GGD-76-74
8-23-76

REPORT TO THE CONGRESS

093684

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

Management Control Functions Of The Small Business Administration--Improvements Are Needed

Small Business Administration

Some Small Business Administration employees who approve or influence assistance to small businessmen are not required to file financial interest statements. Also, the policy on bank stock ownership by employees is vague and has created situations where conflicts of interest may appear to exist.

Although the audit and investigative staffs generally have performed adequately, the office of portfolio review has failed to keep top management apprised of the quality of loan portfolios in the district offices.

GGD-76-74 ~~707493~~ AUG. 23, 1976

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114835

To the President of the Senate and the
Speaker of the House of Representatives

This report, which is the eighth and last in a series issued on our full-scale audit of the Small Business Administration as required by Public Law 93-386, discusses the Small Business Administration's use of certain management control functions--(1)"Rules and Regulations" on standards of conduct; (2) audit, investigative, and review activities; and (3) management information reporting system.

We are sending copies of this report to the Director, Office of Management and Budget, and to the Administrator, Small Business Administration.

Comptroller General
of the United States

Contents

ABBREVIATIONS

CSC	Civil Service Commission
FBI	Federal Bureau of Investigation
GAO	General Accounting Office
GSA	General Services Administration
SBA	Small Business Administration
SBIC	small business investment company

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

MANAGEMENT CONTROL FUNCTIONS OF THE SMALL BUSINESS ADMINISTRATION--IMPROVEMENTS ARE NEEDED
Small Business Administration

D I G E S T

There has been congressional concern over the management of activities and programs by field offices of the Small Business Administration.

GAO sought to evaluate certain "management tools" or management control functions the Small Business Administration uses to control its operations. These tools include:

--A standards-of-conduct system requiring employees in key positions to file a statement of outside employment and financial interest.

--Audit, investigative, and review groups which assess the activities and programs of the Small Business Administration at field offices and the central office.

--A management information system which periodically provides reports to management.

Many employees making or influencing decisions on assistance do not file statements of employment and financial interest because regulations emphasize an employee's grade level rather than his duties; employee financial statements which are filed are not adequately reviewed by the Small Business Administration. Moreover, despite the Small Business Administration's significant participation with banks, the regulations do not provide a specific policy on bank stock ownership.

Improvements are needed to provide the standards-of-conduct counselors with definitive guidelines for reviewing financial statements. GAO's recommendations are found on page 16.

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Tear Sheet. Upon removal, the report cover date should be noted hereon.

GAO noted at the time of the review that the office of portfolio review's primary purpose--making quality appraisals of loan portfolios--was not being achieved because of its policies and procedures, its appraisal practices, and the fact that actions are not taken on its findings. GAO has serious reservations as to the qualifications of the examiners assigned to this office.

The Small Business Administration redefined the purpose of the office of portfolio review in February 1976, and will review financial assistance activities to see whether policies are being executed. GAO questions this decision and continues to believe that qualitative appraisals of loan portfolios could provide Small Business Administration program managers with a valuable service in loan portfolio management. GAO's belief is based in part on the results of its audit of Small Business Administration programs and activities pursuant to Public Law 93-386, which culminated in seven previously issued reports to the Congress. GAO's recommendations are found on page 42.

GAO's review of the activities of the other groups responsible for auditing, investigating, or evaluating Small Business Administration internal or external program activities showed that although each group has generally performed adequately, each group has also experienced problems, thereby reducing its effectiveness as a "management tool." Generally, the weaknesses noted in the internal and external audit functions resulted from understaffing. GAO's recommendations are found on page 42.

From a questionnaire sent to 540 key officials, GAO determined that improvements are needed in the Small Business Administration's management reports. GAO suggested that the Small Business Administration have its steering committee study the management reports system and recommend changes to improve the system's usefulness.

The Small Business Administration agreed with GAO's recommendations concerning the need for more stringent rules and regulations on standards-of-conduct and for an improved reports management information system. Actions have either been taken or are in process. (See pp. 17 and 51-52.)

The Small Business Administration agreed with GAO's recommendations to improve the audit, investigation, and review functions. It also recognized that there is a need to pursue efforts to obtain more staff for the internal and external audit divisions.

The Small Business Administration acknowledged that quality appraisals of the loan portfolio have not been performed, although the Congress was told otherwise in November-December 1973. It said that the office of portfolio review now reviews financial assistance activities from a program standpoint to see whether policies are being followed.

Portfolio quality control goes beyond a review of noncompliance of policies and should include a loan portfolio evaluation or appraisal.

This report is the eighth and last in a series under Public Law 93-386 which requires GAO to conduct a full-scale audit of the Small Business Administration. Digests of the seven previously issued GAO reports are contained in appendix VII.

CHAPTER 1

INTRODUCTION

The Small Business Administration (SBA) was established in 1953 to "aid, counsel, assist, and protect insofar as possible" the interests of small business. SBA operates 10 regional offices and 90 branch and district offices in administering 19 different financial assistance programs and 19 management assistance, procurement assistance, and advocacy programs to aid the 9.2 million small businesses throughout the United States.

Because of the growing concern over the management and operation of SBA, the Congress, as part of the Small Business Amendments of 1974 (Public Law 93-386), directed us to conduct a full-scale audit of SBA. As part of our audit, we reviewed and determined (1) the adequacy of SBA's standards-of-conduct monitoring system; (2) the effectiveness of its two review groups--the office of portfolio review and the office of audits and investigations; and (3) the adequacy of SBA's information reports provided for program management to central office and field office officials.

A chart showing the organizational structure of SBA's major review functions is contained in appendix II.

STANDARDS OF CONDUCT

Executive Order 11222, dated May 8, 1965, prescribed standards of ethical conduct for Government officers and employees and directed the Civil Service Commission (CSC) to establish regulations. In November 1965 CSC issued instructions requiring each agency to prepare employee conduct standards and establish a review system for employee financial disclosure statements.

SBA's "Rules and Regulations" (13 CFR 105), which governs employees' conduct, was issued in 1966. It prescribes standards of conduct for all SBA employees and establishes a system for disclosure and review of financial interests.

"Rules and Regulations," part 105.735-4-2(a), states:

> "No employee, his spouse, nor members of his immediate household shall purchase or otherwise acquire any interest, as a stockholder or otherwise, in any

concern while an application of such concern for assistance from the Administration is pending and for a period of two years after such assistance is granted, regardless of whether the concern is a publicly held corporation."

Paragraph (b) of this section states:

"No employee, or special Government employee, shall participate personally and substantially as an Administration employee or special Government employee, through decision, approval, disapproval, recommendation * * * or otherwise in a judicial or other proceeding application, request for a ruling or other determination * * * or other particular matter in which, to his knowledge, he, his spouse, minor child, partner, organization in which he is serving as officer, director, trustee, partner, or employee, or any person or organization with whom he is negotiating or has any arrangement concerning prospective employment, has a financial interest without:

(1) Making full disclosure of the facts to the Ad Hoc Committee (established by Sec. 105.735-10), and

(2) Obtaining a written determination by the Administrator that such financial interest is not so substantial as to be deemed likely to affect the integrity of the services which the Government may expect from such employee or special Government employee * * *"

Paragraph (c) of this section goes on to say that:

"* * * any financial interest on the part of persons referred to therein is hereby determined to be not so substantial as to be deemed likely to affect the integrity of the services which the Government may expect from any employee or special Government employee when such financial interest results from * * * an ownership interest of less than one percent in any concern in which such ownership interest amounts to less than $10,000 in equity investment."1/

"Rules and Regulations" requires that statements of employment and financial interest be filed by all branch managers who are GS-12 and above and all other employees GS-13 and above who make decisions or take final action regarding (1) contracting, (2) regulating or licensing small business investment companies (SBICs), (3) granting financial assistance, (4) issuing certificates of competency, and (5) making size determinations. These statements are filed annually with an SBA standards-of-conduct counselor who reviews the forms to determine whether any real or apparent conflicts of interest exist. For field office personnel, the regional counsels act as the counselors, and in the SBA central office the Associate General Counsel, Office of Interagency Affairs, acts as the counselor.

An ad hoc committee was established to advise and aid the SBA Administrator in promulgating and administering standards-of-conduct rules and regulations. The committee comprises the General Counsel, the Assistant Administrator for Administration, and the director, office of public information.

AUDIT, INVESTIGATIVE, AND REVIEW FUNCTIONS

Office of portfolio review

This office is directed by the Associate Administrator for Finance and Investment. The office's stated objectives at the time of our review were to (1) examine the loan portfolio and financial assistance programs of all field offices through onsite reviews and, provide a qualitative appraisal of SBA's financial assistance loan portfolio;

1/Because of our concern about the liberal nature of SBA's regulations and because of the widespread differences among Government agencies as to the criteria used for determining conflicts of interest, we have undertaken a Government-wide study of financial disclosure systems with a goal of proposing more systematic, documented, and standardized procedures. The SBA exemption limitation--$10,000 and less than 1 percent--will be included as part of this Government-wide study.

(2) provide quality control--insure uniformity in the application of financial assistance policies and procedures nationwide; and (3) establish a source for the recommendation of changes in existing policies and procedures or the need for new ones.

Office of audits and investigations

The office of audits and investigations, under the Assistant Administrator for Administration, is responsible for planning, directing, and executing all audit and investigation activities within SBA. It is made up of four divisions: internal audit, external audit, security and investigations, and examinations. All but the security and investigations division maintain field staffs in various SBA regional offices.

In 1974, the General Services Administration (GSA) reviewed SBA's overall audit operations for compliance with GSA's Federal Management Circular 73-2 and made several recommendations. Also, SBA prepared an overview report in February 1974 concerning audit, investigation, and evaluation activities in SBA and contracted for a feasibility study concerning the use of independent public accountants to obtain additional audit resources as suggested in the GSA report.

An audit committee was established in response to the recommendations made in SBA's overview report to strengthen top-level support and understanding of the audit functions. The committee comprises the Deputy Administrator, the Assistant Administrator for Administration, the Director of the Office of Audits and Investigations, and the General Counsel. It meets monthly to review recently completed audits and investigations of the four divisions and resolves any policy or program differences between audit report recommendations and the opinion of the respective activities being audited.

Internal audit division--is responsible for making audits and reviews of the entire range of SBA's programs and functional activities. These audits are designed to provide the Administrator and all levels of SBA management with an independent appraisal of operations to assure that they are adequately and effectively conducted.

External audit division--is responsible for investigating and auditing all individuals and companies participating in any SBA program to determine whether the Small Business Investment Act, SBA regulations, or the provisions of loan agreements, contracts, or grants have been violated.

Security and investigations division--is responsible for investigating alleged violations of Federal laws and/or SBA regulations and agreements. It is also responsible for developing and administering SBA's personnel and physical security programs and for assuring that SBA is assisting only reputable persons.

Examinations division--is responsible for annually examining SBICs to determine if they are adhering to the statutory and regulatory requirements of the Small Business Investment Act and SBA rules and regulations. The division is also responsible for examining and auditing the performance and records of all third-party participants in SBA programs, such as borrowers, contractors, and nonbank lenders. These examinations and audits are intended to determine third parties' compliance with applicable statutory and regulatory requirements.

Regional management overviews

Beginning in February 1974 the Associate Administrator for Operations required each assistant regional director to periodically visit each district office to assess onsite program activities concerning their area of responsibility.

The regional offices were to use these management overviews to assist district office management and to evaluate field operations. Generally these overviews were made to determine whether

--programs were being effectively implemented to enable the accomplishment of stated objectives,

--district office staff and facilities were being used effectively, and

--district office operations were carried out in accordance with established policy and procedures.

The assistant regional directors' management overview reports were sent to the central office as attachments to regional directors' reports.

MANAGEMENT REPORTS SYSTEM

The goal of SBA's management reports system is to provide management officials with the information needed and to furnish such information at the times and places, and in the formats most useful to the manager. SBA had two organizational units--the systems division and report management division--responsible for determining the information to be included in the management reports system. The systems division is responsible for determining the feasibility of generating new reports and making major modifications to existing reports. The reports management division is responsible for providing copies of the regular reports and obtaining special reports from data in the system.

SCOPE OF REVIEW

Our examination of the standards-of-conduct monitoring system and the various review and investigative groups included (1) a review of pertinent laws, rules and regulations, and confidential statements of outside employment and financial interests; (2) a review of audit and investigative reports and supporting documentation; and (3) discussions with central office, regional office, and district office personnel in 5 regional and 13 district offices. In reviewing the management reports system, we distributed a questionnaire to 540 officials who could be expected to use the system's reports. Officials of SBA's central office and all regional and district offices were included in this review. The review of the office of portfolio review was performed on a contractual basis by a team of bank examiners. The conclusions and recommendations drawn from that review are our own.

CHAPTER 2

TIGHTER REQUIREMENTS WOULD STRENGTHEN THE DISCLOSURE AND REVIEW OF EMPLOYEES' FINANCIAL INTERESTS

We reviewed standards-of-conduct activities at the Small Business Administration central office and in five regions. During fiscal year 1974, SBA employed 2,938 persons at these locations, of which 428, or about 15 percent, were required to file statements of outside employment and financial interest. Most of our review was directed toward assessing the adequacy of SBA's "Rules and Regulations" covering the filing requirements of employees' and counselors' reviews to determine compliance. We did not review the activities of the Civil Service Commission--the agency responsible for implementing Executive Order 11222, which prescribes standards of ethical conduct for Government officers and employees.

Our review disclosed problems indicating that certain major revisions are needed in SBA's "Rules and Regulations." The following specific weaknesses were noted and are discussed in subsequent sections of this chapter:

--Certain SBA personnel approving assistance or participating in decisions for assistance were not required to file statements of outside employment and financial interest.

--Standards-of-conduct counselors (counselors) reviewed statements without formal guidance or procedures.

--SBA did not have a specific policy on ownership of bank stock.

--Counselors were not required to file statements.

MANY EMPLOYEES PARTICIPATING IN ASSISTANCE DECISIONS ARE NOT REQUIRED TO FILE FINANCIAL INTEREST STATEMENTS

Rules and regulations pertaining to the filing of employment and financial interest statements place more emphasis on an individual's grade than on his assigned duties. As a result, 627 of the 1,924 persons employed at the 5 regions 1/ during fiscal year 1974 were not required to file employment and financial interest statements although they could approve or influence decisions on assistance to small businesses. In addition, 96 of the 627 had been delegated authority to act in the absence of persons having final approval authority.

Our analysis of each region is shown in the following table.

		Employees who make assistance decisions		
Region	Number of employees	Total	Required to file	Not required to file
Atlanta	431	232	83	149
Dallas	531	258	75	183
Denver	239	109	33	76
Philadelphia	344	163	63	100
San Francisco	379	178	59	119
Total	1,924	940	a/313	b/627

a/Five persons in the field offices failed to file; however, they have since retired or otherwise terminated employment with SBA.

b/A list of these employees by position and grade is shown in appendix III.

Of the 627 employees not required to file, 350 were loan officers responsible for such duties as (1) interviewing loan applicants, (2) screening and processing loan applications, (3) investigating and evaluating the financial condition of loan applicants, (4) developing terms and conditions for loan approvals, and (5) recommending approval or disapproval of loans.

Five loan processing officers in two district offices said that their recommendations influence whether or not a loan is approved. One said that most of his recommendations are accepted by his supervisor. In addition, in a February 1975 SBA position classification study conducted at a third

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1/The 1,014 persons employed at the SBA central office were not included because most headquarters units do not normally become involved in making or influencing decisions on SBA assistance.

district office, the decisions and recommendations by three GS-11 loan processing officers were determined to be "authoritative." The SBA study reported that there were few times in the past several years in which the supervisor failed to accept the recommendations of these individuals.

The chief of the finance division in one district office and the acting chief in another were both employed at the GS-12 level. Finance division chiefs have final approval authority in most cases, on loans of up to $350,000 and in some instances on loans of up to $750,000. SBA generally requires that these employees file statements of financial interest. However, since these employees were only GS-12s they were not required to file.

At another district office, a GS-12 loan processing specialist functioned as a supervisory loan specialist for 2 years. He was authorized to give final approval on loans of up to $50,000. The employee was not required to file.

