the FAC and communicate field issues and concerns to SBA headquarters. Additionally, in 2007, SBA implemented an informal "district director in residence" effort that allows district directors to work on temporary assignments in headquarters, where they can be exposed to headquarters operations and provide a field perspective on initiatives and activities that affect the field. Similarly, some headquarters managers have served in temporary field positions, such as acting district director, where

---

they can manage field employees and provide feedback on the impact of headquarters directives on field personnel. For example, we met with a district director and an assistant district director who had worked in headquarters on initiatives that incorporated technology to make improvements to the 8(a) Business Development program. In both instances, the officials were able to provide practical input for these initiatives because the district offices are responsible for monitoring and assisting more than 9,600 firms in SBA's 8(a) program and for communicating with other federal agencies that contract with these firms.

Some district office employees with whom we met acknowledged that headquarters generally sought more input from the field regarding policies, procedures, and new program initiatives than in the past. SBA's intranet also has a comments and suggestions tool that all employees can use to submit their ideas to the agency. In one location, the district director pointed out that two district office employees had submitted ideas that headquarters accepted for implementation—one for pursuing an initiative with the state to coguarantee SBA loans and encourage local lenders to make more SBA loans.

However, district office employees remained concerned that they had little input in decisions that directly affected their work, and employees generally agreed that they were not certain that management incorporated their input when final decisions were made. For example, several recalled providing input for procedure revisions and developing new loan programs but said that the programs that headquarters had ultimately implemented were less attractive to (that is, cost-effective for) local lenders, making it challenging for district offices to market the programs and meet their loan goals.

In addition, results from an OPM survey of SBA's employees reflect an ongoing concern employees have about their involvement in decisions that affected their work. As shown in figure 2, about 32 percent of employees surveyed in 2004, 2006, and again in 2007 had negative responses regarding their involvement in decisions that affected their work. Similarly, the rate of positive employee responses has shown little change over the years, and SBA's 2007 positive employee response of 45 percent was notably lower than the 2006 governmentwide positive response of 54 percent.<sup>24</sup>

---

<sup>24</sup>Governmentwide survey data are not available for 2007. Therefore, we compared SBA's 2007 survey responses to the most recent governmentwide data available from 2006.

**Figure 2: Percentage of SBA Employees Responding to Survey Question on Satisfaction with Involvement in Decisions That Affected Their Work in 2004, 2006, and 2007**

	Negative response	Neutral response	Positive response	
Q34: How satisfied are you with your involvement in decisions that affect your work?	32%	23%	46%	2004
	32	20	48	2006
	31	24	45	2007

Source: SBA data.

Representatives from SBA’s employee union reported insufficient interaction with agency leadership and limited involvement in management decisions. For example, the representatives said that changing leadership within SBA’s human capital office made it difficult to establish relationships and that SBA’s senior leadership had not been responsive to the union’s efforts to collaborate. They also said that the union had not had opportunities to provide input for and negotiate on agency initiatives that affected employees, such as the new field staffing model, and they felt that SBA unilaterally changed agreements without seeking the union’s input. However, SBA officials said that federal union contracts typically allow management some discretion with regard to union involvement. Specifically, they told us that decisions affecting the agency’s mission, budget, and staff resources were made at the management level and did not involve the union. For example, they stated that SBA management would not negotiate with the union on SBA’s development of its field staffing model. In addition, they said that there was some misunderstanding among union representatives in this regard.

We have previously reported that employee involvement strengthens the transformation process by including frontline perspectives and experiences.<sup>25</sup> Specifically, employee involvement helps to create the opportunity to establish new networks and break down existing organizational silos, increase employees’ understanding and acceptance of organizational goals and objectives, and gain ownership for new policies and procedures. More specifically, in relation to eliciting feedback, OPM suggests that federal agencies could increase the usefulness of employee surveys by combining survey results with other personnel information or

<sup>25</sup> [GAO-03-669](#).

---

with additional feedback tools such as focus groups.<sup>26</sup> In doing so, agencies could better determine the rationale behind employee survey responses and more accurately assess their human capital environment.

SBA's employee survey results and comments from employees with whom we met suggest that some employees were still not satisfied with the extent of their involvement in work-related decisions. In line with OPM's suggestion, SBA officials said that they had begun efforts to examine several employee issues that they identified from human capital surveys for fiscal years 2005 through 2007. The officials said that they had followed up on questions that had the highest negative responses, including the question on employees' satisfaction with their level of involvement in decisions that affected their work. SBA employees in headquarters and the field participated in focus groups in April and June 2008 and SBA plans to issue a report summarizing the focus group results on its intranet and develop pilot initiatives to address the issues it determines to be most critical.<sup>27</sup>

---

### Employees Also Were Concerned about Continued Leadership Commitment, but Senior Leaders Have Initiated Steps to Continue Positive Agency Efforts

In June 2008, SBA's Administrator, Steve Preston, was sworn in as Secretary of Housing and Urban Development. Prior to his nomination in April 2008, SBA managers and staff had expressed uncertainty about whether positive actions would continue under the next Administrator. When we spoke with managers and staff at SBA prior to the nomination, many said that under Administrator Preston, SBA's approach to leadership had improved significantly, and some expressed concerns about the commitment of future leadership to progress at SBA. In particular, some employees were uncertain about whether positive actions would continue under the next Administrator and anticipated that a new Administrator might take the agency in a different direction, which could lead to the dismantling of many improvements. Some who were optimistic said that

---

<sup>26</sup>Office of Personnel Management, *Ensuring the Federal Government Has an Effective Civilian Workforce*, <http://www.fhcs2006.opm.gov> (accessed July 23, 2008).

<sup>27</sup>SBA's Annenberg Fellows led this focus group effort. Following the results of the 2006 employee survey and concerns the SBA Administrator had heard from employees, SBA supported the participation of five SBA employees to be selected as Annenberg Fellows in an initiative sponsored by the Annenberg Leadership Institute. The institute, which is part of the Partnership for Public Service, supports the development of midlevel leaders across the federal government. The initiative for SBA's fellows is to assess factors affecting employee engagement and develop a set of solutions that would increase workplace satisfaction.

---

successful initiatives currently in place would continue if other SBA leaders shared the Administrator’s vision for improving the agency.

In discussing efforts to institutionalize the positive initiatives that Administrator Preston had begun at SBA, the Associate Administrator for Performance Management (CFO) told us that she and other senior career officials had met to discuss how they could ensure that the positive changes and practices that had been put in place in the previous 2 years could be continued under a new Administrator. She said that while a new Administrator would have new ideas, she felt that it would be important to sustain practices and initiatives that had led to noticeable improvements in the agency’s capacity to implement a new vision or priorities. In particular, she pointed out that SBA’s efforts, such as the PMF, and improved communication, had improved its capacity to operate more effectively and efficiently, which would help any new programs or policies under a new Administrator. Additionally, the Chief of Staff told us that as the officials develop a transition plan for the next administration, they would include support for the positive actions that Administrator Preston implemented. Our previous work on key practices that support transformations noted that frequent turnover of political leadership in the federal government often made it difficult to sustain and inspire attention to make needed changes.<sup>28</sup> Therefore, it is important that SBA’s leadership—career and political—remain committed to sustaining these efforts under existing and future administrations.

---

## **Actions to Address Effects of Transformation on Employees Have Had Some Success, but SBA’s Plan for Training and Development Is Limited**

After the centralization of loan liquidation and purchase guaranty functions in 2003, employee morale at SBA declined significantly, as indicated by employee survey results in 2004 and 2006. The SBA Administrator’s actions to improve communication and transparency were meant, in part, to assure employees that they would be better informed about what the agency was doing. In 2007, SBA administered another employee survey to measure whether these actions had improved employee morale and found that employee perceptions of leadership improved considerably. Employees also told us that they thought they were getting better information, which was corroborated in the 2007 employee survey. SBA also embarked on a major training initiative in 2007—SBA University—to provide core training to field employees and address concerns about training expressed in employee surveys. Employees told us that they appreciated SBA University because it

---

<sup>28</sup> [GAO-03-669](#).

---

showed that the agency recognized that employees needed training for their new roles and responsibilities. However, SBA has not yet developed a comprehensive and strategic training plan that includes specific goals, strategies, and milestones for developing and implementing core courses. Without such a plan, SBA lacks some accountability for ensuring that the training efforts would continue to be implemented.

