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## RESULTS ACT

# Observations on SBA's September 30, 1997, Strategic Plan

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Mr. Chairman and Members of the Committee:

We are pleased to be here today to provide our views on the September 30, 1997, strategic plan developed by the Small Business Administration (SBA), pursuant to the Government Performance and Results Act of 1993 (the Results Act). As you know, the Results Act is one of the major steps the Congress has taken in recent years to fundamentally change the way federal agencies go about their work. The Results Act requires agencies to clearly define their missions, set goals, measure performance, and report on their accomplishments.

SBA is an independent agency created in 1953 to aid, counsel, assist, and protect the interests of small businesses. With a permanent staff of about 4,400 employees and an annual operating budget of about \$800 million, SBA administers loan and other programs that annually provide over \$10 billion in small business financing. The agency also provides management training, technical assistance, and procurement opportunities to small businesses and financial assistance to the owners of homes and businesses that are damaged or destroyed by natural disasters. My statement today will address the progress SBA has made in developing its strategic plan and the challenges SBA continues to face in implementing the Results Act. My observations are based on our review of the strategic plan that SBA issued to the Congress and the Office of Management and Budget (OMB) on September 30, 1997, as well as our review of an earlier version of SBA's plan dated March 5, 1997.<sup>1</sup>

SBA's September 30, 1997, plan represents an improvement over its March 5, 1997, version. The September plan contains the six elements required by the Results Act; the strategic goals, as a group, are more clearly linked to SBA's mission and are more amenable to measurement; and the strategies and performance measures are more clearly linked to the objectives that they are intended to achieve and measure. Other improvements in the September plan encompass a mission statement that now includes the disaster loan program for families and more accurately reflects SBA's statutory authorities; a better recognition that SBA's success in achieving certain goals and objectives in the plan is dependent on the actions of others; and the addition of a section that discusses how SBA's programs and activities interact with those of other federal agencies.

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<sup>1</sup>Results Act: Observations on the Small Business Administration's Draft Strategic Plan (GAO/RCED-97-205R, July 11, 1997).

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At the same time, the September plan could be further improved to better meet the purposes of the Results Act. The relationship of one of the plan's goals—leading small business participation in the welfare-to-work effort—to SBA's mission is unclear. In addition, SBA's September plan does not discuss the human, capital, and other resources needed by SBA to carry out the strategies identified in the plan; does not include comprehensive schedules of future program evaluations for major SBA programs; and does not consistently link identified external factors to the particular goal or goals they could affect or describe how each factor could affect the achievement of the goal. In a departure from the March version, SBA's September plan includes as appendices separate strategic plans for SBA's Office of Inspector General and Office of Advocacy; however, the relationship between the goals and objectives in the plans included in the appendices and those in SBA's plan is not explicit.

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## Purpose and Requirements of the Results Act

The Results Act is the centerpiece of a statutory framework to improve federal agencies' management activities.<sup>2</sup> The Results Act was designed to shift the focus of attention of federal agencies from the amount of money they spend, or the size of their workloads, to the results achieved by their programs. Agencies are expected to base goals on their results-oriented missions, develop strategies for achieving their goals, and measure actual performance against the goals.

The Results Act requires agencies to consult with the Congress in developing their strategic plans. This consultation gives the Congress the opportunity to help ensure that the agencies' missions and goals are focused on results, are consistent with the programs' authorizing laws, and are reasonable in light of fiscal constraints. The products of these consultations are to be clearer guidance to agencies on their missions and goals, which should lead to better information to help the Congress choose among programs, consider alternative ways to achieve results, and assess how well agencies are achieving them.

The Results Act required SBA and other executive agencies to complete their first strategic plans and submit them to the Congress and OMB by September 30, 1997. The act also requires that agencies submit their first annual performance plans, which set out measurable goals that define what will be accomplished during a fiscal year, to the Congress after the President submits his fiscal year 1999 budget to the Congress. OMB

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<sup>2</sup>Other parts of the framework include the Chief Financial Officers Act of 1990, the Paperwork Reduction Act of 1995, and the Clinger-Cohen Act of 1996.

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requested that agencies integrate, to the extent possible, their annual performance plans into their fiscal year 1999 budget submissions. OMB, in turn, is required to include a governmentwide performance plan in the President's fiscal year 1999 budget submission to the Congress.