At another district office, a GS-12 loan officer owned about $15,000 worth of stock in a bank holding company. The holding company owned 38 banks, 18 of which participated in SBA programs. The employee said that he has acted on loans with banks owned by the bank holding company in which he owns stock. Because the loan officer owned over $10,000 of stock and participated in transactions with the bank, he should have disclosed his holdings to SBA's ad hoc committee. Had the loan officer been required to file a statement of outside employment and financial interest, his holdings would have been disclosed. After we advised the counselor, the loan officer made a full disclosure to the ad hoc committee.

Once loans are approved and funds disbursed, other employees service, collect, and/or liquidate the loans. Final decisions involving loan adjustments are influenced by decisions and recommendations of these other employees, but they too, because of their grade, are not required to disclose their financial investments. These individuals provide important input to decisions affecting SBA assistance after the assistance is approved. They recommend action on such things as extending loan disbursements, deferring loan payments, releasing pledged loan collateral, requesting liquidation actions, and increasing the amount of a loan.

Eighteen of the 22 regional and district directors and counselors whom we asked agreed that it would be more realistic to require employees to file by duty responsibility and delegation than by grade level. We also discussed the matter of filing statements with 58 loan officers. Thirty-nine officers stated that filing requirements should be by function and that they had no objection to filing a statement.

We also noted that although the counselors are often delegated authority to act in the absence of the regional directors they are not required to file statements. Two of the five counselors stated that they did fill out statements although no one reviews them. Both counselors believed that their statements should be reviewed at SBA's central office. The central office counselor, who also prepares a statement, agreed that someone other than himself should review it.

STANDARDIZED PROCEDURES NOT USED BY COUNSELORS

A counselor's specific duties and responsibilities have not been clearly defined. The counselors review and, when possible, resolve potential conflicts of interest based on their own judgment.

We analyzed the 423 statements filed by employees in the 5 regions and the central office and identified 8 firms receiving SBA assistance. The counselors' review failed to disclose four of these firms. In addition, we noted that the names of 35 other firms were identical or similar to other firms receiving SBA assistance. Although none of the 35 other firms had received SBA assistance, the counselors had checked only 8.

Methods used in reviewing statements varied among the six counselors, although five followed the practice of initially eliminating companies listed on major stock exchanges or otherwise known to be large businesses. For example, the counselor at the central office stated that he initially eliminates securities listed on the statements that are listed on the stock exchanges. When he suspects that a conflict may exist with one of the remaining firms, he (1) checks the firms through the computer, (2) manually checks the records, (3) discusses the situation with the employee, or in extreme cases (4) refers the case to the security and investigations division.

The counselor at one region, however, said that he did not have any particular method of determining whether companies listed on statements are SBA-assisted. He said that his review consisted of little more than filing these statements when he receives them from the employees.

NO SPECIFIC POLICY ON OWNERSHIP OF BANK STOCK

Bank participation in SBA loan programs has grown from 340 loans amounting to $26 million in 1967 to 19,472 loans amounting to $1.65 billion in 1974. However, SBA's "Rules and Regulations," which has not been revised since 1967, do not address in specific language employees' ownership of bank stock. The regulations merely state that no employee shall participate personally and substantially as an SBA employee in matters in which he has a financial interest without

--making a full disclosure to the ad hoc committee and

--obtaining a written determination by the Administrator that such financial interest is not so substantial as to be deemed likely to affect the integrity of the services which the Government expects from the employee.

This financial interest is deemed to be not so substantial when the ownership interest is less than 1 percent in any concern and amounts to less than $10,000 in equity investment.

Although owning stock in banks does not in itself constitute a conflict of interest under SBA's "Rules and Regulations," such ownership may present the appearance of a conflict. Bank stock ownership may also impede the performance of duties of some employees. SBA has prohibited employees, and others have disqualified themselves, from participating in transactions with some banks. Moreover, the ad hoc committee's decisions on whether an employee may continue to own stock and participate in matters involving these banks have been inconsistent and at times illogical.

We identified 60 employees in the 5 regions who owned bank stock in fiscal year 1974. A breakdown of these holdings is shown below.

Region	Employees owning bank stock	Number of banks	Number of participating banks	Number of bank holding companies	Participating banks owned by bank holding companies
Atlanta	25	16	9	8	52
Dallas	9	7	6	1	4
Philadelphia	17	12	8	4	24
Denver	3	1	1	2	11
San Francisco	6	7	6	1	1
Total	60	43	30	16	92

As shown above, 25 employees in the Atlanta region owned stock in 16 banks (9 of which participated with SBA) and in 8 bank holding companies. The bank holding companies owned 52 banks which have participated in SBA programs. In August 1974, 18 of the above 25 employees, including 5 district directors, were restricted by SBA from acting on matters involving 30 of the 61 (9 and 52) participating banks. This restriction, therefore, impeded the job performance of these individuals.

In another example, two key officials in the Dallas region disqualified themselves from acting on decisions involving a bank in which they both owned stock. One said that he disqualified himself in order to avoid any possible adverse effect on the public's confidence in the Government.

Twenty-two of 24 officials whom we questioned in the regional and district offices either agreed that SBA should clarify its policy on bank stock ownership by employees or offered varying opinions of what the policy should be. The central office standards-of-conduct counselor stated that the question of bank stock ownership has been a problem for several years. The problem has remained unresolved, however, because SBA management has been unable to agree whether ownership of bank stock should be completely prohibited or some form of limited ownership should be permitted.

INCONSISTENT DECISIONS OF SBA's AD HOC COMMITTEE ON BANK STOCK OWNERSHIP

The ad hoc committee's decisions have generally favored employees retaining their stock ownership in banks. However, these decisions have been inconsistent and at times illogical.

The committee rendered the following decisions from May 1974 to August 1975.

In May 1974 the committee ruled that a district director could retain stock received from a bank profit-sharing plan and continue to participate in matters involving the bank. The stock, valued at $27,000, exceeded the $10,000 limit, but constituted less than 1 percent of the bank's outstanding shares.

The committee permitted participation on the basis that, though the bank participated heavily with SBA, it was so large that the employee's actions could not appreciably affect the value of the bank's stock. The committee also stated that because a high percentage of the participation loans were with that particular bank, it was not possible for the employee to disassociate himself from decisions concerning the bank and maintain his effectiveness. Although the Administrator approved the decision, he expressed the opinion that such ownership was not in the best interest of the official or the agency and that the employee should be encouraged to dispose of the stock.

In contrast, the committee issued a decision in September 1974 regarding a district director's interests totaling $1,900 in two bank holding companies. Although both holding companies were considered to be very large and the employee's interests were minor fractions of 1 percent, the committee recommended that the employee be restricted from participating in matters involving the subsidiary banks of the two holding companies. No reasons were cited for the committee's decision against the employee's participation, even though it stated that ownership would not affect the integrity of the employee's services.

In an August 1974 decision, the committee issued a ruling on 18 employees owning stock ranging from insignificant amounts to amounts exceeding $10,000. In considering its decision, the committee cited the Administrator's negative opinion on the ownership of bank stock and ruled that all of the employees could retain their stock interests and none could participate in matters involving those banks in which they held an interest.

In three decisions rendered during July 1975, the committee cited six basic criteria when ruling on these cases.

1. An employee is not restricted in his ownership of bank stock where the bank is outside the geographical area of his official responsibility and there is otherwise no contact between the business of the bank and these official responsibilities.

2. The committee will consider the relative importance of SBA business and the size of the bank in applying the conflict tests.

3. The committee will consider the possible effect of an employee's decision on his investment in the bank. For example, if an employee owns only a small interest in the bank, or if the bank participates only minimally in SBA programs, the employee will gain no benefit from his ownership regardless of his actions.

4. The ownership of stock shares in local banks by SBA employees usually has high visibility and generally creates an "appearances" problem in the mind of the public.

5. In considering the possibilities of disqualification in actions involving banks in which the employee has an interest, or divestiture of the stock, the committee will consider the personal financial burden upon the employee, any impediment the disqualification may impose upon the reasonable performance of his official duties, and the degree of "conflict" or "appearance" thereof.

6. Unless significantly qualified by one or more of the foregoing criteria, it is a general policy that high-ranking agency officials, such as field directors, should have no interests in banks within their geographic area of responsibility.

For example, the committee ruled, by reason of criterion 5, that an employee owning $15,000 worth of stock in a bank holding company could retain his stock and participate in matters involving the banks owned by the holding company. In considering the data before making its decision, the committee cited a previous decision and likened the case to that decision. The committee stated:

> "Mr. [A's] bank stock ownership in [bank x] is comparable to the situation in the [bank y] case [OIA Log No. 2994]. Like [Mr. A], the District

Director exceeded the $10,000 stock value limitation of the regulations in a bank which participates in a substantial manner in SBA's loan programs. In the [bank y] case it was impracticable for the Committee to require disqualification of the District Director for matters concerning [bank y] because of its large number of participating loans. In the instant case, [bank x] has approximately thirty-nine affiliates within the . . . District's geographical area of responsibility; to require disqualification from matters involving [bank x] might render [Mr. A] ineffective as an SBA [employee]."

In two other cases, the committee also ruled that the employees could retain their stock and participate with the bank holding companies. Again the decisions were based on the criterion that the holding companies had many bank subsidiaries that participate substantially in SBA programs, and to disqualify the employees from acting in matters involving the banks would impede their reasonable performance of official duties.

In a fourth case, the committee ruled that an employee could not participate in matters involving a bank holding company in which his wife owned nine shares of stock valued at $220.50. The committee's decision was based on the fact that the single bank owned by the holding company was within the geographical area of the employee's official responsibility.

The chairman of the ad hoc committee 1/, who is also responsible for setting policy on employee stock ownership, owned large amounts of stock in four bank holding companies. The chairman refused to tell us how much stock he owned except to say that his holdings exceeded $10,000 in each company, but represented less than 1 percent of the outstanding shares of each company.

The chairman said that he had not made a full disclosure of the exact amounts of the stock, nor was he required to do so, because he has not participated personally and substantially in any matters involving these bank holding companies.

1/The chairman--who is also SBA's General Counsel--resigned in December 1975 to become Solicitor, Department of the Interior.

CONCLUSIONS

Many key SBA employees making or influencing decisions on SBA assistance do not file statements of financial interest. SBA rules and regulations pertaining to the filing of employment and financial interest statements place more emphasis on an individual's grade than on his assigned duties. If employees who have delegation of authority responsibilities, or who serve in positions allowing them to recommend loan approval or disapproval and loan adjustments, are to avoid conflict-of-interest situations, the system should be changed to require employees to file financial interest statements based on the duties of their assigned job.

SBA has not adequately monitored the financial investments of its employees. Improvements are needed to provide counselors with definitive guidelines for reviewing employees' financial statements.

Although SBA's "Rules and Regulations" do not indicate that the ownership of bank stock in itself constitutes a conflict of interest, they do prescribe that any appearance of a conflict of interest should be avoided. SBA employees' investments in bank stock do create the appearance of a conflict of interest. Bank stock ownership has impeded the performance of normal duties of some SBA employees in their dealings with the banks because SBA has prohibited such dealings or the employees have disqualified themselves from participating in them.

Ad hoc committee decisions have been inconsistent regarding whether an employee owning bank stock may participate in matters involving these banks. We believe that when the ownership of stocks in banks could be construed as impeding the official duties of the employee, he should not be permitted to own bank stock.

RECOMMENDATIONS

We recommend that the Administrator of SBA revise the "Rules and Regulations" on standards of conduct by developing definitive criteria to determine which employees have responsibilities warranting the filing of financial disclosure statements. At a minimum, these criteria should provide that:

--All employees, including counselors and delegates of authority, serving in positions which allow them to participate in assistance decisions be required to file statements of outside employment and financial interest. The field counselors' statements should be reviewed by the central office counselor, and the central office counselor's statement should be reviewed by the Administator.

--All employees who make or substantially influence decisions on SBA assistance and employees responsible for setting agency policy be prohibited from owning stock in banks or bank holding companies.

We further recommend that the Administrator of SBA issue specific guidelines clearly defining the duties and responsibilities of the standards-of-conduct counselors and the ad hoc committee.

AGENCY COMMENTS

In commenting on our report, the Administrator said SBA recognized the need for tighter requirements in its "Rules and Regulations" on standards of conduct and has submitted proposed revisions to CSC. 1/ In fact, the Administrator said the regulations SBA is proposing on the ownership of bank stocks will provide more stringent limitations than those recommended by us.

The Administrator said that the proposed revisions to the regulations also provide for detailed criteria for the guidance of employees, the standards-of-conduct counselor, and the ad hoc committee in the application of the regulatory provisions. In addition, he said that the field office counselors would file their statements with the central office counselors. However, this revision does not provide for the review of the central office counselor's statement. We believe the central office counselor's statement should be reviewed by the Administrator.

1/These "Rules and Regulations" were submitted for approval on April 7, 1976.

CHAPTER 3

ORGANIZATIONAL AND PROCEDURAL CHANGES COULD IMPROVE AUDIT, INVESTIGATIVE, AND REVIEW FUNCTIONS

We examined the activities of the major groups (see pp. 3-5) responsible for auditing, investigating, or evaluating SBA program activities, either internally or externally. Each group has a staff assigned to plan, program, and execute its own work concerning SBA activities.

Generally, each group has experienced the problems listed below which indicate that their effectiveness as "management tools" was reduced.

1. Portfolio review:

   --Did not make quality appraisals of the loan portfolio because policies and procedures were not correlated to its primary responsibility, and loan review and classification practices were inadequate.

   --Did not have actions taken on its findings.

2. Internal audit:

   --Operated on an audit cycle of about 10 years.

   --Concentrated on program audits rather than striking a balance between program and administrative district office audits.

   --Ignored followup on issued reports to determine whether corrective actions were taken.

   --Did not always distribute issued reports to responsible program officials in all field offices.

3. External audit:

   --Performed audits on a request basis only, while audits covering all of the programs and regions were not performed.

4. Security and Investigations:

   --Did not adequately document loan investigative files to support the work performed and reasons for actions taken. This covers cases not referred to the Federal Bureau of Investigation (FBI).

   --Did not report the results of these investigations and actions taken to affected SBA offices or individuals.

5. Examination Division:

   --Is planning actions to increase the flexibility of its staff and to conduct compliance audits of SBA participants which should provide SBA with additional information to carry out its mission.

OFFICE OF PORTFOLIO REVIEW UNABLE TO PERFORM QUALITY APPRAISALS

The Office of Portfolio Review appraises SBA's financial assistance loan portfolio to provide management with an overview of how well district offices are administering their loan portfolios. To assist in our examination, we contracted with a team of bank examiners to evaluate (1) the policies and procedures used in carrying out the office's intended purpose, (2) selected examinations performed by the portfolio review staff at four SBA field offices, and (3) the qualifications of the portfolio review staff. Their examinations were conducted at the SBA central office and at district offices in Washington, D.C.; Miami, Florida; San Diego, California; and Albuquerque, New Mexico.

The bank examiners recognized that SBA assistance programs were aimed at small businesses that seek SBA assistance because they do not meet the requirements for bank credit. The conclusions and recommendation drawn from that review are our own.

SBA management officials have not received adequate portfolio evaluations because

--policies and procedures were not correlated to the portfolio review office's primary responsibility and

--loan classification and review practices were inadequate.

In addition, actions were not taken on reported findings by the office of portfolio review.

Policies and procedures did not correlate to responsibility

Although the portfolio review staff substantially followed its operating policies and procedures, such procedures are lengthy and detailed, delineating evaluation of field office activities not specifically related to a quality appraisal of the loan portfolio. The actual time the portfolio review staff spent analyzing the loan portfolio was unduly compromised by diverting time to the review and evaluation of activities in the area of administration, public relations, management, and personnel.

During the November-December 1973 SBA oversight hearings, the Administrator provided the Subcommittee on Small Business, House Banking and Currency Committee, with information on the formation and expansion of the portfolio review function. The information showed that a staff paper had been written recommending establishment of a small office which would conduct loan portfolio reviews in much the same context as bank examiners in the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

In describing the concept of loan portfolio evaluation, SBA pointed out that

> "* * * there exists a great void in the area of periodic loan portfolio review. Program management largely is based on statistical reviews of performance against established goals. * * * there is no program for establishment of the quality factor in day to day field performance. * * * The program then is to * * * provide to the Central Office a loan portfolio evaluation capability."

SBA said that the loan portfolio evaluation concept would differ from the internal audit function since it must address the spirit as well as the intent of policies and objectives, and it should go well beyond identifying violations of or noncompliance with national policy and procedures. SBA concluded that the concept could best be discharged through a program of loan portfolio evaluation.