---

### Administrator's Actions Have Helped to Improve Employee Perceptions of Leadership

Following the notice of directed reassignments associated with the 2003 centralization of the 7(a) liquidation and purchase guaranty functions, employee morale declined significantly, as indicated in SBA's 2004 employee survey results. Around the same time a new Administrator was appointed in 2006, SBA received the results of its 2006 employee survey, which continued to indicate low morale. The employee survey results in 2004 and 2006 showed a lack of respect for and trust in SBA leadership and a concern about training opportunities. According to SBA officials, the new Administrator made improving employee morale a priority.

As discussed earlier, SBA leadership sought to improve communication and transparency across the agency. The new SBA Administrator's efforts to communicate with employees included soliciting information from employees and visiting field locations to obtain their input on how to improve agency operations and morale. For example, during his first year at SBA, the Administrator attended 32 employee meetings and visited 23 district offices. At these meetings, he would ask managers to leave the room and tell employees that the discussions would remain confidential and individual employees' comments would not be shared outside the meetings. According to employees with whom we met, the new Administrator's positive and open management style generally improved morale within the agency. Many employees told us that they believed they were provided with more information on agency initiatives and the Administrator's priorities. The results of the 2007 survey of employees showed an improvement in positive perceptions of leadership compared with 2004 and 2006 survey responses. For example, as shown in figure 3, there was a 21 percentage point increase between 2007 and previous years' surveys in SBA employees agreeing with the statement, "I have a high level of respect for my organization's senior leadership." Furthermore, SBA's 54 percent positive response for this question was higher than the governmentwide positive response level of 49 percent in 2006. Likewise, in 2007, 52 percent of SBA employees provided a positive response to a question about satisfaction with the information received from management. This response was an increase of nearly 20 percentage points from 2004 and at a level that also was higher than the governmentwide positive response of 47 percent in 2006.

**Figure 3: Percentage of SBA Employees Responding to Employee Survey Questions Related to Leadership and Communication by Management in 2004, 2006, and 2007**

	Negative response	Neutral response	Positive response	
Q25: I have a high level of respect for my organization's senior leaders	43%	23%	33%	2004
	45	22	33	2006
	25	21	54	2007
Q26: In my organization leaders generate high levels of motivation and commitment to the workforce	47	25	27	2004
	49	24	26	2006
	33	23	43	2007
Q33: How satisfied are you with information you receive from your management on what's going on in your organization?	47	21	33	2004
	42	21	37	2006
	26	22	52	2007

Source: SBA data.

Other responses from the 2007 survey showed that employees still had concerns. As noted previously, a large percentage of employees felt that they were not sufficiently involved in decisions that affected their work. Also, 39 percent of SBA employees responded negatively when asked how satisfied they were with their opportunities to get a better job in the organization. While this level of negative response was an improvement from 2006, when 47 percent of SBA employees responded negatively, it was still notably worse than the 31 percent of governmentwide employees in 2006, who provided a negative response to this item on the 2006 OPM survey.

---

Employees Reacted Positively to Recent Training Efforts, but the Lack of a Documented Strategic Training Plan Could Decrease Accountability for Continuity of Efforts

SBA officials told us that the 2006 employee survey results clearly showed that employees wanted more and better training. We have noted in previous work that training and development can play a key role in helping agencies address the challenge of transformation and cultural change and help ensure that their workforces possess the knowledge, skills, and competencies needed to work effectively in a rapidly changing and complex environment.<sup>29</sup>

Prior to the arrival of SBA's new Administrator in July 2006, the range of training available to SBA staff was limited, in part because SBA had not invested in training due to budget constraints. Most training was on the job or offered online. Recognizing that many employees had taken on new roles and responsibilities, the Administrator supported the need to develop a training program. This program—SBA University—started in 2007. The first sessions were for field office employees, with the goal of training them in the new roles and responsibilities incurred as part of transformation. SBA held three sessions of week-long training during late July and August 2007, with more than 1,300 employees from field offices across the country. The agency organized the sessions around seven modules of instructor-led training—(1) lender relations, (2) entrepreneurial development, (3) government contracting and business development, (4) public communications, (5) administration, (6) servicing centers, and (7) government contracting representatives. Within each module, some courses were program-specific, such as 8(a) annual reviews, while other courses were skill-specific, such as customer service. The agency offered another round of training under the SBA University in April 2008 for SBA managers (including managers in district offices and headquarters). Additional training is scheduled in 2008 for managers and headquarters employees. District office employees and management officials with whom we met generally were positive about SBA University.

In addition, the positive reaction to the new emphasis on training was reflected in the 2007 employee survey results. For example, as shown in figure 4, employee response to an item asking about satisfaction with training shows a 13 percentage point increase in positive responses in 2007 compared to the 2006 survey. However, SBA's positive response of 49 percent was lower than the 2006 governmentwide positive response of 54 percent and about a quarter of employees continue to express

---

<sup>29</sup>GAO, *Human Capital: A Guide for Assessing Strategic Training and Development Efforts in the Federal Government*, GAO-04-546G (Washington, D.C.: Mar. 1, 2004) and *Department of Homeland Security: Strategic Management of Training Important for Successful Transformation*, GAO-05-888 (Washington, D.C.: Sept. 23, 2005).



dissatisfaction with their training. Some employees told us that though they believed SBA University was a positive gesture to show that the agency would invest in training, they felt that many of the courses did not adequately prepare them to carry out their job responsibilities. Other employees told us that they were overqualified for some of the courses and would have benefited from more advanced training.

**Figure 4: Percentage of SBA Employees Responding to Employee Survey Questions Related to Training in 2004, 2006, and 2007**

	Negative response	Neutral response	Positive response	
Q38: How satisfied are you with training you receive for your present job?	37%	29%	35%	2004
	37	28	36	2006
	26	25	49	2007
Q14: My training needs are assessed	33	29	36	2004
	31	26	42	2006
	27	22	49	2007

Source: SBA data.

SBA officials acknowledged that SBA University was a first step in developing a training program. They told us that SBA had not developed a training curriculum in recent years because of limited budgetary resources but that the agency was in the process of developing a curriculum focusing on core competencies needed for SBA’s mission-critical positions. As noted in SBA’s 2007 Human Capital Plan, SBA has identified six mission-critical occupations including (1) leadership (such as members of the Senior Executive Service and district directors); (2) lender relations and business development specialists; (3) contracts specialists, procurement analysts, and contracting officers; (4) loan specialists; (5) human resources specialists; and (6) information technology specialists.<sup>30</sup> According to SBA officials, SBA has begun to develop core courses for the leadership and acquisition-related occupations. For example, SBA has developed a plan for leadership succession, including strategies for developing leaders, an implementation schedule, and an evaluation

<sup>30</sup>Small Business Administration *Strategic Human Capital Plan* (September 2007).

---

monitoring plan. They said that they started developing curriculums for these two occupations first partly because courses were available through external training resources. SBA officials stated that they planned to develop core curriculums to address the skills for the other mission-critical occupations. SBA officials told us that they have been working with the Office of Field Operations and subject matter experts in the district offices to identify the core competencies for the mission-critical occupations in the district offices. In addition, they plan to review individual development plans prepared by employees to identify training needs. Officials said that one of the challenges of developing and delivering training is ensuring that competent instructors with the right skills are available to teach courses—especially because vendors with the appropriate subject matter expertise may not be available to deliver the training. They added that while they started with acquisition-related and leadership curriculums, the next core courses probably would be for business development specialists.

SBA also has created an Executive Development Council that provides direction, oversight and support for the development of leaders within SBA and development of employees at all levels of the organization. According to the council's February 2008 charter, it will create a vision of development for SBA and design a developmental strategy that supports SBA's mission and strategic goals.

Though SBA has taken several positive steps related to training and development, SBA has not yet documented a comprehensive and strategic approach to training in a training plan. SBA's Human Capital Plan describes the agency's training and development initiatives—specifically, it describes the SBA University initiative as designed to advance and integrate employee learning with other critical business functions—but it does not provide any details on how and when training would be delivered. And while SBA's Fiscal Year 2009 Performance Plan notes that the agency will design and institutionalize its long-term plan for the SBA University, this effort is still under way. Our previous work has shown that adequate planning allows agencies to establish priorities and determine the best ways to leverage investments to improve performance.<sup>31</sup> For instance, a documented training plan would link the core competencies and mission-critical positions with specific goals, strategies, and milestones for developing and implementing core courses. A training plan can also present a business case for proposed training and development

---

<sup>31</sup> [GAO-04-546G](#).