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## Improvements in SBA's September 30 Strategic Plan

SBA's September 30, 1997, strategic plan is an improvement over the March 5, 1997, version of the plan. The September plan includes the two required elements that were lacking in the March version. First, the September plan includes a section on how program evaluations were used to develop the plan and mentions some specific evaluations that SBA plans in the future, such as those for business information centers. Second, it includes a section entitled "Linkages to Annual Performance Plans" that recognizes the need to link (1) the strategic goals in the plan to annual performance goals and (2) SBA's annual budget submissions to annual performance goals.

In addition, the five goals in the September plan—which are to (1) increase opportunities for small business success, (2) transform SBA into a 21st century, leading edge financial institution, (3) help businesses and families recover from disasters, (4) lead small business participation in welfare-to-work, and (5) serve as the voice of America's small businesses—are, as a group, more clearly linked to SBA's statutory mission than the goals in the March version of the plan.

Also, the inclusion of date-specific performance objectives to help measure performance makes the strategic goals and objectives in the September plan more amenable to a future assessment of SBA's progress. For example,

- Under the goal of increasing opportunities for small business success, one of SBA's performance objectives is as follows: "By the year 2000, SBA will help increase the share of federal procurement dollars awarded to small firms to at least 23 percent."
- Under the goal of transforming SBA into a 21st century, leading edge financial institution, one of SBA's performance objectives is as follows: "By the year 2000, SBA will expand the Chief Financial Officer (CFO) annual financial audit to include a separate opinion on whether SBA's internal control structure meets Committee of Sponsoring Organizations (COSO) of

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the Treadway Commission standards for financial reporting.<sup>3</sup> By the year 2002, SBA will receive an unqualified opinion on its internal control structure for financial reporting.”

SBA also improved its strategic plan by more clearly and explicitly linking the strategies in the September plan to the specific objectives that they are intended to achieve. Also, some of the strategies are more detailed and more clearly indicate how they will enable SBA to accomplish its goals and objectives. For example, under the objective of “implementing effective oversight” of lenders and other resource partners, SBA’s strategies include (1) establishing loan program credit, service, and mission standards to measure lenders’ performance and (2) developing a scoring system, based on objective criteria, that measures and determines whose performance is consistent with the laws and regulations governing SBA programs. Furthermore, certain strategies recognize the crosscutting nature of some activities; for example, a strategy for achieving SBA’s strategic goal to “help businesses and families recover from disasters” is to combine SBA’s home loss verification with that of the Federal Emergency Management Agency’s home inspections.

We also observed certain other changes which we believe have improved SBA’s strategic plan:

- The mission statement in SBA’s September plan appears to incorporate observations we made in our July report: It is concise and reflects SBA’s key statutory authorities of aiding, counseling, and assisting small businesses and of providing disaster assistance to families and businesses.
- In general, the September plan does a better job of recognizing that SBA’s success in achieving certain goals and objectives in its plan is dependent on the actions of others. For example, one of the strategies under the objective “expanding small business procurement opportunities” calls for SBA to “work with other federal agencies to set higher small business procurement goals and assist these agencies in meeting those goals.”
- SBA significantly improved its September plan by more clearly and explicitly linking performance measures to the specific objectives that they are intended to assess. Performance measures are directly linked to 11 of the 14 performance objectives in the plan. An exception is SBA’s fifth goal of serving as a voice for America’s small business, where the

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<sup>3</sup>COSO, a private-sector initiative jointly sponsored by the American Accounting Association, the American Institute of Certified Public Accountants, the Financial Executives Institute, the Institute of Internal Auditors, and the Institute of Management Accountants provides, among other things, a standard against which entities can assess their internal control systems.

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performance measures are listed as a group at the end of the discussion of the goal's three objectives.

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## SBA's Strategic Plan Can Be Further Improved

While SBA's September 30, 1997, strategic plan is an improvement over the March 1997 version that we reviewed, we believe that further revisions to the plan as SBA continues to implement the Results Act and build on current efforts would enable SBA's plan to better meet the purposes of the Results Act.