However, in addition to reviewing the loan portfolio, the office of portfolio review policies and procedures instruct all examining personnel to mingle with the field office staff for the purpose of reviewing and evaluating numerous sideline activities such as adequacy of space utilization, communications system and, equipment utilization and serviceability; status of housekeeping, filing procedures, and control; use of internal forms, reports, and operating procedures; adherence to work hours and coffee breaks; handling of congressional correspondence; efficiency in the mailroom; and many other administrative activities of the field office.

After evaluating and reviewing the numerous sideline activities, the portfolio review office has very little time left for a comprehensive review of the loan portfolio, making it highly questionable whether the office of portfolio review was functioning as initially intended.

The policies and procedures instruct examiners to select a 6-percent sample of the loans originating in each loan program since the previous examination. The office of portfolio review believes that this sample, in conjunction with the numerous sideline activities, will provide a qualitative appraisal of the field office's loan portfolio. However, this procedure is inadequate to reflect the extent of loan deterioration in any given field office and the probable amount of SBA assistance that would result in loss of taxpayers' funds. The bank examiners advised us that an acceptable examination would require a sample selection that averaged 15 percent of the loans and 80 percent of the dollar volume.

The aim of the office of portfolio review is to perform annual examinations at all field offices with a loan portfolio As of March 1975, portfolio review staff had to perform 63 reviews. The authorized manpower of the office was 23 persons including the 3 central office staff members and 3 secretary-typists assigned to the 3 field offices in Washington, D.C.; Atlanta; and Denver.

Of the 52 work weeks in the year, only about 40 are available for conducting portfolio reviews. This figure is calculated by deducting time for annual and sick leave, holidays, and travel to and from field offices. The workload for 17 portfolio review examiners constitutes about 252,000 accounts totaling about $6 billion and 9,629 other assistance commitment accounts totaling about $1 billion as of December 31, 1974.

The portfolio review examiners are also required to spend part of their work time in the duty station office reviewing the final examination report draft and preparing the next proposed examination. This examination preparation includes ordering computer printouts, selecting the loan sample to be reviewed, and preparing the examiner's worksheet for the loans selected. Furthermore, the portfolio review examiners are periodically assigned to other SBA divisions and subdivisions to assist with seriously delinquent loans, the liquidation of collateral, and loan servicing and other functions. These intermittent assignments to other divisions further reduce available staff hours. The portfolio review director stated that his staff is sufficient to accomplish his office's objectives, and he did not plan to include requests for additional manpower.

Inadequate loan review and classification practices

To evaluate the portfolio review office's loan review and classification practices, 43 loans were selected from the portfolios of the 4 district offices.

The evaluation was not intended to question the judgmental ability of the portfolio examiners, but to support their judgment decisions based on the information available in the loan file. One significant difference in the examinations was that the bank examiners verified the balances and status of the loans at banks, whereas the office of portfolio review relies on the balances shown by SBA. For example, 30 of the 43 loans reviewed were being serviced by banks. The bank examiners' verification of the bank balances showed that 29 of the 30 loans differed from the balances reported by the office of portfolio review. These differences occurred because banks are not required to report monthly loan balances to SBA. Accordingly, SBA does not have an accurate accounting of the loan balances in the portfolio.

Seriously delinquent loans were classified accordingly; however, those loans that were current and had paid according to terms for 2 years or more were not adversely classified, even though the loans might not have been adequately secured.

The office of portfolio review classifies noncurrent loans using the following categories:

- --Loss--part or all of the loan is considered uncollectable.

--Substandard--a portion of the loan has possible recovery value; the remainder is considered uncollectable.

--Special mention--the loan is considered weak but no loss is anticipated due to adequate collateral, guarantors, or refunding.

--Special action--the loan may be sound but needs special handling or comment.

The bank examiners' loan selection, which excluded loans of less than $50,000, emphasized direct and guaranteed participation business loans which represent the largest dollar volume of SBA's programs.

Of the 43 loans reviewed, only 6 received the same classification. There was a wide variation in classifying 15 of the remaining 37 loans. For example, the bank examiners classified 9 of these 15 loans as noncurrent, while portfolio review examiners classified them as current.

The other 22 loans had some degree of variation in the classification. Generally, differences in classifications are attributable to the fact that bank examiners spent more time examining loan files and becoming aware of all the changes that had occurred since the loan originated.

For example, one loan reviewed by the bank examiners was to a small businessman for the purchase of a retail store in which he had served as manager. A 90-percent guaranteed loan was made in November 1972 for $200,000. Portfolio review examiners classified the loan as "special mention," despite acknowledging the borrower's inability to pay as well as other unfavorable factors.

A June 1974 report from the office of portfolio review stated that the SBA loan officer had processed the loan as necessary debt refunding. The borrower had purchased the business in February 1972 on the basis of paying off $146,000 to the former owner in 18 months and $40,000 to the bank in 24 months. Regarding this loan, the portfolio review report said

--This payment arrangement showed poor financial planning on the part of the business because there was no way the amount could be paid.

--The 10-year term (5- to 7-year term is normal) of the loan was not justified because the latest financial statement August 1972 showed "fantastic" gross and net profit and provided a rosy picture.

--Collateral releases were made without current financial statements.

--No field visits had been made since inception of the loan despite collateral releases and delinquencies.

--It looked as though there were problems with this loan and the borrower should be contacted immediately to identify the problems.

As of January 1975, the file did not indicate that any of the shortcomings noted by the office of portfolio review had been corrected, in particular the lack of field visits and current financial information. Recognition by the office of the borrower's inability to pay and other unfavorable factors suggest that the loan deserved a more severe classification than "special mention." Our classification showed a probable loss of at least $137,000.

Often, portfolio review examiners placed loans in the "special mention" category. This was usually done without (1) knowing the present balance or status of loans, (2) being able to determine the collateral value, or (3) having access to current financial data. Thus, conclusions were not supported and the reader was compelled to either accept or reject the office of portfolio review judgment. Also, the office rarely offered recommendations that would minimize potential SBA losses, and their loan comments did not include recommendations as to the best or alternative courses of action.

Loan analysis made without sufficient financial data

The financial data recorded by the portfolio review office was very general and not in sufficient detail for a proper loan analysis. They did not record information that would be expected to be included on an examiner's worksheet. Portfolio reviews reflected the name of the borrower, but not the names and capacities of the principals. They did not record the name and financial resources of guarantors, type and value of collateral, interest rate, amount, or frequency and date payments commence, nor various loan conditions, requirements, or restrictions.

Financial data recorded by portfolio review examiners was very generalized in the form of current, fixed and other assets; current and long-term liabilities; and net worth. Loan analysis requires financial data in greater detail so that proper consideration is accorded to intangibles and asset reflecting inflated values, as well as other significant items.

Portfolio review staff did not record all administrative actions affecting the loan's quality. These actions are most commonly used to defer loan payments, release collateral, or reflect SBA's agreement to honor a guaranteed participation and change any part of a loan agreement. Portfolio review policies and procedures did not include recording all essential credit data on the examiner's worksheets, which could be updated and used at subsequent examinations.

Portfolio review examiners lack experience and training

SBA's position classification for a portfolio review examiner requires that he or she be able to perform and supervise any or all activities relating to portfolio examinations. Because of the office's important role, examiners must have necessary training and experience. While we recognize that a determination of what comprises "necessary qualifications" would be subjective, we have serious reservations as to the examiners' qualifications. Accordingly we believe that the SBA Administrator should have a detailed review made regarding examiners' qualifications.

There are 16 examiners assigned to portfolio review offices in Washington, D.C.; Atlanta; and Denver. Although 10 of the 16 examiners were college graduates, most of the college graduates were academically trained in areas other than financial analysis. For instance, one was trained to teach English and social studies and another was trained in personnel administration. Furthermore, two college graduates have been demoted for cause; one of whom was educated in publi administration and the other in economics and business. In summary, only 2 of the 10 college graduates appeared to have the necessary experience and training.

On the other hand, two of the six who were not college graduates appeared to have sufficient experience and training for the examiner position. However, one of the six had been demoted during his 14 years with SBA.

Reports not useful to management

The reports prepared by the office of portfolio review consist of a narrative section and a loan classifications section. The report format is acceptable; however, the content does not effectively assist management. The narrative portion is almost exclusively used to repetitiously present the findings of all peripheral evaluations in terms of improvements, slippages, weaknesses, and strengths. This portion should be eliminated and substituted with conclusions and recommendations regarding the portfolio. The second portion of the report was an acceptable presentation; however, the commentary on loans subject to classification is not stated. In addition, the report did not summarize loan programs, repayment status, or delinquencies. The individual loan writeups did not adequately support either the actions under consideration or the revisions affecting the original terms which resulted in the assigned classification.

Additional comments on the contents of portfolio review reports are contained in appendix IV.

Action not taken on portfolio examination findings

The office of portfolio review is a subdivision of, and is responsible to, the Associate Administrator for Finance and Investment. The organizational function of the Associate Administrator for Finance and Investment is program planning, and he is directly responsible to the SBA Administrator and organizationally is segregated from the operating division. The SBA field offices, which actually exercise the lending and servicing functions of the loan assistance program, are the responsibility of the Associate Administrator for Operations. Organizationally, the field offices are separate from the program planning division.

At the outset the office of portfolio review was intended to have independent responsibility and authority to conduct examinations of all field offices. Although the portfolio examination's findings were submitted to each district director, the directors did not necessarily have to follow the recommendations and suggestions presented. For example, district directors were not required to charge off loans clasified as a loss in the portfolio review report. Loss classifications were merely an opinion of the office of portfolio review and the district directors could carry losses indefinitely, even though the loans were uncollectable. Likewise, the disclosure of irregularities during an examination involving loans or SBA personnel cannot be pursued by the office of portfolio review. An investigation of such irregularities must be recommended to the district director, who requests an investigation by the Office of Audits and Investigations.

The fact that the office of portfolio review reports to an office which has no authority to enforce its recommendations reduces its effectiveness. For all practical purposes, portfolio review personnel were merely tolerated in accompishing responsibilities for portfolio evaluation.

MAXIMUM BENEFITS FROM INTERNAL AUDIT NOT ACHIEVED

We examined internal audit activities at the central office; the Atlanta, Dallas, Philadelphia, Denver, and San Francisco regional offices; and 10 district offices in the regions. The objectives of SBA's internal audits are (1) to provide all levels of SBA management with an independent appraisal of operations, (2) give assurance that they are adequately and effectively conducted, (3) identify specific areas where improvements should be made, and (4) recommend action which can be taken to improve the effectiveness of SBA operations.

Generally, SBA management and operating officials indicated that internal audits were satisfactory when they were performed. However, greater benefits can result if the internal audit division

--decreases its excessively long audit cycle,

--provides for a balance between the number of program audits and administrative district office audits,

--includes more district offices in the program audits,

--establishes a followup procedure to determine if corrective action was taken at the operating level, and

--provides copies of all audit reports to the field operating officials.

It appears that weaknesses noted above resulted from understaffing in the internal audit division. As of October 1975 the internal audit division was staffed by 24 professional and 6 clerical employees. SBA operates 10 regional offices and 90 district and branch offices in administering 38 different programs, each designed to meet a specific need.

Priority programs on a 10-year audit cycle

SBA management and operating groups could be better assisted in their administrative functions if the internal audit cycle--about 10 years for most programs--could be reduced. Internal audit and management groups divide SBA programs and administrative activities into 104 functional audit areas. For example, some of the functional audit areas for the 7(a) business loan program would be loan processing and approval, loan servicing, and loan collection.

Management and internal audit officials basically agree on the priority classification assigned to each functional area and on an audit cycle considerably shorter than the present one.

Priority (note a)	Functional audit areas: Internal audit	Functional audit areas: SBA management	Average preferred cycle (years): Internal audit	Average preferred cycle (years): SBA management
A	72	60	3.3	3.3
B	21	32	4.4	3.7
C	11	12	4.8	4.7
	104	104		

a/A--Significant program or function most appropriate for audit.
B--Not too significant, but appropriate for audit.
C--Not too significant or not too appropriate for audit.

As discussed on page 4, the General Services Administration (GSA) reviewed SBA's audit operations in 1974. In its report, GSA recommended that the internal audit staff should be augmented to properly service SBA's workload. GSA pointed out that between fiscal years 1967 and 1974 internal audit staffing decreased 60 percent to a level of 22. This occurred during a period of program expansion and an overall agency employment level increase.

FY	Professional positions	Clerical positions	Total
1967	42	11	53
1968	36	10	46
1969	31	8	39
1970	29	8	37
1971	29	8	37
1972	23	5	28
1973	19	5	24
1974	18	4	22

Although GSA noted that some operations were on a 15- to 20-year audit cycle, no specific changes were suggested. The internal audit division director told us that while some programs were on about a 17-year cycle, priority "A" audit areas were on a cycle of about 10 years. He stated that a desirable audit cycle for priority "A" areas would be 3 to 4 years. SBA was authorized to increase its internal audit staff to 40 positions in July 1974. However, after seven positions were filled, SBA curtailed further hiring in internal audit because of Office of Management and Budget restraints in accordance with a general position reduction made by the Congress.

Not all district offices are audited

The internal audit division believes that audits of all district offices' administrative activities should be conducted every 3 to 4 years. However, it was able to cover only 25 of SBA's 63 district offices during fiscal years 1969 through 1974 because of staffing levels during this period.

FY	Number of administrative district office audits
1969	11
1970	3
1971	4
1972	8
1973	-
1974	1
	a/27

a/Two offices were audited twice.

In addition, some district offices are seldom included in the internal audit's program reviews while others are audited frequently. For example, in the Atlanta region, 5 of the 9 district offices, or 56 percent, were not included as part of an audit during fiscal years 1972-74. During this period, 60 percent of the audits made were at the Atlanta regional and district offices.

Inadequate corrective action, followup, and distribution of reports

During fiscal year 1974, the internal audit division issued nine reports on administrative and program reviews. We examined the following reports to evaluate internal audit effectiveness in accomplishing its objectives.

--Preliminary review and followup of the section 8(a) contracting program--July 1973.

--Review of selected aspects of liquidation and disposal activities--August 1973.

--Preliminary review of postexamination and report upon purchase of guaranteed loans--May 1974.

Corrective action and followup

Management officials such as the Associate Administrator for Operations and the Associate Administrator for Finance and Investment are responsible for acting on internal audit findings and advising internal audit of the progress of agreed upon actions. However, for the last two reports identified above, corrective actions on audit findings had not been fully implemented by field offices, nor did the internal audit division follow up on its findings.

For example, in following up on the report of postexamination and report upon purchase of guaranteed loans, we reviewed 8 of 42 loans purchased by 1 district office. Loan guaranty purchase authorizations continued to be executed without apparent investigation or comment regarding the participating bank's failure to comply with terms of the SBA guaranty agreement or regarding the possibility of negligence or misrepresentation by participating banks. Our analysis of these reports is summarized in appendix V.

Although management officials generally concurred in the audit findings and recommendations, the internal audit division has no way of knowing whether appropriate corrective actions have been implemented by the field offices unless a followup review is made. There is no specific followup review of an audit. The internal audit director said that because of its limited staffing, the division does not follow up on audits until the next scheduled audit.

Adequate followup to insure SBA field offices have taken appropriate corrective action is critical to the effectiveness of SBA's internal audit function. Without a followup by either internal audit and/or responsible operating officials, these audits are of limited usefulness in improving the SBA's operations and programs.

Field offices need reports

Internal audit reports are issued by the director of the office of audits and investigations, and sent to the Administrator and the principal officials responsible for the action to be taken regarding the findings and recommendations. When the action is the responsibility of a field office, or when there is a need to have a program policy or procedure clarified, the Associate Administrator for Operations is designated as the action office.

Officials in the 5 regional and 10 district offices visited said they were not aware of the Internal Audit report on the 8(a) program. The internal audit director said that the report, which deals with policy matters, was not distributed to the field offices. Instead, the responsible central office managers respond to reports dealing with policy matters in the form of policy change directives, which are then sent to the field offices.

Although the 2 internal audit reports discussed previously had been sent to the regional offices with instructions to have the district offices conduct self-evaluations of their activities, 6 of the 10 district directors stated that they had not seen either report. One of the six stated that he became district director after one of the reports was issued. Another director also said that he had not received the reports, but that he did not become district director until after both reports were issued. Five directors advised us that they had not conducted self-evaluations of their activities.