---

investments, including linkages with the agency's strategic objectives, anticipated benefits, and projected costs. Without a plan for the rest of SBA's core curriculum, SBA lacks some accountability for ensuring that the training efforts would continue to be implemented. In addition, without a plan, employees may not be able to anticipate future training opportunities and consequently judge agency efforts negatively.

---

## Focus of District Offices Is on Marketing and Outreach as Their Role Continues to Evolve, and Challenges Include Decreased Staffing

Since 2003, the roles and responsibilities of SBA district offices have shifted from processing loans and performing other loan-related functions to marketing SBA programs and services; conducting outreach to lenders, small businesses, and other organizations; and ensuring compliance with federal laws and regulations. The roles and responsibilities of the district offices have continued to evolve as SBA further refines what they should be. For example, select district office employees have begun assisting the loan centers with their loan and customer service functions, such as helping lenders prepare guaranty purchase requests. District offices also now have a formal role in providing disaster assistance. SBA defines district office roles and responsibilities through the annual compliance goals and requirements on the district office scorecards, but district offices can determine what actions they need to take to meet their goals, particularly in marketing and outreach. However, the district office employees still are adapting to their new roles, particularly those who used to process loans. Employees we interviewed said some aspects of their work had changed following the centralization of loan functions. For example, employees found that their work had become less structured and that it resulted in fewer tangible accomplishments. Due to decreased staffing levels, they also find themselves taking on multiple responsibilities, which affected their ability to conduct some activities.

---

## Focus of District Office Has Shifted to Marketing and Outreach, but Recent Refinements to Role Include Assisting Loan Centers, and Employees Continue to Adjust to Evolving Roles

Since our 2003 report, the roles and responsibilities of SBA district offices have shifted from performing loan functions to conducting marketing and outreach for SBA programs and services and ensuring compliance with laws and regulations; these roles and responsibilities continue to evolve. Specifically, the loan processing, liquidation, and guaranty purchase functions that district offices used to perform were transferred to centralized facilities, leaving district offices to focus on

- promoting SBA programs and services through conducting marketing and outreach,
- training lenders,

- 
- providing support to and coordinating with SBA resource partners,
  - identifying contracting opportunities for small businesses and developing them, and
  - conducting annual eligibility reviews under the 8(a) business development program and other compliance functions.<sup>32</sup>

While a key component of centralization has been the removal of loan functions from the district offices, recent agency actions indicate that SBA continues to further amend the role of district offices vis-à-vis the loan centers. More specifically, SBA has created discrete roles for district offices to assist the loan centers in working with lenders. For example, as part of an SBA initiative to address problems arising from its centralization efforts at the NGPC, in February 2008, designated district office employees received training on the guaranty purchase process so that they could help lenders prepare complete and high-quality packages. (We discuss the changes related to centralized loan processing in more detail later in this report.)<sup>33</sup>

SBA also has established a joint marketing and customer service initiative between the Office of Capital Access and the district offices to develop a targeted and focused approach to marketing and outreach to the top lenders nationwide and in each district. According to SBA, the purpose of this initiative is to engage the top lenders, ensure that their purchase request packages and other loan paperwork are being processed in a timely manner and that SBA is responsive to their concerns, and identify opportunities to increase SBA lending activities. According to SBA, the guaranty purchase training and joint marketing and customer service initiatives are not new roles but are in line with the district office's current roles and responsibilities. These initiatives have provided district offices with regular and concrete interactions with lenders, which the district office employees we interviewed said they had lost as a result of centralization.

---

<sup>32</sup>SBA conducts annual reviews to determine the continued eligibility of participants in the 8(a) program.

<sup>33</sup>Lenders make a purchase request when they want SBA to pay the guaranteed portion of a loan that has defaulted. As part of the request, lenders must submit the necessary documentation to SBA, such as the date of default and the lender's account of the situation.

---

District offices also now have a more formalized support role in providing disaster assistance than they did previously.<sup>34</sup> Under SBA's 2007 Disaster Recovery Plan, district offices will provide "surge capacity" for large disasters (on scales approaching or exceeding the 2005 Gulf Coast hurricanes, which was the highest level of catastrophic disaster activity that SBA has faced to date) by helping process loan applications.<sup>35</sup> According to the plan, district offices also would be responsible for conducting local media outreach and coordinating local resources. All of the district offices we visited had employees who received disaster assistance training. Some of the employees in these offices found this training informative. However, some employees expressed concern about the availability of future training and refresher courses because it might be several years before the next large-scale disaster occurred. Prior to the creation of the plan, district office employees volunteered to help process disaster loans on an ad hoc basis, and some employees we interviewed indicated that they had volunteered to work on the backlog of applications from victims of the Gulf Coast hurricanes Katrina, Rita and Wilma. However, we previously found that during the Gulf Coast hurricanes, SBA did not have a centralized and coordinated strategy for drawing upon district office staff resources, which contributed to the large backlog of disaster loan applications the agency experienced.<sup>36</sup>

As the overall function of the district offices has changed, the roles of individual employees also have changed and some employees continue to face challenges adjusting to their revised responsibilities. In the shift from loan-related functions to marketing and outreach, SBA removed the loan officer and loan servicing specialist positions from the district offices. The agency reclassified these employees primarily into one of two positions:

---

<sup>34</sup>In addition to providing assistance to small businesses, SBA, through its Office of Disaster Assistance's Disaster Loan Program, provides low-interest, long-term loans to homeowners, renters, and businesses of all sizes to assist them with disaster recovery.

<sup>35</sup>Under SBA's 2007 Disaster Recovery Plan, a large-scale disaster that would require district offices to provide "surge capacity" is one in which SBA anticipates the volume of loan applications to be at least 250,000 based on forecasts. Thus, SBA would initiate surge capacity well below the volume of applications SBA received in response to the Gulf Coast hurricanes—420,000 applications.

<sup>36</sup>GAO, *Small Business Administration: Additional Steps Needed to Enhance Agency Preparedness for Future Disasters*, [GAO-07-114](#) (Washington, D.C.: Feb. 14, 2007).