Internal audit reports should have wide distribution. Reports would be more effective in improving SBA operations and programs if responsible managers at the field office level are made aware of important audit findings and recommendations.

EXTERNAL AUDIT COULD BE MORE USEFUL TO MANAGEMENT

We examined external audit activities at the central office; the Atlanta, Dallas, Philadelphia, Denver, and San Francisco regional offices; and 10 district offices in the regions. The external audit division is authorized to independently review and select for audit any loan, contract, lease guarantee, surety bond guarantee, or local development company in the SBA portfolio.

SBA management and operating officials are generally satisfied with services provided by external audit. Our examination showed, however, that the division could more effectively serve management if it

--reduces backlog to enable the division to perform self-initiated work and

--implements an audit plan which would cover all programs and all regional offices.

It appears that the weaknesses noted above have resulted from understaffing in the external audit division. As of October 1975 the division was staffed with 19 professional and 5 clerical personnel. At this staffing level, external audits were generally made only if requested, which was usually when there was suspicion of a participant's wrongdoing, such as fraud, misuse of funds, and/or false representation. The requests are scheduled on a first-in, first-out basis with priorities established by the Assistant Administrator for Administration.

The external audit director said that audits were not performed on a selection basis because of the small size of his staff and the heavy volume of work involving requests. He also said that the external audit division maintains a 3- to 6-month request backlog.

As of June 30, 1974, SBA had an outstanding loan portfolio of about $7.4 billion, including loans and other forms of business assistance. During fiscal year

1974 external audits covering loans of only $61.5 million were performed. These audits covered less than 1 percent of the portfolio. Sixty-five, or 74 percent, of the audits were in the Atlanta, Chicago, and San Francisco regional offices, as shown below.

Region	Number of audits FY 1974
Boston	0
New York	3
Philadelphia	4
Atlanta	11
Chicago	16
Dallas	7
Kansas City	3
Denver	3
San Francisco	38
Seattle	2
Total	87

Several types of loan programs received little or no coverage during fiscal year 1974. For example, the table below shows the various programs whose loans the external audit division has authority to audit and the number of audits conducted in each program during fiscal year 1974. No audits were made in six of these programs.

Program	Number of audits FY 1974
7(a) loans	61
State and local development companies	9
Small business investment companies	8
8(a) contracts	6
Surety bonds	2
406 contracts	1
Economic opportunity loans	-
Displaced business loans	-
Economic injury loans	-
Ecological compliance loans	-
Handicapped loans	-
Lease guarantees	-
Total	87

The practice of performing audits on request provides a valuable service to operating officials; however, the external audit division has not accomplished its responsibilities to cover a broad range of external activities. Independent external audits covering all programs and regions are being neglected. The external audit function is not, therefore, fully meeting the needs of SBA management. The external audit director advised us that to provide better audit coverage of programs and regional areas and to be more responsive to requests, the external audit staff would need to be increased.

In February 1974 GSA recommended that in order to bring SBA's external audit operations into compliance with Federal Management Circular 73-2, staff increases were needed to properly service the agency's audit workload.

SECURITY AND INVESTIGATIONS SHOULD PROVIDE FOR BETTER DOCUMENTATION AND COMMUNICATION OF DATA

The security and investigations division has the authority to investigate all SBA program and administrative activities and is responsible for preloan and prelicensing investigations and investigations of loan irregularities, fraud, violations of criminal statutes, employee misconduct, and other matters. The division was staffed with 12 professionals and 8 clerical personnel as of October 1975.

We examined the case files of 33 personnel investigations conducted during fiscal year 1974 and 39 loan investigations conducted from July 1973 to April 1975. The 39 loan investigations had been forwarded by the external audit division to the security and investigations division for referral to the Federal Bureau of Investigation (FBI).

Our review of the personnel investigations showed that the files were well documented and that actions taken and reasons for those actions were evident from the file. We believe, however, the division can be more effective in handling loan investigations not referred to the FBI if it

--documents the loan investigative files to show each step taken in the investigation and the basis for decisions made and

--communicates to the office or person requesting an investigation, the action taken as a result of the investigation and the reasons for such actions.

We could not determine the reason for the security and investigation division's decision not to refer 10 of the 39 cases to the FBI. The only documentation in 9 of the 10 case files was (1) the external audit report and (2) a memorandum from the security and investigations division to the external audit division concluding that since there was no evidence of a criminal violation, the case should not be referred to the FBI. The documentation did not explain why the allegation and evidence gathered were inadequate to establish a potential criminal violation.

In the one other case, the file contained two other documents, (1) a memorandum from the external audit division to the security and investigations division indicating disagreement with the decision not to refer the case to the FBI and (2) a memorandum from the security and investigations division to the external audit division justifying its decision. However, security and investigations officials justified their decision only after the external audit division challenged the decision. Further, neither the file on this case nor the files on the other nine cases contained any documentation describing the investigative steps taken by security and investigations to refute the allegation of criminality.

Based on our review of allegations reported in the 10 cases, we believe that, standing alone, the evidence of criminality in the reports was insufficient to warrant referral to the FBI. However, we do believe that the allegations reported should have been investigated further. Due to the lack of adequate documentation in the files, we could not analyze and evaluate the types of investigations conducted and the basis for conclusions that the cases should not be forwarded to the FBI.

Without a record of the investigative steps taken and the basis for decisions, it is difficult to analyze the substantive operations of the security and investigations division. The division director said that he has since instructed his staff to place in the investigative files all notes developed during an investigation and a brief description of investigative steps taken.

In addition, we believe that when the security and investigations division decides that a case should not be referred, its memorandum to the requesting office should briefly explain the basis for its decision. This would serve to (1) instruct the requesting offices on the elements of proof needed to support referrals to the FBI, (2) improve relations between the security and investigations division and requesting offices, and (3) provide needed documentation of the reasons for nonreferral.

ACTION TAKEN TO IMPROVE SBIC EXAMINATIONS

On March 15, 1975, SBA transferred the office of SBIC [small business investment company] examinations from the Associate Administrator for Finance and Investment to the Office of Audits and Investigations under the Assistant Administrator for Administration. The office of SBIC examinations was redesignated the examinations division. Its responsibility was significantly expanded to include compliance audits of participants in all SBA programs. As of October 1975, the division was staffed by 25 professionals and 9 clerical personnel. In addition, the examinations division was directed to report to the audit committee.

Examinations authority, planning, and objectives

The Small Business Investment Act of 1958, as amended, requires that annual examinations be conducted of all small business investment companies licensed by SBA. This examination may be waived by the Administrator in the case of a company whose operations have been suspended because it is involved in litigation or in receivership.

The examinations division director is responsible for preparing and maintaining a plan for all companies subject to annual examinations. This plan is amended throughout the year based upon changes and circumstances affecting the examination status of the companies. Examinations of the investment companies are factfinding in nature. They are performed to ascertain if companies are adhering to the statutory and regulatory requirements and to determine whether their financing practices conform to procedures required by SBA.

Examinations division staffing needs

The director stated that he has had appropriate staff to fulfill the legal requirement of annual examinations of the SBICs. However, additional staff would be needed to fulfill the added responsibility of the compliance audit.

In March 1975, when the examinations division was given this additional responsibility, SBA's justification stated that an amendment would be drafted to the Small Business Investment Act to remove the annual examination requirement and replace it with a more flexible time limitation. The division director stated that about one-third of the annual examinations result in no-finding reports. Moreover, if investment companies having no findings reported could be audited on a more flexible basis, the manpower saved could provide 5 or 6 staff-years to carry out the responsibilities of the compliance audits.

We believe that the actions taken in March 1975 to consolidate the audit function bring SBA's audit program into greater conformity with our audit standards. In addition, SBA's audit coverage could be improved, provided the annual examinations requirement is modified or an increase in staffing is provided to the examinations division.

CONCLUSIONS, AGENCY COMMENTS, AND OUR EVALUATIONS

The office of portfolio review--at the time of our review--was not accomplishing its primary purpose of conducting qualitative appraisals of SBA's financial assistance loan portfolio. The office's policies and procedures did not correlate to its responsibilities, its practices did not provide reports which effectively assisted management, the staff was not adequately prepared to perform evaluative functions, and actions were not taken on its findings.

SBA took action in February 1974 to improve its audit, investigative, and review functions by establishing an audit committee to insure that proper action is taken on reports. Also, it required regional officials to conduct management overviews of their field offices. In July 1974 SBA increased, to some extent, the staffing of some of the audit and investigative offices. SBA also reorganized the examinations division in March 1975. However, further actions are needed in audit, investigative, and review functions if they are to effectively serve SBA management and operating personnel.

The Administrator acknowledged in commenting on this report that the office of portfolio review has not performed quality appraisals of the loan portfolio. He said that:

> " * * * in reviewing loan files, OPR is not determining the quality of the portfolio, although they have the ability to do so. Rather, they are determining whether policies and procedures of the agency are being carried out from a management and operations point of view. Bank examiners, on the other hand, would approach their review of loan files from a different perspective. This includes the size and method of sampling the portfolio, classification of loans, and other review practices."

However, as shown on page 22, we found that the office of portfolio review has attempted to perform quality appraisals of the loan portfolio and has used sampling techniques and loan classifications. Furthermore, its stated purpose of conducting qualitative appraisals of SBA's financial assistance loan portfolio was what the Administrator of SBA presented to the Subcommittee on Small Business, House Banking and Currency Committee during the November-December 1973 SBA oversight hearings and was what SBA has followed since creating the office of portfolio review in April 1970.

After we had received its formal comments, SBA advised us that the purpose of the office of portfolio review was redefined on February 25, 1976. The office reviews financial assistance activities from a program standpoint to see whether policies are being executed. The office is staffed with the present director and 16 staff members under the redefined purpose. The Administrator said that in regard to the new purpose of the office, a review will be made by the Associate Administrator for Finance and Investment of the policies and procedures of the office including the scope of review, the report format, and the distribution of reports.

We question SBA's decision to change the purpose of the office of portfolio review. We continue to believe that the office, by providing qualitative appraisals of loan portfolios, could provide SBA program managers with a valuable service in loan portfolio management. Our belief is based in part on the results of our audits of SBA programs and activities pursuant to Public Law 93-386, which culminated in seven previously issued reports to the Congress.

As stated on page 20, the SBA Administrator advised the Congress that there existed a great void in the area of loan portfolio review and that the agency did not have a program for establishing the quality factor of day-to-day field performance. To forego quality loan appraisals would insure the continued existence of these problems.

Moreover, the office of portfolio review's new mission of providing a program review of financial assistance activities at the SBA field offices may possibly duplicate some of the functions of the internal audit division pertaining to program audits. Also, the new mission of the office of portfolio review would appear to duplicate the overviews being performed by the assistant regional directors as mentioned on page 5.

Regarding actions not taken on recommendations made by the office of portfolio review, the Administrator said that recommendations are pursued with the Associate Administrator for Operations for action at the field office level when needed. Should appropriate action not be taken, the Associate Administrator for Finance and Investment may then bring these matters to the attention of the Administrator. Also, after we received SBA's formal comments, SBA advised us that it had formed a review committee whose purpose is to insure that corrective actions are taken on portfolio review recommendations.

We suggested that the Administrator of SBA direct that a review be made of the qualifications of portfolio review examiners. SBA said that it saw no need for a review of the examiners' qualifications; that it believed that the office of portfolio review has been serving the needs of management; and that the staff is adequately prepared to perform the function of the office. Further, SBA said it requires that portfolio review personnel have extensive experience at the field office level in financial assistance functions, and while accounting and auditing experience would be helpful it does not consider this type of experience necessary since the portfolio review office does not include an audit function.

Our draft report did not indicate that the portfolio review staff needed accounting and auditing experience, but rather that proper training and experience of examiners should be more than a working knowledge of the financial assistance functions.

As mentioned previously, we believe that the office of portfolio review should provide quality appraisals of the loan portfolio. Therefore, we continue to believe that SBA should review the qualifications of personnel assigned to the office to insure that the evaluations are adequately performed.

We suggested that the Administrator should attempt to meet staffing needs in various ways including setting of priorities. We agree with SBA that its internal audit system of establishing priorities is satisfactory. However, the number of programs and functions it must deal with, together with its staffing, defeats the objective of performing priority "A" audits on a 3- to 4-year audit cycle. We believe that, until the internal audit division is staffed at a level to perform audits on a more frequent basis, consideration should be given to combining functions such as 7(a) loan processing, 7(a) loan servicing, and 7(a) loan collections into one audit of the loan activities of the 7(a) program. Similar steps could also be taken for other SBA loan programs to help reduce the total number of functional audit areas and their audit cycle.

SBA pointed out that the external audit division has reduced its backlog of requests to about 30 to 60 days. This action now allows the division to independently select loans for audit. SBA's actions are commendable; however, we believe a continued effort is needed to further reduce its backlog of requests.

SBA said that it had studied staffing levels of the internal and external audit divisions but was unsuccessful in its attempts to provide for more staffing because of budgetary restraints. However, it will continue to pursue staffing needs for these functions to the extent possible by the appropriate budgeting processes. We continue to believe, however, that some staffing can be more feasibly met through realinements of personnel within the agency.

With regard to the followup of audits, SBA agreed that it was critical; however, SBA said that this major responsibility would be included in the assistant regional director's day-to-day supervision. SBA said that our report gave the impression that the internal audit division does not follow up. SBA stated it follows up to the extent that it assures itself that implementing instructions are forwarded to the field offices.

It was our intent to point out that there was no followup on the audit reports we reviewed. We believe followup audits are necessary and should be scheduled after an appropriate amount of time has lapsed. The extent of the followup activity can be merely a review of a couple of examples to determine if another full review is warranted. We believe followup is a major function of the internal audit division which must be carried out.

We suggested that the Administrator require that internal audit reports be distributed to field operating officials. He said that indiscriminate issuance of internal audit reports can cause a disservice to operating officials and can result in many instances of premature attempts to implement the internal audit recommendations without proper instructions. We believe the benefits of distribution outweigh this argument. The subject matter of some reports--whether program or administrative activity--pertains to the general interest of all SBA field offices. Distributing reports of this nature would, in our opinion, cause operating officials to take a closer look at their own activities.

In regard to SBA's second reason, any premature attempts to implement internal audit recommendations could be eliminated by distributing internal audit reports concurrently with policy change directives. This also provides the field offices with an understanding as to why changes are being made.

In commenting on our suggestion dealing with documentation of cases not referred, SBA said that we did not give full consideration to the case referral system it uses when dealing with the FBI. We recognize that the security and investigations division may have referred many irregularities to the FBI and that these cases may have been fully documented. Our review, however, dealt with those cases which were not referred to the FBI and the reasons why no referral was made. Based on the documentation contained in the investigation files, we were not able to determine why the referral was not made.

SBA's statement that our auditors and a representative from our General Counsel appeared to be satisfied with the reasons for nonreferral, has nothing to do with the fact that the cases were not documented. We were satisfied with the case dispositions only after the cases were discussed with the security and investigations division director and a representative from SBA's Office of General Counsel.

RECOMMENDATIONS

To improve the audit, examination, investigation, and review functions, we recommend that the Administrator, SBA:

--Reinstitute the original mission of the office of portfolio review aimed at performing qualitative appraisals of SBA's loan assistance portfolio, and direct that a review be made of the qualifications of examiners assigned to the office.

--Provide the office of portfolio review with revised policies and procedures, and a redefined scope of review. The revised policies and procedures should cover the size and method of sampling the portfolio, classification of loans, and other review practices.

--Attempt to meet staffing needs of the internal and external audit divisions through position realinements within the agency, changes in methods of scheduling and setting priorities for reviews, or through a proposal to the Congress for additional staff.

--Provide for followup reviews on prior internal audits.

--Require that all internal audit reports be distributed to field operating officials.

--Develop written procedures whereby the security and investigations division would (1) provide formal documentation in the investigative file to show the work performed and the basis for decisions made on cases not referred to the FBI and (2) formally advise offices referring cases for investigation of the actions taken on those cases and the reasons for such action.

CHAPTER 4

ACTION TAKEN TO IMPROVE SBA'S MANAGEMENT REPORTS SYSTEM

The goal of the Small Business Administration's management reports system is to develop better information for managerial decisionmaking. Specifically, the system is designed to

--provide management officials with the information needed for decisionmaking and

--furnish the needed information at times and places and in the format most useful to the manager.

To determine the extent to which these objectives were being accomplished, we identified 540 key officials in SBA whose positions were such that they could be expected to be users of the system's reports. These officials were selected from the top levels of administration and program management and included headquarters, regional, and district personnel. A questionnaire was sent to each person. Four hundred and seventy-two, or 90 percent of the persons contacted 1/, responded to the questionnaire. Overall, the responses indicated that

--most of the reports are useful to those who receive them;

--the divisions responsible for providing management information made few contacts concerning the needs of report users;

--despite an extensive desire for additional information-type reports, few report recipients had contacted the divisions responsible for determining the feasibility of supplying reports of that nature;

1/Seventeen persons were dropped from the sample because of retirement, resignation, extended leave, or death.

--report users, especially those in the regions and districts, believe that problems exist in the accuracy and completeness of the data in certain reports and would like to see changes in the reports to improve their usefulness; and

--the steering committee should study the management-reporting system.

Of the 472 replies, 82 were from the central office, 57 from the regions, and 333 from districts. The following chart shows the primary work activity of our respondents.

Activity	Central office	Region	District	Percent
Community development	5	0	17	4.7
Finance assistance	5	7	51	13.3
Counsel	3	9	46	12.3
Investments	9	0	0	1.9
Management assistance	3	10	55	14.4
Minority enterprise	4	7	28	8.3
Portfolio management	5	1	36	8.9
Procurement assistance	12	5	24	8.6
Regional director	0	6	0	1.3
District director	0	0	48	10.2
Administration general	8	7	0	3.2
Other	24	3	18	9.5
Work activity not indicated	4	2	10	3.4
Total	82	57	333	100.0

MOST REPORTS ARE USEFUL TO THOSE WHO RECEIVE THEM

Each respondent was asked to review a list of 19 reports and to indicate whether the report was received and, if so, whether it was used.

Generally, officials indicating receipt of a report also indicated use of it. For example, of 269 respondents reporting receipt of the "Management Information Summary Report," 241, or 90 percent, said that they used it in their work.

In some instances it appeared that a particular report received wider distribution than its usefulness would warrant. A case in point is the "Summary of Business Loans Disbursed

During Each Month." While 103 respondents said they received the report, only 64, or 62 percent, indicated that they used it. This level of usage indicates the need to examine this report to determine whether it should be revised or whether possible savings might be obtained by reducing the extent of its distribution. Comments on several other reports indicated usage levels similar to or below that of the above report. The responses for all reports are summarized in appendix VI.

LITTLE COMMUNICATION EXISTS BETWEEN REPORT PRODUCERS AND USERS

SBA divides the responsiblity for determining the information which the formal reporting system will produce between two organizational units. The reports management division is responsible for providing copies of regular reports and special data and information obtainable from existing SBA data sources. The systems division is responsible for determining the feasibility of generating new reports and making major modifications to existing ones. Our examination confirmed an audit by SBA's internal audit division which found that the two divisions were not actively soliciting user needs and opinions. Additionally, we found little indication that officials included in our study were attempting to improve the system by initiating contacts with these divisions, even though the officials had information and data needs they would like to have filled.

Need for communication between users and producers of management reports

The internal audit report dated December 9, 1974, advised the SBA Assistant Administrator for Administration that user needs were not being considered in establishing report requirements. Internal audit recommended that existing procedures be modified to:

> "* * * provide for the inclusion of a mechanism to assure that all functional users of recurring output are periodically circularized as to continued need, frequency, and distribution. This action, in part, will diminish the need for generating recurring output that may no longer be needed as an operational or management tool."

Although the Assistant Administrator for Administration agreed to implement this recommendation, it has not been done. The respondents reported that they had had little contact with either the reports management division or the systems division.

Limited communication between reports management division and report users

A total of 258, or 65 percent, of the 394 officials answering the question reported no contact by the reports management division. When contact was experienced, officials from the central office and the regions were more likely to have been contacted than were those from the district. The responses by location are shown below.

	Total respondents	Made contact	Did not make contact	Percent not making contact
Central office	62	37	25	40
Regions	51	26	25	49
Districts	281	73	208	74
Total	394	136	258	65

The lack of district input was even greater when the length of time since the last contact was considered. Of the 73 district officials reporting contact, 27, or 37 percent, said it had been over a year since the reports management division had assessed their needs.

Few requests for reports management division assistance were initiated by the officials we surveyed.

	Number of respondents	Made request	Did not make request	Percent not making request
Central office	62	45	17	27
Regions	53	18	35	66
Districts	283	62	221	78
Total	398	125	273	69

As in the previous question, central office officials were most likely to have asked for reports management division assistance, while district officials were the least likely to have requested assistance.

Once contacted, the reports management division appears to have done an effective job in responding to these requests

	Central office	Regions	District	Total
Number of respondents	45	18	62	125
Received some or all data	38	15	49	102
Percent	84	83	79	82
Did not receive data	3	2	10	15
Percent	7	11	16	12
Waiting for data	4	1	3	8
Percent	9	6	5	6

Limited communication between systems division and report users

We found that 272, or 69 percent, of the 392 respondents who answered our questions reported that the systems division had never contacted them. As with the reports management division, an official from the central office was almost twice as likely to have reported contact as a district official.

	Number of respondents	Number with some contact	Number without contact	Percent without contact
Central office	64	37	27	42
Regions	51	25	26	51
Districts	277	58	219	79
Total	392	120	272	69

Again, the lack of district contact was even greater when the length of time since the last contact was considered. Of the 58 district officials reporting contact, 20, or 34 percent, said it had been over a year since the systems division had assessed their needs.

The responses showed that only 80, or 20 percent, of the officials responding initiated contacts with the systems division in attempting to obtain additional data.

	Number of respondents	Made request	Did not make request	Percent not making request
Central office	62	30	32	52
Regions	52	13	39	75
Districts	283	37	246	87
Total	397	80	317	80

The systems division did not appear to be as effective in dealing with requests for information and data assistance as the reports management division. As shown below, only 64 percent of the officials reported getting the data they requested.

	Central office	Regions	District	Total
Number of respondents	29	13	36	78
Received some or all data	17	8	25	50
Percent	59	62	69	64
Did not receive data	5	1	7	13
Percent	17	8	19	17
Waiting for data	7	4	4	15
Percent	24	31	11	19

Although the numbers involved are small, about 20 percent of those officials who did not get the information they requested or who received only part of that information indicated that the systems division did not tell them why the data could not be provided.

Respondents would like to receive more support from the formal reporting system

The need for improved communications between the producers and users of reports is indicated by the number of users reporting a desire for more data support from the formal reporting system. The desire for additional reporting-system support was especially pronounced in the regional and district responses; these were the two groups which were shown to be the least likely to have been contacted or to have initiated contact with either the systems division or the reports management division.

	Respondents	Respondents indicating additional needs	Percent
Central office	82	30	37
Regions	57	33	58
Districts	333	137	41
Total	472	200	42

While there were many kinds of information desired, data relating to evaluations, programs, statistical analysis and trending were checked most frequently. A list of the types of information desired and the percentage of those officials desiring additional information is shown below.

	Percent desiring additiona information		
Nature of information	Central office	Regions	District
Bank service	17	30	34
Cash flow	10	15	20
Certificate of competency output	7	9	12
Loan portfolio by standard industry codes	27	27	37
Loan portfolio minority/veterans code	20	30	27
Loans by new category	13	30	20
Evaluation	53	30	36
Financial	27	12	33
Program	53	39	39
Graphic illustrations	17	24	23
Statistical analysis	57	36	32
Trends	50	58	57

USER COMMENTS ON SPECIFIC SBA REPORTS

In evaluating specific reports, officials saw a need for improvement in certain areas. These improvements included the need for increased accuracy in certain reports which were extensively used. Additionally, they saw a need to make some changes in various reports such as increasing the amount of analytical and evaluative data contained in them.

Observations on the accuracy and completeness of selected reports

While the officials surveyed reported data problems with many of the reports they received, our comments, for the most part, are directed at three of the more extensively used reports. For example, of 141 regional and district officials who stated they used the "Management Information Summary Report" frequently, 43, or 30 percent, indicated that data they had submitted for inclusion in the report either had not been included or had not been summarized properly. In the case of the "Portfolio Listing of Business Loans Report," 31, or 49 percent, of the 63 officials frequently using the report, reported a similar problem with the way data they submitted had been presented. While the number of users involved was smaller, the same type of problem was reported with the "Management Assistance Report."

Data errors were also reported in the "Management Information Summary Report" in instances where the using officials checked data in the report against source data. Of 125 regional and district officials who indicated they had made such a check, 41, or 33 percent, reported they found errors to be a problem.

While data problems were reported with other reports--such as mixing data from several periods without identification and omitting data of interest from the report--the number of officials involved was too small to use as a basis for determining the extent of the problem.

Desired changes in selected reports

The three changes generally desired by the officials included in our survey were

--increased instructions on how to use reports and their data,

--making certain reports available to more people, and

--increasing the amount of analytical and evaluative information in the reports.

Officials identified three reports for which they desired additional instructions on using the report and its data. These reports included the "Management Information Summary," regarding which 73, or 27 percent, of the officia: commenting saw a need for more instruction on its use, and the "Portfolio Listing of Business Loans Report," regarding which 11, or 19 percent, of 57 officials also indicated a need for more information.

The recipients of the above reports also saw the need for the reports to (1) be made directly available to more people and (2) include more analytical and evaluative data. This desire was particularly pronounced in the case of the "Management Information Summary Report," regarding which 150, or 54 percent, of the 276 officials responding to the question indicated a desire to see the report changed to include more analytical and evaluative information. Although other reports had similar problems, use of these reports was too limited to determine whether a definite problem existed.

STEERING COMMITTEE SHOULD STUDY THE REPORTING SYSTEM

Most officials--273 of 378--who responded to the question concerning the need for a steering committee believed there was a need for a steering committee to study improvements in the SBA reporting system. Forty, or 77 percent, of the regional officials and 179, or 67 percent, of the district officials saw such a need. In addition, 54 percent of the central office officials agreed that such a committee was needed. When asked if they would serve on a committee, most of those seeing the need for such a committee said that they would.

CONCLUSION AND AGENCY COMMENTS

Although most SBA officials consider the reports they receive to be useful to them, improvements appear to be needed in the reports system. For the most part, only a limited amount of communication existed between those responsible for preparing reports and those using them. As a result, user data needs do not appear to have been fully met. Many officials expressed the desire to see a steering committee formed to study the possibility of improving both the reports and the reporting system. In July 1975, SBA established a steering committee.

We suggested that the Administrator, SBA, have the steering committee study the management reporting system and that the reports management division and the systems division expand their attempts to include report users in decisions affecting the reporting system, paying particular attention to the needs of regional and district officials.

SBA advised us that a plan and survey were formulated, approved, and conducted by the steering committee, which in effect examined the overall information handling plans for the agency. This resulted in changes made in the management information system concerning loan accounting, the section 8(a) program, the surety bond guarantee program and the payroll systems. SBA said these changes have proven to be more responsive to the needs of its field and central office officials. Further, SBA said that the reports management division has included field personnel and increased input from report users in developing three new information systems--the "Management Assistance Control Records," the section 8(a) program, and the surety bond guarantee program.

SBA agreed to continually review the informational needs of operating and program officials and make improvements in its management reporting system. Also, SBA will continue to study and identify more effective and efficient ways of providing the information within the limits of the resources and priorities.

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

OFFICE OF THE ADMINISTRATOR

April 14, 1976

Mr. Victor L. Lowe
Director, General Government Division
United States General Accounting Office
Washington, D. C. 20548

Dear Mr. Lowe:

This is in response to your letter of March 4, 1976, which requested our comments on the draft report entitled, "Improvements Needed in the Small Business Administration's Management Control Functions."

Enclosed are our specific comments to each of the recommendations made in the report. Generally, with several exceptions, we agree with your recommendations and actions have either been taken or are in process.

We appreciated the opportunity to comment on this report and if you need any additional information, please advise.

Sincerely,

Mitchell P. Kobelinski
Administrator

Enclosure

SMALL BUSINESS ADMINISTRATION'S COMMENTS

ON

GENERAL ACCOUNTING OFFICE DRAFT REPORT

ENTITLED

"IMPROVEMENTS NEEDED IN THE
SMALL BUSINESS ADMINISTRATION'S
MANAGEMENT CONTROL FUNCTIONS"

(Submitted to SBA, March 4, 1976)

CHAPTER 2

TIGHTER REQUIREMENTS WOULD STRENGTHEN THE DISCLOSURE AND REVIEW OF EMPLOYEES' FINANCIAL INTERESTS

With regard to the recommendations made in this chapter, this agency did recognize a need for tighter requirements; therefore, after a year long effort, proposed revisions to SBA's Standard of Conduct, Part 105 of the Regulations, have been submitted to the Civil Service Commission.

We believe that this proposed revision satisfactorily addresses your observations.

RECOMMENDATION (Page 25)

"--all employees, including Counselors and delegatees of authority, who serve in positions which allow them to participate in assistance decisions /should/ be required to file statements of outside employment and financial interest. The Counselors' statements should be reviewed by the Administrator."

COMMENT

SBA's current Regulations, in effect, require statements of financial interests for all employees over GS-13 making decisions about SBA financial or procurement assistance. The proposed revision of SBA's Part 105 Regulations would eliminate this GS-13 cutoff point. The proposed revision would require the filing of financial statements by all employees who are in positions of discretion for SBA assistance, regardless of grade level. This requirement would include both Standards of Conduct Counselors and delegatees of author ity. Field Standards of Conduct Counselors would file their statements with the Central Office Standards of Conduct Counselor.

RECOMMENDATION (Page 25)

"--all employees who make or substantially influence decisions on SBA assistance, and employees responsible for setting agency policy /should/ be prohibited from owning stock in banks or bank holding companies."

COMMENT

While SBA's Regulations in effect during the audit did not provide definitive standards for evaluating employee ownership of stock in participant banks, the proposed revision categorically prohibits the purchase of bank stock by an SBA employee. Where the bank stock was acquired by the employee prior to his SBA employment or where the acquisition was passive, for example, by inheritance, the stock could be retained only with the specific approval of the Standards of Conduct Committee. The proposed revised Regulations will provide criteria the Committee will use in evaluating applications to retain bank stock ownership.

The report also notes that current SBA Regulations, prohibiting an employee's participation in matters in which he has a personal financial interest, provide an exception where the personal interest does not exceed $10,000 or one percent of equity. The proposed revision will eliminate this exemption and requires that all cases where an employee has personal financial interests, regardless of the amount, be reviewed and approved by the appropriate Agency authority. In this sense, the proposed revised Regulations will provide more stringent limitations than those recommended in the report.

RECOMMENDATION (Page 25)

"--include specific guidelines clearly defining the duties and responsibilities of the Standards of Conduct Counselors."

COMMENT

The proposed revised Regulations provide detailed criteria for the guidance of employees, the Standards of Conduct Counselors and the Standards of Conduct Committee in the application of the regulatory provisions.

[See GAO note 1, p. 67]

CHAPTER 3

ORGANIZATIONAL AND PROCEDURAL CHANGES COULD IMPROVE AUDIT, INVESTIGATIVE, AND REVIEW FUNCTIONS

RECOMMENDATION (Pages 57 and 58)

"--

[See GAO note 1, p. 67]

Portfolio Review should be provided with revised policies and procedures, a redefined scope of review, and the authority to assure that action is taken on its reports."

COMMENT

[See GAO note 1, p. 67]

[See GAO note 1, p.67]

To eliminate any confusion, the purpose of the office has been clarified. The office has been accomplishing its purpose and is a vital management tool serving the needs of management.

[See GAO note 1, p.67]

With regard to the redefined purpose of this function, a review will be made by the AA/F&I of the policies and procedures of OPR including the scope of review, the report format and the distribution of reports.

[See GAO note 1, p.67]

We believe authority within the existing organizational structure is adequate to assure corrective action. When management action is required, the AA/F&I takes appropriate action on matters within his jurisdiction. Also, recommendations are pursued with the AA/O for action at field office level when necessary. Should appropriate action not be taken, the AA/F&I may then bring these matters to the attention of the Administrator.