---

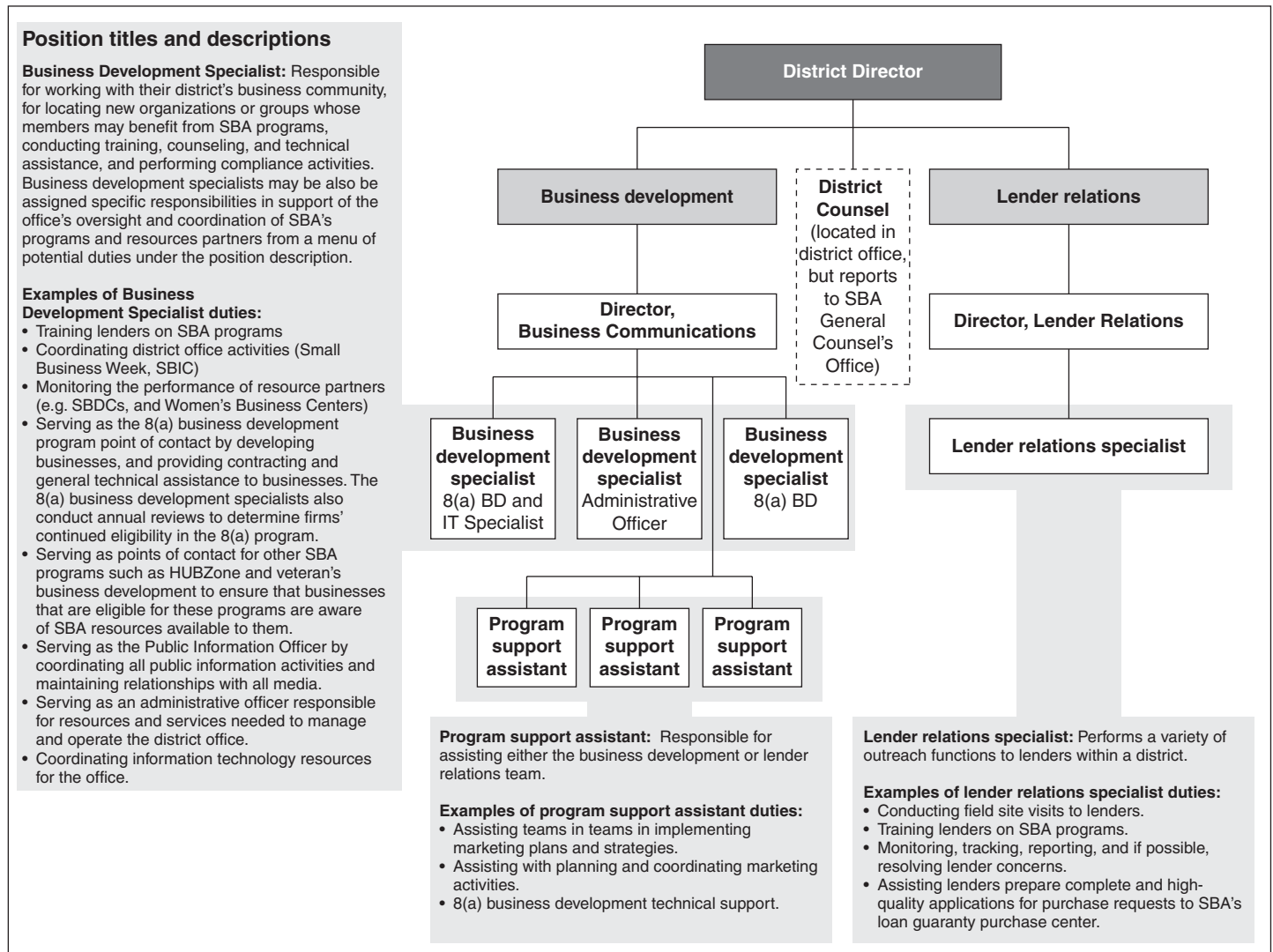
lender relations specialist or business development specialist (see fig. 5).<sup>37</sup> Lender relations specialists are responsible for conducting outreach to lenders through visits and training on SBA's programs. Business development specialists are responsible for marketing SBA's programs; conducting outreach to businesses and other economic development and community organizations, such as local chambers of commerce; conducting training, counseling, and technical assistance; and performing compliance activities. As part of their primary responsibilities, business development specialists also might have specific collateral duties in support of the office's oversight, such as conducting annual reviews of 8(a) firms, and coordination of SBA's programs and resource partners. The position descriptions contain a checklist of these duties, such as lead contact positions for SBA's resource partners. For example, in one office we visited, one business development specialist also served as the 8(a) business development and point of contact for the Historically Underutilized Business Zone (HUBZone) program.<sup>38</sup> Another business development specialist was the point of contact for the WBC and was also responsible for lender training. In some of the district offices we visited, employees who had been public information or information technology officers prior to transformation had been reclassified as business development specialists, even though they still retained these previous functions.

---

<sup>37</sup>Below the deputy director level, in addition to business development and lender relations specialists, district offices might also have administrative officers, who manage the day-to-day office functions, and program support assistants, who assist the specialists in their work. Some district offices also have attorneys, but these individuals do not report to the district director.

<sup>38</sup>SBA's HUBZone program is designed to stimulate economic development and create jobs in economically distressed urban and rural areas. We recently reported on this program. See GAO, *Small Business Administration: Additional Work Needed to Certify and Monitor HUBZone Businesses and Assess Program Results*, [GAO-08-643](#) (Washington, D.C.: June 17, 2008).

**Figure 5: Sample District Office Organizational Chart and Position Descriptions**



Source: GAO analysis of SBA data.

The employees in the district offices we visited, particularly those who used to process loans, indicated that the nature of their work changed substantially as a result of transformation and that they were still adapting to these changes. Some of the employees said that they had performed marketing and outreach to some degree prior to centralization but that these functions were now their primary focus. Employees we interviewed indicated that since the loan functions had been centralized, their work had become less structured, provided fewer tangible accomplishments,

---

and provided less regular interaction with lenders. Their new responsibilities also required them to travel more than they had previously. These changes have challenged some employees more than others, particularly those employees who used to process loans. However, SBA officials in the Office of Field Operations indicated that the new roles were meant to encompass more than one function and some district office employees concurred that they were now expected to be generalists rather than specialists. Moreover, SBA's recent initiatives to refine the district office roles might provide district office staff with more tangible accomplishments and interaction with lenders. However, the business development specialists who conduct the 8(a) annual reviews said that their roles had not changed as a result of transformation, but that for some, the number of firms for which they were responsible had increased.<sup>39</sup> Moreover, because of the emphasis on compliance requirements in the PMF, the significant amounts of time they spent meeting goals for annual reviews left them little time to work with clients to develop their businesses. However, SBA indicated that it has an initiative under way to automate the annual review process to help free up time for business development.

---

**SBA District Offices Have Flexibility on How to Meet Annual Performance Goals, but Some Face Challenges Due to Decreased Staffing Levels**

SBA defines district office roles and responsibilities, including those for marketing and outreach, through the goal scorecards for district offices and other mechanisms. However, SBA still gives the district offices flexibility to determine how they would meet their goals. District office scorecards outline key annual compliance requirements and loan volume goals (see fig. 6), but as we noted earlier, meeting compliance requirements (such as completing 8(a) annual reviews) that are required by statute is a priority in SBA's PMF. However, the district directors in the district offices we visited generally indicated that SBA gives them the flexibility to determine the actions they need to take to achieve their scorecard goals and tailor activities to their local markets. For example, district directors indicated that they can determine the number and types of events their employees should attend to market SBA's programs. SBA also provides a range of marketing materials, including program literature, templates for marketing materials, and talking points for new loan programs on its intranet site that district offices can customize with local

---

<sup>39</sup>We have an ongoing audit engagement on issues related to the ability of federal agencies to meet their small business goals, SBA's administration of the 8(a) business development program, and the certification of small disadvantaged businesses that will also address some of the issues related to the 8(a) business development program that are described in this report.



information. Some district office employees we interviewed found the agency’s marketing materials to be helpful in providing professional and consistent information to lenders on SBA programs, while still giving them the flexibility to tailor the information to their local market conditions.

**Figure 6: Example of Standard Compliance Requirements and Goals on District Office Scorecards**

Status designations applied to each measure	Scorecard measures	Description
<div style="display: flex; flex-direction: column; gap: 10px;"> <div style="border: 1px solid black; padding: 5px; display: flex; align-items: center;"> <span style="font-size: 24px; margin-right: 10px;">+</span> <span>At or ahead</span> </div> <div style="border: 1px solid black; padding: 5px; display: flex; align-items: center;"> <span style="font-size: 24px; margin-right: 10px;">○</span> <span>Up to 10% behind</span> </div> <div style="border: 1px solid black; padding: 5px; display: flex; align-items: center;"> <span style="font-size: 24px; margin-right: 10px;">-</span> <span>More than 10% behind</span> </div> </div>	<b>Compliance requirements</b>	
	8(a) reviews	Annual reviews to determine continued eligibility for 8(a) program
	HUBZone examinations	Examinations to determine continued eligibility as a HUBZone-certified business and the accuracy of information submitted on eligibility
	Quality service reviews	Peer-to-peer assessments of district office performance, in which teams of district office staff review the key operational, financial, and customer service functions of other district offices
	Women’s Business Center examinations	Semiannual programmatic and financial examinations to ensure that Women’s Business Centers are in compliance with program requirements
	<b>District office goals</b>	
	Total number of loans	Total number of 504 and 7(a) loans approved
	Total dollar amount of loans	Total dollar amount of 504 and 7(a) loans approved
	Number of Veteran Loans	Total number of Veteran 504 and 7(a) loans approved
	Number of Underserved Market Loans	Total number of 504 and 7(a) loans approved in federally designated target areas: Low median income; HUBZone; and Empowerment Zone/Economic Community/Renewal Community
	District office/network training and assistance	Number of clients served (counseling or training) either directly by the district office or in cooperation/cosponsorship with a resource partner other than SCORE, SBDC, and WBC
	Success stories	Success stories that recognize SBA’s contribution to small businesses

Source: GAO analysis of SBA data.

SBA further defined the roles and responsibilities of district office employees through the development of position descriptions and personal business commitment plans. The position descriptions outline current responsibilities as well as collateral duties for district office employees.