[See GAO note 1, p.67]

RECOMMENDATION (Page 58)

"--direct that a review be made of the qualifications of examiners assigned to the Office of Portfolio Review. This is necessary to remove any doubt that unqualified people are performing this vital function."

The first priority is to respond to requests for audits of problem loans and investigations of SBIC's. The second priority is the independent selection of loans which are unrelated to request.

Therefore, with the staffing situation, these will continue to be our priorities.

Finally, we do not understand completely why this recommendation was made in view of discussion and information given to your auditors concerning this subject and also in view of the complete and documented presentation made on pages 132 through 157 of the hearing previously cited above which your auditors were aware of during their review. We believe that this information quite thoroughly covers the subject of this recommendation. Further, you can be assured that we will pursue staffing needs for these functions to the extent possible by the appropriate budgeting processes.

RECOMMENDATION (Page 59)

"require that Internal Audit reports be distributed to field operating officials."

COMMENT

With regard to this recommendation, our policy has been and will continue to be the following:

1. Internal Audit reports will be issued to field operating officials by the Associate Administrator for Operations when such reports have significant impact on their field operations and on which they can take action; or

2. emphasize through program memoranda or the SBA Circular those matters reported in internal audits which operating officials can take action.

We believe that indiscriminate issuance of internal audit reports can cause a disservice to operating officials and can result in many instances in premature actions. That is, many reports recommend policy or procedural changes and even though the final report indicates agreement with these recommendations, before such recommendations can be implemented, policy and procedural instructions must be prepared. Therefore, to have wide distribution of reports at this time could cause attempts to implement the recommendations without proper instructions. Also, reports contain findings which pertain only to a particular office and we consider wide distribution of such findings as a disservice to that particular office.

RECOMMENDATION (Page 59)

"--develop procedures whereby the Security and Investigations Division would (1) provide formal documentation in the investigative file to show the work performed and the basis for decisions made and (2) formally advise offices referring cases for investigations of the actions taken on the case, and the reason for such action."

COMMENT

We believe that your report with regard to the above recommendations did not give full consideration to the referral procedures of SBA and apparently only considered referral made to the FBI as a result of External Audit reports and not the hundreds of irregularities based on SBA field office referrals. For example, the Security and Investigations Division referred 339 of such cases to the FBI in FY 73 and 383 in FY 74.

These cases were all fully documented and in every case the field office was advised by a copy of the FBI referral letter or memorandum of the action taken by the S&I Division. In every case, the files were fully documented and all field offices were advised of the action taken and all reasons for no action. Therefore, we believe that our past and present procedures are fully responsive to the above recommendation.

We do agree as the report indicates the nine cases cited concerning the External Audit's nonreferrals should have been documented as our past and present procedures require, even though the External Audit Division was notified through the Director, Office of Audits and Investigations of the nonreferral.

In any event, these cases were reviewed with the GAO auditors and a representative of their General Counsel as to the reasons these cases were not referred to the FBI and GAO appeared to be satisfied.

CHAPTER 4

SBA'S MANAGEMENT REPORTS SYSTEM NEEDS TO BE STUDIED

RECOMMENDATIONS (Page 72)

"We recommend that the Administrator, SBA, have the steering committee study the management reporting system.

We also recommend that the Reports Management Division and the Systems Division expand their attempts to include report users in decisions affecting the reporting system; they should pay particular attention to the needs of regional and district officials."

COMMENT

During the time of your audit, and in May of 1975, a plan and survey were formulated, approved and conducted by the steering committee, which in effect examined the overall information handling plans for the Agency. The Task Force developed recommendations and implemented changes in the Management Information System, concerning the revised loan accounting, Section 8(a) Contracting Program, "Management Assistance Control Records," the Surety Bond Guarantee program and the payroll systems which have proven to be more responsive to the needs of our field and Central Office officials.

Regarding the second GAO recommendation, "to include report users in decisions, affecting the reporting system," RMD has included field personnel and increased input from users in developing three new information system, namely, the "Management Assistance Control records," Section 8(a) Contracting program and the automated Surety Bond Guarantee system now in the developmental stages.

The expanded use of report users in the reports development process has resulted in a large increase of requests for statistical data from the field offices. This in itself is indicative of the users appreciation and is a step in the right direction towards fulfilling the needs of regional and district officials.

Both the Systems Division and the Reports Management Division will continue to involve the district and regional offices in reporting requirements.

Further, we agree that the Management Reporting System and in fact every system can be improved. Therefore, we are continually reviewing the need of operational and program officials for Management and programmatic information and data. We are, also, continually studying more effective and efficient ways of providing the needed information in a more timely, relevant and accurate manner within the limits of our resources and priorities.

OTHER COMMENTS ON THE TEXT OF THE REPORT

[See GAO note 1, p.67]

The conclusion drawn on page 30 does not accurately reflect the practice of the office. The conclusion is as follows:

> "After evaluating and reviewing the numerous sideline activities, the Office has very limited time remaining for a thorough and comprehensive review of the loan portfolio, making it highly questionable whether Portfolio Review was functioning as initially intended."

The primary objective is to review loan making activity and portfolio management activities. While accomplishing this objective, "sideline" activities are peripherally considered. Although they affect the financial assistance functions, these sideline activities are secondary in importance and are considered as such by OPR.

Keeping in mind that OPR is not an audit function, the comments made under the caption "Inadequate Loan Review and Classification Practices" on pages 32 through 35 should be considered in proper context. For example, in reviewing loan files, OPR is not determining the quality of the portfolio, although they have the ability to do so. Rather, they are determining whether policies and procedures of the agency are being carried out from a management and operations point of view. Bank examiners, on the other hand, would approach their review of loan files from a different perspective. This includes the size and method of sampling the portfolio, classification of loans and other review practices.

[See GAO note 1, p. 67]

Also, on page 44 under the caption, "Not all district offices audited", we must mention that this is a matter of priorities that must be considered along with staff and travel funds availability. In addition in performing program and functional reviews, it is essential to schedule such reviews where there is sufficient volumn of program activity to make an adequate review and evaluation. This has and will continue to be a prime consideration in selecting offices for review. Therefore, some offices will be subject to reviews more often than others. Further, one must, also, realize that the prime objective of a program or functional review is not to evaluate particular offices, but to review and evaluate the program or function and that offices are the test sites for such reviews and evaluations.

Now in relation to our comments above, your statements on page 45 concerning the audit coverage of the Atlanta Region is a good example of the considerations we have to make in scheduling test audit sites. That is, several of the audits that were performed in the Regional Office, namely, the functional audits of "the Budgeting Functions" and the "Practices and Procedures with Regard to Section 1311 Supplemental Appropriation Act, 1955" had to be made at the Regional Office, since this is the control point for these functions for the field offices. The other audits which were made in the Atlanta Regional or District Offices, could have been made in other offices. However, since these offices had sufficient volumn of activity in the programs or functions under review and since we had "Post-of-Duty-Stations" auditors in Atlanta, an effective review could be performed without incurring considerable travel fund expenditures. We believe that these are proper considerations and to do otherwise could demonstrate poor planning and use of available resources.

Page 46 of your report gives the impression that Internal Audit does not follow-up on their audit findings. The fact is that follow-up is made to the extent that Internal Audit does assure that implementing instructions are forwarded to the field offices and depending on the significance of the findings, follow-up audits are scheduled as soon as practical.

We agree that follow-up is critical; however, from a practical standpoint this necessarily has to be a major responsibility of day-to-day supervision of operating officials. This is what we attempted to accomplish with two of the reports cited in your report; however, it appears that greater emphasis will need to be placed on this procedure. Therefore, we intend to instruct our Regional Directors to make this a function of their Assistant Regional Directors' periodic review of activities within the region. Also, Central Office program review teams will also be instructed to perform follow-up activities when they review offices in their program area.

[See GAO note 1, p.67]

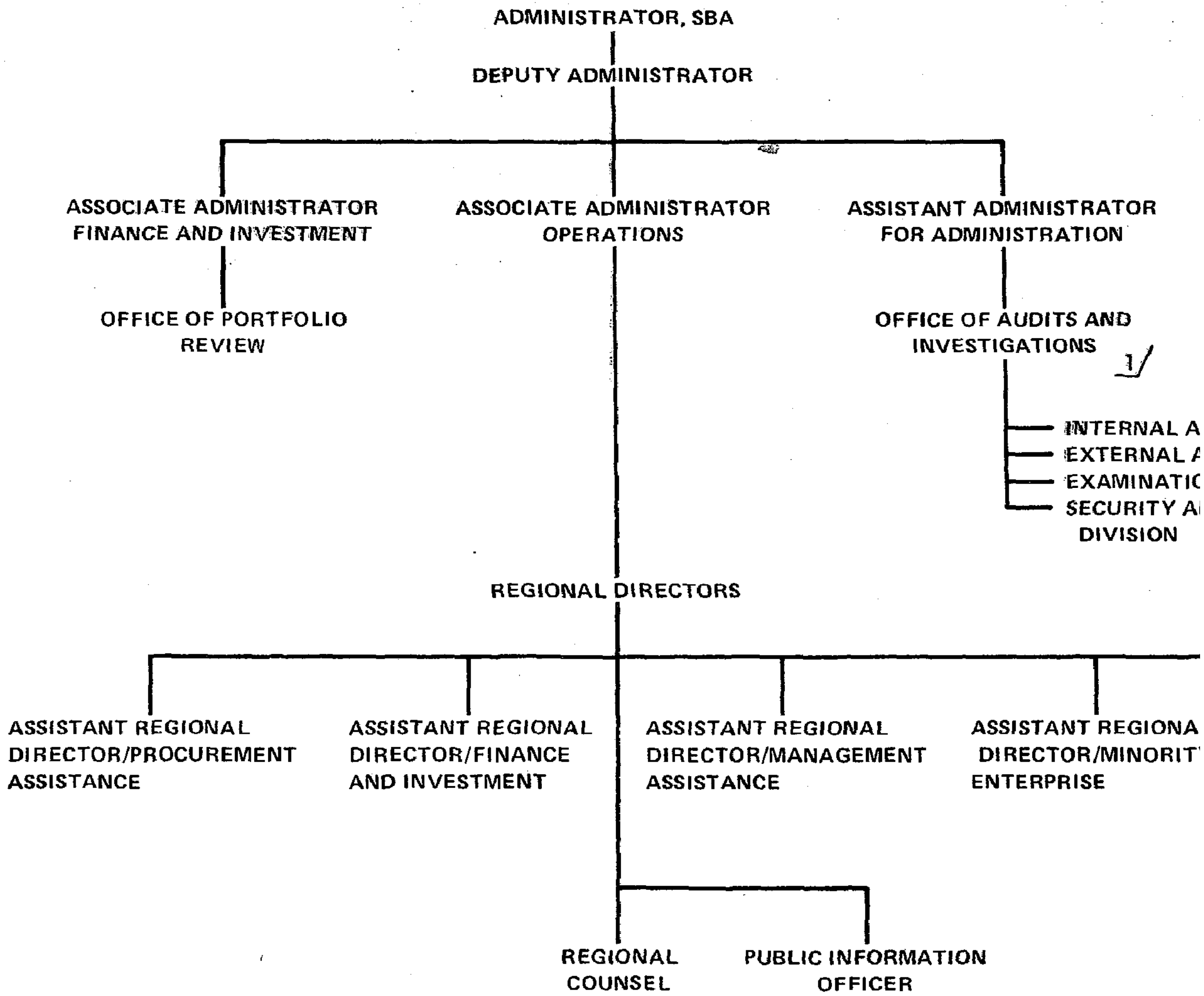
We would like to point out in reference to your observations on page 49 that the External Audit Division has reduced its backlog to approximately 30 to 60 days and has implemented their independent selection of loans for audit. This we believe affords improved coverage of all programs and offices.

GAO Notes:

1. Deleted comments refer to material contained in draft report which has been revised or which has not been included in the final report.

2. Page references throughout the agency's comments refer to our draft report and may not correspond to this final report.

ORGANIZATION CHART OF MAJOR REVIEW FUNCTIONS II



1/ In April 1976 an SBA reorganization made the office of audits and investigations directly responsible to the Administrator.

EMPLOYEES BY POSITION AND GRADE HAVING DUTIES INVOLVING ASSISTANCE DECISIONS BUT NOT REQUIRED TO FILE STATEMENTS OF FINANCIAL INTEREST

Position	GS-9	GS-11	GS-12	Total
Loan specialist	54	76	220	350
Business management specialist	8	40	52	100
Community economic industrial planner	8	14	22	44
Economic development specialist	-	6	26	32
Attorney advisor	-	14	20	34
Industrial specialist	2	9	6	17
Business development specialist	1	1	8	10
Contract negotiator	2	3	5	10
Contract and procurement specialist	1	-	6	7
Procurement source specialist	-	1	2	3
Contract price analyst	-	1	1	2
Procurement agent	-	-	1	1
Disaster loan specialist	1	1	6	8
Damage verifier	-	3	2	5
Disaster program specialist	-	-	1	1
Disaster appraiser	-	-	1	1
Business management officer	-	-	2	2
Total	77	169	381	627

COMMENTS ON THE CONTENTS OF

PORTFOLIO REVIEW REPORTS

The narrative section of the reports used by the office of portfolio review contains general observations of prevailing economic conditions of the area served by the field office. This is followed by a presentation of the findings on the overall condition of the field office, including subsections relative to management's effectiveness, quality of supervision and control, development and training of subordinates, and compliance with SBA's stated mission and philosophy.

Following these observations, specific improvements and slippages since the last examination are listed pertaining to (1) each loan program for the financing division, (2) the portfolio management division regarding loan servicing, liquidation, and disposal, and (3) the district counsel for loan closing and disbursements. All criticisms are described as "improvements," "slippages," "no change," and "little change" since the last examination. The criticism section is then followed by a series of suggestions deemed appropriate for improvement.

The last portion of the narrative section relates to a report on bank visitations. The portfolio review staff, together with field officials, only visits local banks for the purpose of soliciting more bank participation in the loan guaranty program and bankers' expressions of attitude toward the SBA loan assistance program.

The second portion of the report contains commentary on individual loans subject to adverse classification. The loan comments generally concern deficiencies in processing, closing, and servicing. The review was more concerned with what was wrong with the document file than with credit quality, profitability of the business, or payment ability. The reports generally do not indicate value of collateral, delinquencies, or reasons in support of the classification assigned.

The completed report is submitted to the director of the office portfolio review, for final review and distribution to the various SBA central office divisions. The Office of the Associate Administrator for Finance and Investment and three of its operating divisions are requested to critique both the report and the subsequent field office responses. Copies of the final report are also submitted to the regional director and district director of the office involved, together with a transmittal letter requesting responses to all items criticized or adversely classified. A response followup system is employed which monitors corrective measures suggested in the report.

One regional official said that his experience with portfolio review reports showed that they have not been much help to the region or the field office reviewed. Reasons mentioned for the ineffectiveness were:

--Too much involvement in matters which do not concern the area of portfolio management.

--Items listed as findings or deficiencies are at times inconsequential or very minor.

--Reasoning, where it would be appropriate and provide insight, is not stated and corrective actions are not recommended.

He also said that he could recall only two instances in which feedback had been provided to the field offices and the region concerning the responses to the portfolio review report. He assumed that when no feedback was received the response was acceptable.

ANALYSIS OF SBA'S CORRECTIVE ACTIONS

AND FOLLOWUP ON FINDINGS

DISCLOSED IN INTERNAL AUDIT REPORTS

"Review of Post Examination and Report Upon Purchase of Guaranteed Loans"

This report disclosed that three district offices had not implemented the requirement to perform a postpurchase examination and report within 30 days after a loan had been purchased. As a result, SBA had no assurance of (1) its legal position at the time the loan was purchased, (2) the proper disbursement and administration of the loan by the participating bank, (3) improper purchase of a loan, when denial of liability under the loan guarantee agreement should have been authorized.

The report also disclosed that loan guaranty purchase authorizations forwarded to the accounting operations division and the related loan case files evidenced minimal attention to:

--Justifying and supporting the need to honor the SBA share of the loan guaranty.

--Investigating or commenting upon failure by the participant to comply with terms of the SBA guaranty agreement.

--The possibility of fraud, negligence, or misrepresentation by the participant before authorizing payment for purchase of SBA's guaranteed share.

Internal audit said that as a result, the procedure followed in purchasing SBA's share of guaranteed loans was perfunctory and did little to assure that borrower and SBA interests had been adequately served.

To correct these deficiencies, the Offices of the Associate Administrator for Operations, General Counsel, and the Associate Administrator for Finance and Investment all agreed to take various actions to clarify postpurchase procedures and to advise field offices of the need to conduct such examinations.

We reviewed 8 of the 42 loans purchased by 1 district office during the period July 1974 through February 1975. Loan guaranty purchase authorizations continued to be executed without apparent investigation or comment regarding the participating bank's failure to comply with the terms of SBA's guaranty agreement, or regarding the possibility of negligence, or misrepresentation by participating banks.

In two of the eight loans, the purchase authorization did not contain the required statement that "SBA has no knowledge of or evidence to suggest negligence, fraud, or misrepresentation on the part of the claimant." While the remaining purchase authorizations contained the phrase, "there is no indication of fraud or collusion," the basis for such a conclusion was not evident in the purchase authorization.

Furthermore, the required postpurchase examination and report, including the district counsel's review of the sufficiency of collateral documents and the agency's legal liability, were not made for four of the eight loans reviewed. In the four instances in which postpurchase examinations were made, it was to transfer the loan to "in liquidation" status.

The required postpurchase examination format was not used. As a result, the loan specialist's reports did not show (1) a review of the participating bank's disbursement of the loan proceeds for conformance with the loan authorization or (2) a concise narrative reflecting the scope of the examination and whether the discrepancies found, if any, would result in a loss to SBA.

The assistant district director agreed that the district had not begun to conduct postpurchase examination and reports using the guidelines provided by the assistant regional director.

At another district office, we reviewed 5 of the 99 loans purchased from July 1974 through February 1975. These five loans represented 19 percent of the $6,961,079 paid to participants by the district during this period. This district office also had not taken adequate corrective action.

"Review of Selected Aspects of Liquidation and Disposal Activities"

The report showed that supervisory controls are not sufficient to assure effective liquidation actions to obtain repayment of the loan in the minimum time. Loan officers stated that timely actions were not taken because of priorities given to other functions, shortage of personnel, and heavy workload. As a result of delays in liquidation, there was no assurance that the agency was receiving maximum recovery on the collateral or from other sources.

Internal audit officials recommended that the Associate Administrator for Operations:

--Pursue the problem of implementing supervisory controls concerning liquidation functions to the extent that unjustified delays would be eliminated and liquidation action taken against a borrower would be productive and effective.

--Promote action to the extent necessary to implement supervisory controls that would require loan officers to follow prescribed liquidating procedures and in a timely manner when a loan is classified as "in liquidation." This action is necessary to preserve the interest of the agency so as to assure maximum recovery in the minimum time for every case in liquidation.

The Associate Administrator for Operations agreed with the recommendations and directed that the findings serve as a basis for a thorough evaluation of liquidation and disposal activities. At the time of our examination, not all of the internal audit recommendations, however, were fully implemented at the district office level.

In one district office, supervisory controls did not appear to be sufficient to assure that prescribed procedures for liquidation actions were followed in a timely manner. For example:

--A loan in liquidation since October 1969 was awaiting current financial information prior to further action.

--Two loans in liquidation over 1 year had not been charged off because other cases had higher priority.

--Two borrowers with loans in liquidation, whose primary source of income was from farming, offered compromises based on farm income from the 1974 crop year. Because 1974 was a poor crop year, neither company met its compromise offer. One company, in liquidation since June 1973, offered a compromise based on the 1975 crop year. The other company, in liquidation since July 1971, had not made any further compromise offers.

At one district office liquidation activities were assigned to a single loan officer. This was to resolve the problem of supervisory controls over liquidation activities. In following up on this action, we received conflicting opinions on the adequacy of supervision over liquidation activities. The loan officer who was assigned responsibility stated that he was not trained in liquidation activities before his appointment and he had little or no supervision. The Assistant District Director for Finance and Investment said that he considered his supervision of the loan officer adequate.

SUMMARY OF RESPONSES ON THE USE OF 19 SBA MANAGEMENT REPORTS

Report title	Number receiving report	Percent using report
Portfolio Listing of Business Loans by Financing Office	154	89
Management Information Summary	269	90
Management Assistance Monthly	110	83
843 Prime Contracts	20	75
Summary Report of Loans in Liquidation	145	83
Program Performance and Resource Allocation	58	72
Portfolio Management Statistical Summary	101	83
Loans in Liquidation and Disposal	132	77
Status Report of 8(a) Contractors	96	68
Report of Approvals and Allotments by Program Category	62	71
List of Loans Maturing	101	80
Summary of Business Loans Disbursed During Each Month	103	62
Firms Approved for 8(a) Contract Assistance	118	64
Certificate of Competency Monthly	38	71
Consolidated Surety Bond Guarantee	38	73
Development Company Operating Statistics	29	69
Loan Distribution Gross Totals	32	62
Surety Bond Guarantee Status	43	67
Loan Distribution Region Totals	43	60

DIGESTS OF SEVEN REPORTS PREVIOUSLY ISSUED UNDER PUBLIC LAW 93-386

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

QUESTIONABLE EFFECTIVENESS OF THE 8(a) PROCUREMENT PROGRAM
Small Business Administration

DIGEST

WHY THE REVIEW WAS MADE

Section 8(a) of the Small Business Act of 1953 gives the Small Business Administration (SBA) the authority to enter into procurement contracts with Federal agencies and, in turn, subcontract the work to small businesses. SBA has used this authority to develop a program designed to assist socially or economically disadvantaged small businessmen in achieving a competitive position in the financial marketplace. Since 1968, when the 8(a) program was started, SBA has awarded 6,912 subcontracts totaling $737,100,000 to over 2,800 business firms. (See pp. 4 and 5.)

Members of Congress have expressed concern over the benefits derived from the 8(a) program. Accordingly, GAO reviewed the program to determine whether eligible firms were becoming self-sufficient and viable.

GAO did most of its work in Washington, D.C., and in the Atlanta, Dallas, Detroit, Philadelphia, New York, and San Francisco areas. (See p. 35.)

FINDINGS AND CONCLUSIONS

Progress of 8(a) firms

SBA's success in helping disadvantaged firms to become self-sufficient and competitive has been minimal. From 1968 to August 1974, only 31 firms successfully completed the program.

GAO evaluated the progress of 110 firms that had received at least 1 subcontract before December 31, 1970. These firms received over $81.4 million in 8(a) subcontracts. (See p. 7.)

Of the 110 firms, 73 had not reached self-sufficiency. Twenty firms deteriorated financially, 27 went out of business, and the remaining 26 had either a slight financial improvement (but not enough to make the firm self-sufficient) or no change. Of the remaining 37 firms, 18 became self-sufficient and 19 were not classified because of insufficient information.

A major reason for this lack of success was SBA's inability to control the supply of contracts from Federal agencies. Although applicants specify in business plans the amount of assistance they need each year to become self-sufficient, SBA cannot guarantee any level of assistance.

SBA did not provide adequate assistance to the 20 firms that deteriorated financially or the 27 firms that went out of business. Sixteen of these 47 firms projected a need for $17.1 million of assistance, but SBA provided only $5.8 million in assistance. (See p. 9.)

Fourteen of 19 officials at Federal agencies supplying contracts to SBA advised GAO that they could not forecast their procurement needs so they could not guarantee SBA any given level of contracts for the 8(a) program. (See p. 10.)

Extent and effect of sponsorships

SBA encourages nondisadvantaged businesses (sponsors) to provide management services, training, and capital to 8(a) firms.

Ineffective monitoring by SBA of the activites of sponsors coupled with the high degree of control exercised by sponsors over disadvantaged firms permits some sponsors to maintain their standing in the marketplace by using the 8(a) program. Eighty-nine firms accepted into the 8(a) program had part owners and/or sponsors who were nondisadvantaged. Of these firms, 77 received contracts amounting to about $132.5 million under the program.

Experienced contractors normally become sponsors by forming new corporations using former employees as stockholders and officers and by providing goods and services to the new corporations for a fee. The sponsors also obtain 49 percent or less ownership in the 8(a) firms. (See app. IV for a description of the relationship between a sponsor and an 8(a) firm and the extent to which the sponsor exercised controls.) (See p. 19.)

It appears that SBA relinquished to sponsors its responsibility for insuring that 8(a) firms are provided with capital, management services, and training to aid them in becoming self-sufficient. The sponsors often controlled the firms, contrary to SBA's objective of helping the firms to become self-sufficient.

This occurred because SBA did not (1) monitor the extent to which sponsors controlled 8(a) firms or (2) determine whether firms were becoming self-sufficient. Instead, SBA considered majority ownership of the firms by disadvantaged individuals as evidence of their control.

Officials of six of the seven sponsors GAO reviewed expressed a desire to develop viable businesses and at the same time make a profit. However, five said they had very little incentive to create viable businesses which later would become competitors.

SBA lacks criteria to define the extent to which sponsors can collect fees for services rendered. For example, the sponsors GAO reviewed charged fees ranging from about 6 percent to about 17 percent of gross receipts. Moreover, SBA does not regularly analyze financial transactions between sponsors and 8(a) firms to insure their propriety and reasonableness. (See p. 18.)

Eligibility

SBA requires that owners of applicant firms be socially or economically disadvantaged to be eligible for the 8(a) program.

SBA has admitted applicants in the program on the basis of social disadvantage without documenting the reason the assistance is needed. SBA field offices should be required to document in writing the connection between an applicant's social or economic disadvantage and his inability to compete successfully in the business world. Furthermore, some applicants whose need for assistance appears questionable have been admitted to the program. (See p. 27.)

Administration

SBA emphasizes that the performance of 8(a) firms must be closely monitored, but it has not regularly done so. Therefore, SBA has not been able to identify the contractual and management assistance requirements of 8(a) firms or to promptly fulfill these requirements. (See p. 32.)

Although SBA considers management assistance an important tool in correcting the deficiencies of 8(a) firms, it has not provided such assistance to about 52 percent of the firms GAO reviewed. Seven firms that requested management assistance did not receive it. Of the 88 firms that received management assistance, only 33 were satisfied with it. (See p. 32.)

SBA has established goals for the 8(a) program in terms of the number and dollar amount of contracts awarded. GAO believes this is not a valid measure of effectiveness.

For example, SBA has met its monetary goals, even though business plan projections were not met, in each of the last 3 fiscal years, but only 31 firms graduated from the program. A more appropriate goal would appear to be based on the desired number of successful program completions. (See p. 33.)

RECOMMENDATIONS OR SUGGESTIONS

GAO suggested that the Administrator of SBA consider the following as means of improving the 8(a) program:

--Identify and evaluate potential courses of action which could be taken to alleviate SBA's lack of control over supply of contracts by considering alternatives such as (1) allocating more SBA resources for identifying and processing suitable 8(a) contracts and/or (2) reducing the number of firms in the 8(a) program.

--Provide firms with more assistance and guidance in developing sales.

--Establish a system to monitor (1) the extent to which sponsors control 8(a) firms and (2) the progress of the sponsor-controlled firms toward becoming self-sufficient.

--Develop criteria to define the extent to which sponsors can collect fees from 8(a) firms for service and other items.

--Evaluate each firm's need for management assistance and provide such assistance as required while they are in the program.

--Establish realistic goals for the 8(a) program that would include the number of successful program completions.

AGENCY COMMENTS AND UNRESOLVED ISSUES

SBA expressed general agreement with the facts contained in this report and described actions that had been taken to correct the problems noted in GAO's review. See pages 15, 24, 31, and 34 for SBA's specific comments concerning each suggestion.

Although the actions taken by SBA should improve the 8(a) program, GAO believes that additional improvements are necessary. Accordingly, GAO recommends that the Administrator, SBA:

--Reconsider SBA's position of maintaining 1,500 active firms in its 8(a) program and periodically adjust the number of firms depending on the level of contracts that can be made available for the 8(a) program. (See p. 17.)

--Establish a system to monitor a sponsor's compliance with the terms of the sponsorship arrangement as approved by SBA, especially management agreements establishing a sponsor's services and fees. (See p. 26.)

--Revise the standard operating procedures to require that field offices consider all of the suggested factors in determining the need for 8(a) assistance and document in writing the connection between an applicant's social or economic disadvantage and his inability to compete successfully in the business world. (See p. 31.)

APPENDIX VII

--Establish adequate internal controls to insure that 8(a) firms are provided management assistance. (See p. 34.)

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report--the first in a series pursuant to Public Law 93-386, which requires GAO to conduct a full-scale audit of SBA--demonstrates the need for fundamental changes in SBA's 8(a) program if the longstanding congressional aim of assisting disadvantaged businessmen is to be achieved.

The Congress may wish to review what is being done to correct the program's problems when considering future authorization and appropriation requests.

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

A LOOK AT HOW THE SMALL
BUSINESS ADMINISTRATION'S
INVESTMENT COMPANY PROGRAM
FOR ASSISTING DISADVANTAGED
BUSINESSMEN IS WORKING

D I G E S T

The Small Business Administration licenses, regulates, and, in part, finances privately owned and operated investment companies whose purpose is to provide equity capital, long-term loans, and management assistance to small businesses that are at least 50 percent owned and managed by socially or economically disadvantaged businessmen.

It does so under section 301(d) of the Small Business Investment Act.

Although the program is just getting into high gear, patterns have emerged which warrant actions by the agency:

--Available funds are being only partially invested. (See p. 4.)

--For those businesses receiving help, the investment companies are opting for loans rather than more risky equity participation. (See p. 7.)

--Granted the risks assumed by the investment companies, some of their arrangements with small businesses appear to be one sided. (See p. 9.)

--Eligibility requirements were poorly defined, and help was being given to some businesses that did not appear to need assistance. (See p. 12.)

--Better management information could result if improvements were made in the reporting system for monitoring 301(d) investment company activities. (See p. 14.)

GGD-75-74

--The Small Business Administration has essentially adopted a hands-off approach to the program, preferring what it terms "the capitalistic way."

As the advocate of the small businessman, the Small Business Administration needs to be more directly concerned with the practices of these companies in their continuing effort of providing equity financing.

GAO's findings were brought to the attention of the Administrator. He has agreed to take action on (1) apparent ineligibility of business applicants and eligibility guidance, (2) the contingency of management fees based on profits, and (3) the reporting system to provide better management information.

Other than those matters, he believes that the Administration is doing what it can and should do, consistent with the authorizing legislation.

GAO recommendations are contained on page 19.

Whether the small businesses becomes viable depends to a large measure on the practices of the investment companies. Since these practices can promote or hinder the interests of small businesses, they should be carefully watched by the Agency.

This report is the second in a series under to Public Law 93-386 which requires GAO to conduct a full-scale audit of the Small Business Administration.

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

SUBSTANTIAL LOSSES PROJECTED FOR THE SMALL BUSINESS ADMINISTRATION'S LEASE GUARANTEE PROGRAM

D I G E S T

Under its lease guarantee program, the Small Business Administration helps small businesses obtain leases of commercial and industrial space which, because of insufficient credit standing, they would otherwise not be able to obtain at reasonable terms.

The agency does this by guaranteeing rent payments to landlords, either directly or in participation with a private insurer. As of June 30, 1974, the agency's contingent liability was about $337 million.

The program is required to be self-sustaining. Administrative expenses and payments to landlords must be covered by premiums charged the small businessman or the landlord.

The program is not self-sustaining for policies issued through fiscal year 1974. GAO projects that net losses may be about $17 million by the end of the average life of the currently outstanding leases (fiscal year 1987).

The Congress should be aware that:

--Additional appropriations may be needed to cover projected losses on lease guarantees already issued.

--New actuarial studies will likely show that the 2.5-percent legal limitation on loss premiums will have to be increased if the program is to be self-sustaining.

The Small Business Administration's Administrator should (1) give the Congress estimates of total losses on policies issued to date for future funding purposes and (2) have new actuarial studies made to determine the self-sustaining premium rates.

GGD-75-101

If, as expected, these studies show that the portion of the premium necessary to cover default payment must exceed the 2.5-percent legal limitation, the Small Business Administration should ask the Congress to consider amending the enabling legislation.

The report also contains a series of recommendations to improve program administration. This report--the third in a series pursuant to Public Law 93-386, which requires GAO to conduct a full-scale audit of the agency--concludes that the Small Business Administration:

--Has not updated actuarial studies on which premiums are based since January 1971, even though experience has shown that some assumptions underlying previous studies were in error. (See p. 10.)