While the district offices we visited have flexibility over how they carry out their responsibilities, some offices told us that they faced challenges in meeting their goals due to decreased staffing levels. Most of the offices we visited indicated that their staffing levels had decreased substantially after the transformation began due to factors such as reassignments, attrition,

---

buyouts, and retirements and that these decreased staffing levels, at times, strained their ability to carry out their mission. According to SBA data on staff, by 2009, 34 percent of staff will be eligible to retire in fiscal year 2009, and according to an SBA official, half of those are in the district offices. However, the views on whether office staffing levels were adequate enough to meet district office goals and other responsibilities were mixed. Some district directors believed that they had enough staff resources to carry out their responsibilities, while others believed they could use additional employees. SBA uses a field staffing model that is based on factors such as market size and the number of 8(a) firms in a district to staff district offices. District directors in several offices appreciated the greater transparency the current model provided over the old one, in which a board met in closed sessions to make staffing decisions. However, some district directors believed that the model was not fully in tune with their resource needs. For example, several district directors said that while they had some flexibility in assigning specific responsibilities to staff to meet local market needs, they could not control the actual staffing process or ensure that positions were staffed effectively. In several locations, employees we interviewed noted that the agency did not have a succession plan for the district offices. As a result of operating with fewer staff, individual employees at district offices indicated that their workloads had increased and that they often found themselves taking on multiple responsibilities for which they did not always receive training because there were not enough individuals available to do any one function. In addition, fewer individuals were available to travel to fulfill the office's marketing and outreach responsibilities in some of the geographically larger districts or single-district states.

---

## **SBA Had Begun Assessing Centralization Efforts but It Has Not Yet Developed Measures to Assess the Quality of Guaranty Purchase Decisions**

Since our 2003 report, SBA has completed the centralization of its loan functions. Based on district office and lender input, the transparency and communication surrounding SBA's centralization activities had improved. This was evident in the most recent centralization of 7(a) loan guaranty processing for standard 7(a) loans and ongoing reforms at the National Guaranty Purchase Center (NGPC), the first centralization that took place under the transformation. SBA is now focused on re-engineering the NGPC to streamline and standardize processes and procedures. It also established a campaign to improve SBA's image among lenders by decreasing turnaround times on purchase requests and improving overall customer service. SBA has established process-oriented measures to improve the timeliness of purchase reviews, as well as measures to assess the completeness of files that the centers receive from lenders. SBA has been developing a new quality assurance review process to assess the

---

quality of its purchase decisions and ensure that it is following its own policies and procedures. However, the SBA OIG has found in past audits that inadequate purchase reviews by SBA employees have resulted in improper payments and continues to express concern about the quality of SBA purchase reviews. Moreover, though SBA has measures in place to track the timeliness of its purchase decisions, it has not yet developed performance measures to track quality assurance that would help to ensure that the focus on process efficiency does not come at the expense of the quality of the purchase reviews.

---

### SBA Changed Its Approach to Centralization, Resulting in Better Communication with Employees

SBA's centralization efforts under transformation began with the centralization of the 7(a) loan guaranty purchase and liquidation functions at the NGPC in Herndon, Virginia, in 2003 to 2004. SBA's centralization of 7(a) loan processing for standard 7(a) loan guaranty applications starting in September 2006 in Citrus Heights, California, completed SBA's centralization of its loan functions. The circumstances at the time of the NGPC and 7(a) loan guaranty processing centralizations, including budgetary pressures and leadership, were dissimilar in some respects. However, based on our meetings with SBA and review of documentation, it appears that SBA's standard 7(a) loan guaranty processing centralization was better planned and implemented than the NGPC centralization. First, there was greater transparency and communication about the 7(a) loan guaranty processing centralization across the agency. SBA sent all employees a notice of this centralization, as well as an implementation schedule. In contrast, district office staff in some offices we visited indicated that there had been limited communication regarding the implementation of the NGPC centralization. Second, the 7(a) loan guaranty processing centralization took place in phases—with the transfer of loan files from district offices to the center occurring between December 2006 and March 2007—unlike the NGPC centralization, in which all district offices sent their files to NGPC at once. Third, SBA appears to have based staffing levels for the 7(a) loan guaranty processing center on workload analyses and did not use directed reassignments to staff the center, as it did with the NGPC, which helped mitigate negative employee morale issues. Both lenders and district office employees have indicated that they have had positive experiences with the Standard 7(a) Loan Guaranty Processing Center.

While the initial implementation of the NGPC lacked transparency, communication regarding the activities at the NGPC—including the ongoing re-engineering reforms (to be discussed later in this section)—has improved since the center was first formed. The Office of Financial Assistance, which manages SBA's loan programs, holds monthly

---

conference calls with employees across the agency to discuss the NGPC re-engineering efforts, participates in Office of Field Operations conference calls, briefs field managers at agencywide management conferences, and reports weekly to the Administrator on the center's progress. The NGPC also has a Campaign Advisory Board that includes district office and regional representatives to provide input and feedback on the re-engineering efforts. For example, according to SBA, the field representatives on the Campaign Advisory Board suggested the customer support role, in which employees of district offices now help lenders prepare their guaranty purchase applications. While some district office employees and lenders continue to experience communication issues with NGPC in terms of responsiveness, they indicated that overall communication with NGPC has improved.

---

**SBA Has Started to Assess Its Centralization Initiatives and Re-engineer Center Operations but Has Not Yet Developed Measures to Track the Quality of Its Purchase Reviews**

Since SBA completed its centralization efforts, the agency has shifted its focus to re-engineering the operations of its centers, beginning with the NGPC. Through its re-engineering efforts—which have been designed to enhance workflow, redesign processes, and streamline procedures—SBA has taken actions to improve many of the problems that occurred as a result of the implementation of the NGPC centralization in 2004, such as the backlogs of files and inadequate staffing levels for loan specialist positions, which delayed the NGPC decisions on lender's requests for guaranty purchases on defaulted loans. One key aspect of the re-engineering effort is the Brand Promise Restored (BPR) Campaign, which seeks to restore SBA's reputation with lenders who have been frustrated by these delays and a lack of responsiveness on the part of NGPC staff to their concerns. The BPR's key objectives, based on the recommendations of an outside consulting firm and input from various stakeholders within SBA, including district offices, are to reduce the center's backlog of more than 4,000 loans; improve purchase review and decision turnaround times; and reduce lender errors in submitting applications (thereby improving the completeness of loan packages so that files are not sent back to lenders due to errors); and improve customer service.

Furthermore, SBA has established performance measures to assess the progress of its re-engineering effort at the NGPC. In a weekly report to the Administrator and senior management officials, the NGPC provides information on measures such as reductions in backlogs, production targets for new purchase requests, and turnaround times. The NGPC also tracks measures related to district office assistance to lenders in preparing purchase requests and improving the completeness of files that the center receives, including the rate at which purchase applications can be reviewed without having to be sent back to lenders for revisions. SBA said

---

that its other loan centers have similar performance measures, but the performance measures may differ in certain respects due to differing functions. For example, the Standard 7(a) Loan Guaranty Processing Center has a separate set of measures that are similar, including cycle times for completing processing functions and monthly production outputs, but that have different targets, such as a processing turnaround goal of 6 days rather than 45 days for the NGPC. Finally, because reforming NGPC was such a key priority within SBA, the center established weekly milestones that included steps such as pilot testing the new guaranty purchase manual, which were reported to the Administrator.

The SBA OIG indicated that the NGPC has improved the efficiency of its guaranty purchase process as a result of its re-engineering and BPR effort. In its 2007 audit of the guaranty purchase process, the OIG made six recommendations, including that the center develop a plan to improve the quality of the purchase reviews and ensure adequate supervisory review and require loan officers to document their purchase decisions. According to the OIG, SBA has closed all but one recommendation, which relates to the recovery of certain improper purchase payments. Moreover, SBA indicated that it had increased the staffing levels for the NGPC from about 40 to about 100 (including contractors) based on a staffing model the agency developed to address the OIG's recommendation that the agency fully staff the NGPC at the appropriate level. Finally, SBA indicated that it has cleared the backlog of pre-purchase reviews and most of its backlog of secondary market purchases since the BPR campaign began.