--Has not monitored the program's solvency. (See p. 11.)

--Used poor judgment in approving guarantees for businesses which could not reasonably to expected to succeed. (See pp. 14 to 21.)

--Does not have an adequate system for screening high-risk applicants with major deficiencies and has guaranteed rents on specialized properties which are difficult to re-rent when defaults occur. (See pp. 24 to 25.)

The Small Business Administration agreed to act on GAO's recommendations but pointed out that a new study, if performed by professional actuaries on a contract basis, would be expensive and require an estimated 1-1/2 years to complete. The agency believes that further discussions with the appropriate committees of the Congress are necessary before such a study is initiated.

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

PERSONNEL MANAGEMENT IN THE SMALL BUSINESS ADMINISTRATION

DIGEST

Section 13 of Public Law 93-386 dated August 23, 1974, directed GAO to conduct a comprehensive audit of the Small Business Administration. This report, one of a series prepared in response to the legislative mandate, discusses the Agency's personnel management practices.

GAO's review of Small Business Administration personnel management involved:

--Determining the Agency's corrective actions to improve personnel management in response to Civil Service Commission reports.

--Surveying opinions of 518 employees, or over 10 percent of the Agency's personnel, on how they perceived their Agency's personnel management.

--Determining the issues concerning allegations of political influence in personnel actions.

During its routine evaluations at the Agency, the Commission 1/ found weaknesses in the Small Business Administration's personnel management. (See pp. 11 to 14.)

GAO noted that the Small Business Administration had generally taken corrective action on Commission recommendations.

GAO's employee opinion survey showed that the majority considered personnel programs and practices good or fair. When specific allegations of improprieties were made, GAO attempted to determine their validity but was generally unable to document that specific actions were improper.

1/ The evaluations were often conducted jointly with the Agency.

The Commission in an August 1974 report entitled "Alleged Political Influence in Personnel Actions at the Small Business Administration," stated that:

--"Sponsorship by partisan political figures, political affiliations, and political clearances were factors in the selection of four District Directors in SBA; in the absence of a viable staffing plan for District Director positions, SBA has permitted a personnel management vacuum to exist in which political interests are allowed to influence appointments to these key positions."

--"A number of improper or illegal personnel actions have been taken by SBA as a result of efforts to provide preferential treatment to some candidates and employees; and in some cases, the personnel actions which resulted from the preferential treatment were based on considerations of political support."

--"Disciplinary action should be considered with respect to certain SBA officials who violated personnel laws or were otherwise responsible for such violations on the part of their subordinates or other employees."

The Commission recommended specific corrective actions and the Administrator of the Small Business Administration agreed to implement them. (See p. 20.)

About 37 percent of the 518 employees interviewed by GAO thought political appointees had been placed in Small Business Administration positions and that some appointments responded to changes in the White House administration.

GAO noted numerous political referrals in Small Business Administration correspondence files, including statements beyond character or residence, the two items permitted by 5 U.S.C. 3303. GAO believes that although the official examining an applicant may not legally consider such references they are difficult to ignore and put undue pressure on the examining official.

In view of Executive Order 11222--which prohibits any action which might give or create the appearance of giving preferential treatment to any person--and that over one-third of the Agency employees we interviewed believed that political appointees had been placed in positions aspired to by careerists, the Small Business Administration should avoid even the appearance of preferential treatment to any person. The Commission remarked that

> "* * * while certain technical legal and regulatory details may have appeared, on the surface, to have been compiled with, it is clear from an examination of the cases reported that the true spirit and intent of personnel laws and merit principles were violated."

Because of on-going personnel management evaluations at the Small Business Administration, corrective actions initiated or taken by the Agency, cases under litigation, congressional hearings and proposed legislation on the merit system, GAO does not consider it appropriate to make recommendations.

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

THE SMALL BUSINESS ADMINISTRATION NEEDS TO IMPROVE ITS 7(a) LOAN PROGRAM

D I G E S T

Under section 7(a) of the Small Business Act, the Small Business Administration guarantees and makes direct loans to small businesses. The 7(a) program is the agency's basic and largest business loan program.

As of June 1975, 80,582 loans valued at $3,930.4 million were outstanding and 6,880 loans valued at $344.1 million were delinquent 60 days or more or in liquidation.

GAO reviewed the 7(a) loan program at 24 of the agency's district offices, randomly selecting and examining 980 loans. (See app. III.)

Although the agency has aided, counseled, and assisted many small businesses throughout the Nation, GAO found problems that require management attention.

Loan proceeds were approved for questionable purposes.

--Numerous loans were approved which merely transferred the risk of loan payment from banks and other creditors to the agency itself. (See pp. 9 to 21.)

--Some loans were made to wealthy businesses not intended to receive assistance. (See pp. 21 to 24.)

The Small Business Administration did not always analyze the prospective borrowers' financial condition adequately or verify the adequacy of collateral pledged. As a result, loans were approved when it was questionable whether they were of such sound value or so secured as to reasonably assure repayment. (See ch. 4.)

The agency did not act effectively after loans were made to increase the chances of borrower success and loan repayment.

--Borrowers used loan proceeds for unauthorized purposes which went undetected. (See pp. 36 to 39.)

--The Small Business Administration did not have adequate procedures for detecting delinquent loans and the reasons for the delinquency, and therefore did not know of borrowers in need of help. (See pp. 39 to 44.)

--The agency did not routinely visit borrowers to check their progress. (See pp. 46 to 49.)

--Its management assistance program was not helping businesses overcome their problems. (See ch. 6.)

A problem which permeates the entire loan process is a shortage or improper alignment of personnel at the district office level.

To correct these problems, the Small Business Administration should take numerous actions, including:

--Insuring clarification of and compliance with established operating procedures.

--Determining its proper staffing level to effectively analyze and service the loans approved. To achieve this level, the agency should consider realigning its current personnel or requesting additional staff from the Congress. If these approaches fail, the only option would be to limit the number of loans approved. (See pp. 25, 34, 54, and 68.)

This is the fifth in a series of reports pursuant to Public Law 93-386, requiring GAO to conduct a full-scale audit of the Small Business Administration. The Congress can use this report in assessing the agency's management; administration; and fulfillment of its legislative mandate to aid, counsel, and assist small businesses.

The Small Business Administration generally agreed with GAO's recommendations. The agency appreciated the overall positive tenor of GAO's report and acknowledged the managerial shortfalls uncovered.

It said that remedial measures are either underway or planned but these must be accomplished within budgetary constraints. (Specific agency comments are discussed on pp. 26, 34, 55, and 69.)

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

THE SMALL BUSINESS ADMINISTRATION'S LOCAL DEVELOPMENT COMPANY LOANS ARE MAKING CAPITAL AVAILABLE--BUT OTHER AIMS ARE OFTEN SUBVERTED

D I G E S T

The Small Business Administration needs to improve its management of the local development company loan program. While the program is making capital available to many small businesses, other objectives of the authorizing legislation are often subverted.

The agency had made or guaranteed 5,271 loans valued at over $1 billion since the program began in 1959. However, many loans were merely substitutes for assistance available to small businesses under other agency programs--and not consistent with the legislation authorizing the local development company loan program.

The Congress intended that the program's initiative come from local citizens organized in local development companies. However, often--GAO is unable to estimate overall frequency--the company is a facade allowing a particular small business to obtain benefits of the longer term, lower interest-rate loans available under this program.

Although the agency had set certain eligibility requirements for screening out such companies, it had not exercised strong supervisory control over the program.

Of 95 loans GAO examined, 1 or more eligibility requirements were not met in 36 cases.

--In 23 cases the small business exceeded its allowable contribution toward the local development company's share of the project cost.

--In 20 cases the agency's membership requirements for the local development company were not met.

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--In 11 cases the small business exceeded its allowable ownership, or control, of the company.

For 25 loans the agency's field offices did not follow proper procedures before permitting local development companies to value their contributions of land or land improvements exceeding costs.

The agency's Internal Audit Division has reported similar problems. The agency's corrective actions, if adhered to, should help exclude ineligible companies from program participation.

The agency has been overstating the program's accomplishments, basing its claims on projected, rather than realized, benefits.

Finally, GAO noted that some loans were approved for small businesses whose financial condition was such that credit should have been refused because it was available from other sources.

The Administrator of the Small Business Administration should:

--Establish a system to monitor local development companies' entry into the program and their financial contributions to the projects.

--Improve the accuracy of reporting program accomplishments.

--Establish criteria for loan approval which relate dollars invested to jobs created.

--Strengthen the agency's controls for assuring that loans are made only to small businesses whose financial condition warrants assistance.

The Small Business Administration agreed to act on the above recommendations by:

--Restudying membership eligibility and developing requirements to insure community participation.

--Retraining personnel who package and process local development company loans.

--Considering the activation of a system to obtain meaningful historical and current financial and employment data from loan recipients.

--Studying the advisability of establishing job cost-benefit guidelines. (See app. I.)

This report is the sixth in a series under Public Law 93-386, which requires GAO to make a full-scale audit of the Small Business Administration.

COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

NEED FOR IMPROVEMENT IN SMALL BUSINESS ADMINISTRATION'S FINANCIAL MANAGEMENT

DIGEST

Although the Small Business Administration's accounting system generally is operating satisfactorily, it needs to provide more complete, accurate, and timely information useful to management, the Congress, and the public.

--The true extent of the number of troubled loans in the agency's portfolio is hidden because under agency procedures delinquent loans are classified as current when borrowers are granted deferments or when loans are refinanced. Disclosure of loans in this category would be helpful in evaluating the collectability of the agency's loan portfolio and would be useful in determining whether the agency's program of granting deferments and refinancing loans is successful. (See pp. 5 to 7.)

--Contrary to the accounting principles and standards prescribed for Federal agencies, the agency accrued interest on delinquent loans without making any provision for the loss of interest should the loans prove to be uncollectable. In fiscal year 1974 the agency charged off $5.5 million in uncollectable interest. (See pp. 7 to 8 .)

--Because the agency did not provide for costs to be incurred when its guarantees had to be honored, the true status of the lease and surety bond program was not being revealed. From inception of the lease guarantee program through June 30, 1974, agency records showed income exceeded expenses by $3.6 million. In another report to the Congress, GAO estimated the agency's net loss on leases issued through fiscal year 1974 would be $17 million by the end of fiscal year 1978. (See pp. 9 to 12.)

Certain agency financial management policies, procedures, and practices need to be strengthened to promote greater efficiency and economy in operations. The following relate to the need for such improvements.

--The agency sets no ceiling on the number of days accrued interest it will pay to banks on defaulted loans. The longer banks delay in requesting the agency to purchase their defaulted loans, the more interest banks will collect from the agency. In fiscal year 1974 the agency paid more than 180 days of accrued interest on over 1,000 of the 3,400 guaranteed loans it purchased. The agency would have saved $209,000 in that year if 180 days had been established as the limit on the number of days interest it would pay to banks. The agency would have saved $370,000 if 105 days had been established as the limit. At the time of GAO's computation the rate paid to banks was limited to 8 percent. Now the rate to be paid by the agency is the same rate of interest as provided for in the note, making the interest costs to the Government even higher. (See pp. 13 to 16.)

--The accounting records for the Surety Bond Guarantee Program do not show whether all fees due from contractors and sureties were collected. Because of the large volume of fees collected, the agency does not attempt to identify payments with contracts. The agency is studying the feasibility of automating accounting for the program. If accounting is automated, the problem should be solved. (See pp. 17 to 18.)

--When making advances to subcontractors the agency deposits funds in special bank accounts and the subcontractor draws on these funds. Funds were allowed to remain idle because deposits were not timed to coincide with needs of contractors. In one agency region the Government could have saved $15,000 in interest costs in an 18-month period by timing deposits better. (See pp. 18 to 19.)

APPENDIX VII

--The agency's financial statements have not been audited for the past 5 years by the agency's Internal Audit Division. Periodic audits of financial statements are needed to assure management that the financial management systems and reports are reliable. (See pp. 20 to 21.)

The financial statements of the combined revolving funds--with three exceptions--present fairly the Small Business Administration's financial position as of June 30, 1974, and the results of its operations and changes in financial position for the year then ended in conformity with principles and standards of accounting prescribed by the Comptroller General of the United States.

The exceptions are

--lack of provision for estimated losses on accrued interest (see pp. 7 to 8),

--lack of a provision for estimated losses on leases and surety bonds (see pp. 9 to 12), and

--overstatement of the allowance for losses on loans (see pp. 25 to 26.)

The agency generally agreed with GAO's conclusions and recommendations with the following exceptions.

--The agency did not agree that it should purchase defaulted loans sooner by establishing a limit on the number of days accrued interest it pays to banks. (See pp. 15 to 16.)

--The agency did not agree that it should show a liability in future financial statements for estimated loss on guaranteed loans expected to default which the agency will be required to purchase. (See pp. 11 to 12.)

This report is the seventh in a series under Public Law 93-386, which required GAO to conduct a full-scale audit of the agency.

GAO Note:

Page references throughout the preceding Digests refer to the respective accompanying report.

PRINCIPAL SBA OFFICIALS RESPONSIBLE FOR ADMINISTERING THE ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office			
	From		To	
ADMINISTRATOR:				
Mitchell P. Kobelinski	Feb.	1976	Present	
Louis F. Laun (acting)	Oct.	1975	Feb.	1976
Thomas S. Kleppe	Jan.	1971	Oct.	1975
Hilary J. Sandoval, Jr.	Mar.	1969	Jan.	1971
Howard J. Samuels	Aug.	1968	Feb.	1969
Robert C. Moot	Aug.	1967	July	1968
DEPUTY ADMINISTRATOR:				
Louis F. Laun	Sept.	1973	Present	
Anthony Chase	Feb.	1971	Sept.	1973
Einar Johnson	June	1970	Feb.	1971
W. Donald Brewer	Oct.	1969	June	1970
Richard B. Blankenship	Mar.	1969	Oct.	1969
Howard Greenberg	Aug.	1967	Mar.	1969
GENERAL COUNSEL:				
William T. Gennetti (acting)	Dec.	1975	Present	
H. Gregory Austin	Apr.	1973	Dec.	1975
William T. Gennetti (acting)	Jan.	1973	Apr.	1973
John A. Knebel	Feb.	1971	Jan.	1973
Anthony Chase	Mar.	1970	Feb.	1971
William T. Gennetti (acting)	Jan.	1970	Mar.	1970
Leonard S. Zartman, Jr.	July	1969	Jan.	1970
Daniel Garbern (acting)	Apr.	1969	July	1969
William T. Gennetti (acting)	June	1968	Apr.	1969
Phillip F. Zeidman	Jan.	1965	June	1968
ASSOCIATE ADMINISTRATOR FOR FINANCE AND INVESTMENT (note a):				
John T. Wettach	Sept.	1975	Present	
Ronald G. Coleman (acting)	Feb.	1975	Sept.	1975
Einar Johnson (acting)	Jan.	1975	Feb.	1975
David A. Wollard	Feb.	1973	Jan.	1975
Anthony S. Stasio (acting)	Jan.	1973	Feb.	1973
Jack Eachon, Jr.	Dec.	1969	Jan.	1973
Howard G. Rogerson (acting)	Aug.	1969	Dec.	1969
Logan B. Hendricks	Aug.	1964	July	1969

ASSOCIATE ADMINISTRATOR FOR OPERATIONS (note b):		
Daniel T. Kingsley	Mar. 1975	Present
William M. Lendman	Oct. 1973	Mar. 1975
Louis F. Laun	Feb. 1973	Sept. 1973
Stephen H. Bedwell, Jr. (acting)	Oct. 1972	Feb. 1973
Claude L. Alexander	Feb. 1972	Oct. 1972
Arthur Singer	June 1971	Feb. 1972
ASSISTANT ADMINISTRATOR FOR ADMINISTRATION:		
Herbert T. Mills (acting)	Oct. 1975	Present
Ronald G. Coleman	May 1972	Oct. 1975

a/Before February 1973, this position was Associate Administrator for Financial Assistance.

b/From June 1971 through February 1972, this position was the Associate Administrator for Operations and Investments. From February-April 1972, it was the Assistant Administrator for Administration and Operations. Then it reverted back to Associate Administrator for Operations and Investments in April 1972 and became the Associate Administrator for Operations in February 1973.

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