While SBA has established process-oriented measures, it is still developing its quality assurance process and has not established measures management routinely track to assess the effectiveness of its guaranty purchase process and resulting decisions. The measures the center does use relate to the front-end completeness of files lenders submit to the NGPC, rather than the quality of purchase decisions. SBA officials told us they have a quality assurance initiative under way that should address some of the deficiencies in their quality assurance process but that this effort is still in its initial stages. The NGPC currently controls for quality by using the "rule of 3," in which the recommendation for each purchase decision made by a loan specialist is reviewed by an "approver" and legal counsel before it is finalized. To encourage quality purchase reviews, SBA officials said its performance review process for loan specialists includes standards that measure how well loan specialists conduct reviews, with respect to accuracy, for example, by tracking how often their recommendations have to be substantially revised. The center also uses a "triage process" to ensure that the most complex cases are handled by the most experienced loan specialists. According to SBA, the goal of its quality

---

assurance review initiative is to create a system that routinely examines all parts of the loan process to identify where in the loan process most errors occur. SBA officials also said they hope to remove the variability out of the purchase process, though there will always be some level of employee judgment involved. SBA officials said that its efforts under the Improper Payments Information Act of 2002 established a baseline on its error rate for improper payments for 7(a) guaranty purchases and that this information is used to measure and improve the quality of guaranty purchase reviews.<sup>40</sup>

While the OIG has noted improvements in the NGPC's operations, it also has expressed to us ongoing concerns about the quality of purchase decisions at the NGPC, particularly with respect to the incidence of improper purchase payments. SBA's review of lender requests for guaranty purchases on defaulted loans is an important tool for assessing lender compliance on individual loans and protecting SBA from making erroneous purchase payments. According to the OIG's 2008 management challenges report, past OIG audits of early defaulted loans and SBA's guaranty purchase process have shown that SBA has not consistently been able to detect lenders' failures to administer SBA loans in compliance with SBA requirements and prudent lending practices, resulting in improper payments.<sup>41</sup> For example, in a May 2007 audit of the guaranty purchase process, the OIG estimated that the rate of improper payments for all 7(a) loans that received a purchase review at the NGPC from October 1, 2004, through May 31, 2005, could be 17 percent (approximately \$36 million).<sup>42</sup> This estimated rate is substantially higher than the 1.56 percent that SBA reported for the 7(a) program in fiscal year 2006. SBA disagreed with the OIG's estimate because it covered a different time period and because it did not believe that the sample used by the OIG was representative of SBA's entire 7(a) loan portfolio. In general, both estimates are difficult to compare because they covered different time periods and employed

---

<sup>40</sup>Improper payments are payments that should not have been made or that have been made in an incorrect manner and include payments to ineligible recipients or for ineligible services, duplicate payments, payments for services not received, and payments that do not account for credit for applicable discounts. Improper Payments Information Act of 2002, Pub. L. No. 107-300, § 2, 116 Stat. 2350 (2002).

<sup>41</sup> Small Business Administration, Office of Inspector General, *Fiscal Year 2008 Report on the Most Serious Management Challenges Facing the Small Business Administration* (Washington, D.C., Oct. 16, 2007)

<sup>42</sup>Small Business Administration, Office of Inspector General, *Audit for the Guaranty Purchase Process for Section 7(a) Loans at the National Guaranty Purchase Center*, Report Number: 7-23 (Washington, D.C., May 8, 2007).

---

different sampling methods. Additionally, neither estimate incorporates reviews of purchase decisions completed under the recently re-engineered guaranty purchase process. The OIG has an ongoing audit of SBA's compliance with the Improper Payment Information Act that it expects to complete in February 2009 and continues to express concern that SBA may underreport its improper payment rate. In 2006, the OIG surveyed the NGPC's existing quality assurance review process, which was designed to provide SBA with valid reviews, independent of the purchase approval process, to ensure the proper interpretation and consistent implementation of policies and procedures and consistent and accurate guaranty purchase decisions, thereby minimizing losses from improper payments.<sup>43</sup> The OIG found that under SBA's quality assurance review process at the time, SBA reviewed a number of loan purchase decisions, that may have been sufficient to assess compliance with the Improper Payments Information Act of 2002 but did not adequately cover the high-risk loan categories identified in their former quality assurance review plan. As a result, the OIG found that the NGPC was unable to ensure with any degree of reliability that guaranty purchase decisions made by the NGPC staff were complete, consistent, and accurate. We also previously found that this type of management challenge could increase the risk of improper payments.<sup>44</sup> The NGPC does not have this quality assurance review process at this time because of SBA's ongoing effort to replace and improve its quality assurance review process for all of its centers.

SBA has efforts under way to improve its quality assurance review process but without measures focused on the quality of its purchase review process that management tracks regularly, SBA will not be able to assess whether its re-engineered process is also successful in producing appropriate purchase decisions that are in compliance with laws and regulations. According to the Government Performance and Results Act of 1993, agencies should develop a range of performance indicators, such as quantity, quality, timeliness, cost, and outcome, to help managers balance their priorities among several agency goals. Moreover, the creation and review of performance indicators help strengthen an agency's internal control standards, which help to ensure both the effectiveness and efficiency of an agency's operations.<sup>45</sup> Reliance on any single type of

---

<sup>43</sup>Small Business Administration Office of Inspector General, *Advisory Memorandum No. 6-26*, (Washington, D.C., July 12, 2006)

<sup>44</sup>GAO, *Improper Payments: Status of Agencies' Efforts to Address Improper Payment and Recovery Auditing Requirements*, [GAO-08-438T](#) (Washington, D.C.: Jan. 31, 2008).

<sup>45</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1, 1999).

---

measure could create a perverse incentive for managers to achieve one subgoal at the expense of the others. For example, without a measure that reflects the quality assurance, managers and employees at the NGPC could focus more on the turnaround time measures, and consequently, the quality of the purchase reviews could suffer leading to improper payments.

---

## Conclusions

SBA's earlier efforts to restructure or transform agency operations have had some associated adverse effects on SBA employee morale and operations. However, in the past 2 years SBA has made progress in addressing these negative effects—by applying key practices that support successful transformations to improve agency operations and taking actions to address the recommendations we made in our 2003 report. The Administrator appointed in 2006 emphasized the importance of transparency in his reform agenda, made a concerted effort to improve communications across the agency, and engaged employees in improving the agency. Our meetings with employees affirmed that these efforts had a positive effect on many employees. We also found that though SBA had also taken some actions to obtain feedback and ideas from employees, many employees we interviewed, including union officials, continued to feel that SBA's management did not sufficiently consider their ideas and concerns. SBA recently conducted focus groups to better understand employee concerns, specifically explored the concerns about employee involvement, and plans to implement pilot initiatives to address them. Such actions are important because a feeling of lack of involvement can affect employee productivity and job satisfaction and could hinder SBA's ability to meet goals and improve its operations. We also note that many employees were concerned about the continuation of key efforts undertaken under Administrator Preston. Senior SBA career officials stated that continuing positive efforts was important to the agency and have taken steps to identify such efforts and institutionalize them. Such long-term commitments by senior leaders are important for ensuring that transformation and agency reforms are successful.

SBA's 2007 employee survey results suggest that recent actions, such as improving communication and training, have had a positive impact on employees, but also point to continuing concerns about these issues. SBA has recognized the need to provide better training—another area of continued concern for employees—to support employees whose roles and responsibilities changed as a result of transformation. Specifically, the creation of SBA University in 2007 was an important action not only in terms of providing training and demonstrating that the agency was willing to commit resources to invest in the development of employees. SBA officials also have been developing a training program that includes core



---

curriculums for different staff positions. However, SBA has not developed a strategic training plan that lays out goals, strategies, and milestones. In an environment of constrained budgets and reduced staff resources, training is a key means to maximize or leverage the talents and skills of employees. A strategic plan would help to establish priorities and determine the best ways to leverage training investments to improve performance. In addition, a plan that is shared with employees could assure them that SBA continues to be committed to developing its employees.

The most dramatic effects of transformation occurred in SBA's district offices. In some ways, transformation still is occurring in the district offices as their roles and responsibilities continue to evolve. For instance, SBA recently determined that district offices still could have a role in the guaranty purchase review process, despite the centralization of this function. But the recent changes have introduced other concerns. In particular, district office employees continue to experience some frustration as they adjust to their new responsibilities and work toward achieving their goals with fewer resources. As SBA continues to adjust priorities and operations to achieve its goals, employing key practices relating to communications and employee involvement will position the agency in good stead in this area, as well.

The centralization of the remaining loan functions previously performed by district offices was another key aspect of SBA's transformation and those initiatives have been completed. But the functioning of the centers—particularly the NGPC—represents a work in progress. SBA recently has re-engineered the guaranty purchase process and center operations and developed measures to track progress. The emphasis has been on improving the efficiency of the guaranty process because of the need to reduce significant backlogs and the desire to provide good customer service to lenders. SBA said that it has been developing a new quality assurance review process and that its performance reviews of loan specialists also rates them on the accuracy of their reviews, but it has not yet developed any performance measures that management uses regularly to track the quality of its purchase reviews. However, performance measures focused on timeliness and volume, without a similar focus on quality in the purchase review process, could provide the wrong incentives for managers and employees and ultimately could result in improper payments and increased costs to the program. The OIG also has noted concerns about SBA's purchase reviews and believes that SBA's improper payment rate for its purchased guaranties may be much higher than what SBA currently reports. By focusing on the quality of purchase reviews and developing measures that track the quality of purchase decisions, SBA

---

could help better ensure that the process produces decisions that are well supported, defensible, and balance the needs of lenders with the need to enforce requirements that protect the integrity of the loan guaranty process and prevent improper payments.

---

## Recommendations for Executive Action

We are making two recommendations to the Administrator of SBA:

- To support SBA's development of a core curriculum for SBA University and communicate SBA's training development efforts to employees, SBA should develop a strategic training plan with specific goals, strategies, and milestones.
- To ensure that its streamlined purchase guaranty process also provides an incentive to focus on quality and thereby results in good purchase decisions, SBA should develop performance measures that will provide information on the quality of its guaranty purchase reviews.

---

## Agency Comments and Our Evaluation

We provided a draft of this report to SBA for review and comment. In written comments (see app. II), SBA generally agreed with the report and recommendations. SBA stated that the report recognized the agency's efforts and initiatives leading to improvements in agency operations and employee morale and that it is committed to continuing to build upon the success achieved. In addition to agreeing to our recommendation to develop measures that focus on the quality of purchase reviews, SBA stated that the NGPC will continue to build on the quality processes in place and is developing new quality assurance review plans for NGPC and other processing centers that will be implemented during fiscal year 2009. Specifically, SBA provided additional information on how it measures quality in its processes for reviewing, recommending, and approving guaranty purchases. For example, NGPC tracks the number of work items of its loan specialists returned for substantial revision and randomly samples processed guaranty purchase disbursements to test them for accuracy. SBA stated that this information helps to identify areas where training is needed and ultimately contributes to improving the quality of its reviews. Though these actions were not reflected in the NGPC weekly management reports provided to us and therefore it is unclear to what extent these measures are regularly tracked by SBA management, we agree that these actions help SBA improve the quality of its purchase reviews. Additionally, SBA stated it will continue to ensure employees have access to the training and tools provided through the development of SBA University and has begun developing a draft plan for future training.

---

SBA also provided technical comments that we incorporated as appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the Ranking Member, Senate Committee on Small Business and Entrepreneurship; the Chair and Ranking Member, House Small Business Committee; other interested congressional committees; and the Administrator of SBA. We will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

Sincerely yours,



William B. Shear  
Director, Financial Markets  
and Community Investment

---

# Appendix I: Objectives, Scope, and Methodology

---

Our objectives were to review the status of the Small Business Administration's (SBA) transformation efforts and related initiatives since our 2003 report.<sup>1</sup> Specifically, we focused on (1) SBA's progress in transforming agency operations and addressing GAO's recommendations on key practices for successful transformation, (2) how SBA has addressed the impacts of transformation on its employees, (3) how SBA has defined the roles and responsibilities of its district offices, and (4) SBA's efforts to assess its initiatives for centralization of its loan functions and how its approach for implementing centralization has changed since transformation began.

To respond to these objectives overall, we reviewed agency planning and implementation documents related to SBA's transformation and interviewed key officials at SBA headquarters in Washington, D.C., to obtain information about their roles and experiences with SBA transformation initiatives. SBA officials we met with included the SBA Acting Administrator (formerly Deputy Administrator), Chief of Staff, and senior officials representing the Office of Human Capital Management, the Office of Field Operations, the Office of Capital Access, and the Performance Management Office.<sup>2</sup> In conducting our work, we focused on the transformation process itself and its impacts, rather than on making assessments of SBA's administration of its various programs. To obtain documentary and testimonial information about district office involvement and experiences with various SBA transformation initiatives, we interviewed district directors and groups of employees from 10 of SBA's 68 district offices. To provide national coverage, one district office was selected from each of SBA's 10 geographical regions.<sup>3</sup> These district offices were located in California, Georgia, Indiana, Iowa, Montana, New Jersey, Oregon, Texas, Vermont, and Virginia. In addition, we conducted site visits to the National Guaranty Purchase Center in Herndon, Virginia, and the

---

<sup>1</sup>GAO, *Small Business Administration: Progress Made, but Transformation Could Benefit from Practices Emphasizing Transparency and Communication*, [GAO-04-76](#) (Washington, D.C.: Oct. 31, 2003).

<sup>2</sup>In particular, the Office of Field Operations, the Performance Management Office (which oversees the field staffing model) and the Office of Human Capital Management (which oversees all employee-related issues) all have key responsibilities that affect the district offices.

<sup>3</sup>For 8 of the 10 SBA regions, we randomly selected one district office from each region. For two of the regions, we purposefully selected an office based on its proximity to the two GAO offices where staff assigned to this review were located. We conducted site visits to these two offices first for the purposes of developing and field testing our interview questions and site visit procedures.

Standard 7(a) Loan Processing Center in Citrus Heights, California, to observe and collect information and experiences about SBA's centralization initiatives. We visited the National Guaranty Purchase Center because it was the first centralization effort completed under transformation and the Standard 7(a) Loan Processing Center because it was SBA's most recent (and last) centralization completed under transformation to be able to compare and contrast SBA's approaches to the two efforts. During both our district office and loan center site visits we held two meetings—one with the offices' directors followed by a group interview with office employees. All office employees were eligible to participate in the meetings. We requested that the employee meeting be open to all staff based on availability and also that the office director could recommend staff for participation. We further requested that the group interview with employees be conducted without the presence of management.<sup>4</sup> We also met with officials from SBA's Office of Inspector General (OIG) to discuss any audit results or major challenges related to the agency's transformation initiatives. Finally, we discussed the effect of transformation on lenders and staff with, respectively, representatives of a lenders' organization and SBA union officials. Questions prepared for the interviews, as well as the information obtained from them, were used to address issues related to each of our reporting objectives.

To determine SBA's progress on its transformation initiatives since 2002, its actions to implement key practices that are important to successful organizational transformation, and how the agency's emphasis evolved over time, we reviewed and analyzed past GAO reports, SBA's responses to GAO report recommendations, agency documents, and SBA OIG reports.<sup>5</sup> In particular, we looked at differences and similarities between the new Administrator's reform agenda and the prior Administrator's transformation initiatives. In addition to examining district offices' involvement and implementation of transformation activities, we reviewed the approaches SBA took on its transformation, management's leadership of transformation efforts, positive and negative consequences of transformation, internal coordination, communication, performance management, and training. We reviewed documentation such as SBA rosters identifying the transformation leadership and implementation team

---

<sup>4</sup>SBA attorneys located at district offices technically are considered staff of the Office of General Counsel, rather than district office staff. However, they also participated in several meetings with SBA district office and center staff.

<sup>5</sup>For more information on key practices, see GAO, *Results Oriented Cultures: Implementation Steps to Assist Mergers and Organizational Transformations*, [GAO-03-669](#) (Washington, D.C.: July 2, 2003).

members and their specific responsibilities; relevant SBA transformation policy and procedures; examples of communication modes used (type and frequency); and employee surveys. In particular, we reviewed agency documents and interviewed SBA management officials and employees to determine whether SBA has implemented the recommendations made in GAO's October 2003 transformation report noted above, which was based on best practices for mergers and transformation identified by GAO. In addition, we obtained and analyzed

- SBA documents related to its new performance management system;
- current and previous scorecards that track the performance of agency components relative to the specific goals on which they are measured;
- operating plans that lay out strategies to achieve goals;
- information illustrating lines of communication and areas covered (for example, press, marketing, Web development, speechwriting, strategic alliances with external parties such as trade groups, and multimedia); and
- the agency's communications plan that discusses its approach for addressing internal and external communication, along with descriptions of the responsibilities of its Office of Communication and Public Liaison, Office of Management and Administration, the Office of the Congressional Liaison, and the intergovernmental group.

We analyzed the information we obtained from these document reviews and interviews to determine

- what actions SBA has taken to incorporate key practices and implementation steps for organizational transformations,
- whether SBA's transformation laid out goals for the transformation,
- what communication strategies SBA used to promote frequent two-way communication at all levels of the agency and with stakeholders,
- what actions SBA has taken to involve employees and ensure that their concerns and ideas are considered,
- how SBA has aligned its transformation activities to achieve agency performance and strategic goals, and

- how SBA's performance management system linked overall agency goals to individual goals.

To assess how SBA has addressed the impacts of its transformation activities on employees, we discussed this matter in interviews with officials from the various headquarters offices, the district office directors, and groups of employees at the 10 district offices we selected. The number of participants in our employee group interviews ranged from 5 to 12 (and represented from about 21 percent to 100 percent of the employees assigned to the various locations). While the limited number of offices we visited is too small for generalizing the information obtained to all district offices, the recurring nature of the observations and perspectives expressed across these offices, along with other material we examined, suggest that these views were not limited to the offices we visited. To distinguish specific activities affecting employees as a result of transformation, we reviewed materials that included SBA's fiscal year 2007 Human Capital Plan, Information and Technology Strategic Plan, fiscal year 2007 Annual Performance Report, fiscal year 2009 congressional submission (for budget), the performance management framework, and the SBA OIG's Most Serious Management Issues Reports for fiscal years 2005, 2006, and 2007. We also analyzed results from the Office of Personnel Management's (OPM) 2004 and 2006 Federal Human Capital Surveys of SBA staff and SBA's 2007 Annual Employee Survey to help identify specific impacts of transformation on employees and the effect of actions SBA had taken to address those impacts. In particular, we examined such areas as employee morale, training, communication, and employee involvement in decisionmaking—to the extent they were relevant to our prior 2003 report's recommendations. To assess the reliability of the OPM survey data and SBA's 2007 survey, we discussed the conduct of these surveys with knowledgeable OPM officials. We also obtained a copy of SBA's 2007 survey data set and replicated selected survey results. We determined that these survey data were sufficiently reliable for purposes of this report.

For determining how and to what extent SBA has defined the roles and responsibilities of district offices, we used information from the interviews we conducted. We also obtained and reviewed documentation related to the roles and responsibilities of district office staff before and after transformation and reform agenda activities. This included material on job descriptions and district office staffing information, such as the Field Staffing Model and office structure by position. We also examined relevant parts of

- training materials that related to district office responsibilities;

- district-office developed guidance;
- implementation plans specifying what individual staff responsibilities should be;
- SBA's district office scorecard and other performance management materials that discuss the functions and roles on which district offices and staff are evaluated;
- the reform agenda;
- strategic plan, human capital plans, and transformation plans;
- SBA memorandums, policies, and procedures related to transformation; and
- performance management assessments and measures.

To determine how SBA has assessed the progress of its centralization efforts and how its approach for implementing centralization has changed since transformation began, we used information from our interviews with officials from SBA headquarters and our site visits. We also obtained and analyzed documentation from SBA regarding its centralization efforts, including

- decision memorandums and implementation schedules,
- centralization performance and progress reports,
- SBA briefing reports and
- documentation on specific initiatives related to centralization.

We also relied on recent OIG audit reports and its ongoing audit work addressing both the progress and deficiencies of SBA's centralization initiatives. In particular, we met with representatives from that office to discuss their audit results, including recommendations they made to the agency, as well as management challenges faced by SBA. We also compared SBA's efforts to assess the progress of its centralization efforts against Government Performance and Results Act guidance and GAO's Standards for Internal Control in the Federal Government.

We conducted this performance audit from August 2007 to September 2008 in accordance with generally accepted government auditing standards.



---

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Comments from the Small Business Administration



U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

September 11, 2008

Mr. William Shear  
Director, Financial Markets and Community Investment  
U.S. Government Accountability Office  
Washington, DC 20548

Dear Mr. Shear: *Bill*

Thank you for the opportunity to comment on the Government Accountability Office's (GAO) draft report "Opportunities Exist to Build on Leadership's Efforts to Improve Agency Performance and Employee Morale". We are pleased that you have pointed out the Agency's success in improving agency operations and employee morale through the new Reform Agenda. In particular, we appreciate the recognition of our efforts and initiatives that we feel make a large impact on the U.S. Small Business Administration's (SBA) ability to serve small businesses and entrepreneurs and ensure our employees are equipped with the tools and the support they need, including:

- The Performance Management Framework,
- Improved agency communication and transparency,
- The creation of SBA University and additional training,
- Improvements at the National Guarantee Purchase Center resulting from Brand Promise Restored Campaign.

While we applaud you for recognizing the improvements that have been made with regard to the transformation efforts, we would like to clarify some of the points made within the draft report.

The draft report, in part, reviewed how SBA has assessed the centralization of loan functions. Quality assurance and consistency is a main goal of centralization and transformation. Consolidating work once performed in 68 distinct offices and geographic areas into one location has helped create greater consistency in review processes and procedures that serve as the baseline for evaluating quality. As documented in the draft report, SBA has implemented and continues to develop a number of quality assurance measures. SBA agrees with the GAO recommendation that it "develop measures to track and monitor quality assurance of its centralized loan guaranty purchase center."

To that end, the National Guaranty Purchase Center (NGPC) will continue to build on the quality processes in place and is developing new quality assurance review plans for NGPC and other processing centers which will be implemented during fiscal year 2009. At the same time, SBA is

Mr. William Shear  
Page 2

currently planning to strengthen its program-wide Risk Management framework and activities, which will extend additional oversight and attention to quality assurance functions in all lending centers.

SBA's quality measures currently in place include measures embedded in its processes for reviewing, recommending, and approving guaranty purchases. Loan specialists are accountable for producing high quality and accurate guaranty purchase reviews and recommendations consistent with the NGPC Operations Manual guidelines. NGPC tracks the number of work items returned for substantial revision and provides training to reduce the number of items returned. NGPC also uses Improper Payment Improvement Act (IPIA) information to measure and improve the quality of guaranty purchase transactions, through randomly sampling processed guaranty purchase disbursements from NGPC and testing them for accuracy. Feedback from the improper payment reviews is used in the NGPC for training purposes to enhance the quality of the reviews and make adjustments to internal procedures where possible to prevent the errors from occurring in future purchase reviews.

Additionally, SBA agrees with GAO's recommendation to "develop a strategic training plan." SBA shares GAO's position that training and investment in employees is critical to the success of the agency. SBA has provided a copy of our draft plan for future training. SBA continues to work to institutionalize the progress that has been made to ensure employees have access to the training and tools provided through the development of SBA University. We recognize that the investment in our personnel is reflected in enhanced agency performance.

SBA is committed to continuing to build upon the success achieved and will continue to focus on employee morale and agency performance and operations. We continue to be mindful of SBA's mission, to provide access to capital, training and technical assistance, and to provide federal procurement opportunities for the nations small businesses and entrepreneurs. Thank you for the opportunity to comment on the draft report and the remaining recommendations. We look forward to reporting back to GAO on our continued progress.

Sincerely,



Molly Wilkinson  
Chief of Staff

*Thanks so much for  
your work on this. we  
appreciate your professionalism  
& dedication.*

---

# Appendix III: GAO Contact and Staff Acknowledgments

---

## GAO Contact

William B. Shear, (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov)

---

## Staff Acknowledgments

In addition to the contact named above, Kay Kuhlman (Assistant Director), Meghana Acharya, Johnnie Barnes, Thomas Beall, Bernice Benta, Tania Calhoun, Alexandra Martin-Arseneau, Marc Molino, Barbara Roesmann, and Sarah Veale made key contributions to this report.

---

## GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

---

## Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site ([www.gao.gov](http://www.gao.gov)). Each weekday afternoon, GAO posts on its Web site newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to [www.gao.gov](http://www.gao.gov) and select "E-mail Updates."

---

## Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's Web site, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

---

## To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: [www.gao.gov/fraudnet/fraudnet.htm](http://www.gao.gov/fraudnet/fraudnet.htm)

E-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)

Automated answering system: (800) 424-5454 or (202) 512-7470

---

## Congressional Relations

Ralph Dawn, Managing Director, [dawnr@gao.gov](mailto:dawnr@gao.gov), (202) 512-4400  
U.S. Government Accountability Office, 441 G Street NW, Room 7125  
Washington, DC 20548

---

## Public Affairs

Chuck Young, Managing Director, [youngc1@gao.gov](mailto:youngc1@gao.gov), (202) 512-4800  
U.S. Government Accountability Office, 441 G Street NW, Room 7149  
Washington, DC 20548