As noted earlier, while the five goals in the September plan are more clearly linked to SBA's statutory mission, the relationship of one goal—leading small businesses' participation in the welfare-to-work effort—to SBA's mission is unclear. While the performance objective for this goal places emphasis on helping small businesses meet their workforce needs, the subsequent discussion implies a focus on helping welfare recipients find employment; for example, the plan states that "SBA's goal is to help 200,000 work-ready individuals make the transition from welfare to work . . ." It is not clear in the plan why SBA is focusing on welfare recipients and not on other categories of potential employees to help meet small businesses' workforce needs.

Under the Results Act, strategy sections in the strategic plans are to briefly describe items, such as the human, capital, information, or other resources needed to achieve goals and objectives. The strategy sections in SBA's September plan lack such a discussion. At the same time, the plan recognizes the need for information on resources needed to achieve the goals and objectives, and states that accountable program managers will develop an annual business plan that contains a set of program activities, milestones, and resources for each objective and strategy in the plan.

The Results Act requires that strategic plans include a schedule of future program evaluations. SBA's plan mentions certain program evaluations planned by SBA for future fiscal years; for example, the plan states that in fiscal 1998, SBA will (1) assess the results of counseling services provided by two pilot Women Business Centers and (2) conduct an assessment of the effectiveness and efficiency of existing United States Export Assistance Centers. The plan also states that SBA will continue its goal monitoring of field and headquarters offices. However, the September plan does not contain schedules of future comprehensive program evaluations for SBA's major programs, such as the 7(a) loan program, which is SBA's largest small business lending program, and the 8(a) business development

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program, which supports the establishment and growth of small firms by providing them with access to federal procurement opportunities. In addition, while SBA acknowledges in the September plan that it needs a more systematic approach for using program evaluations for measuring progress toward achieving its goals and objectives, the plan does not outline how SBA will develop and implement such an approach. It should be noted that the IG's plan references future audits and evaluations that the IG plans to conduct as part of its effort to improve SBA's management.

Under OMB's Circular A-11, strategic plans are to briefly describe key external factors and how each factor may influence achievement of the goals and objectives. A section added to the September plan identifies four external factors—the state of the economy, continued congressional and stakeholder support, public-private cooperation, and interagency coordination—that could affect the achievement of the plan's goals. However, with the exception of the "interagency coordination" factor, the plan does not link these factors to particular goals or describe how each could affect achievement of the plan's goals and objectives. Also, the plan does not articulate strategies that SBA would take to mitigate the effects of these factors. The added section also discusses how SBA's programs and activities interact with other federal agencies' programs and activities. While SBA states that it will work with other federal agencies to coordinate its activities, the section does not provide evidence that SBA coordinated with the other agencies in the plan's development.

The September plan, while recognizing the need for reliable information to measure progress toward the plan's goals and objectives, notes that SBA currently does not collect or report many of the measures that it will require to assess performance. The plan would benefit from brief descriptions of how SBA plans to collect the data to measure progress toward its goals and objectives. Similarly, a section in the September plan discusses SBA's efforts to improve internal controls and to obtain an unqualified opinion on its internal control structure for financial reporting by the year 2002. While this section implies that SBA will address management problems identified by GAO and others, such as SBA's failure to reconcile certain fund balances with those of the Department of Treasury and the problem of overvalued or nonexistent collateral on liquidated 7(a) loans, specific strategies to address the identified management problems are not described.

Unlike the March version that we reviewed, SBA's September plan includes, as appendices, separate strategic plans for SBA's Office of Inspector



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General (IG) and Office of Advocacy. In the March version of the plan, the IG material was presented under one of the plan's seven goals, while the Office of Advocacy material did not appear at all. Generally, the goals and objectives in the IG and Advocacy plans appear consistent with, and may contribute to the achievement of, the goals and objectives in SBA's plan, but the relationship is not explicit. SBA's plan makes little mention of the IG and Advocacy plans and does not indicate if or how the IG and Advocacy activities are intended to help SBA achieve the agency's strategic goals. Similarly, the IG and Advocacy plans do not make reference to the goals and objectives in the SBA plan. These plans could be more useful to decisionmakers if their relationships were clearer.

In summary, SBA has made progress in its strategic planning efforts, based in part on its consultation with the Congress. As I noted earlier, SBA's September 1997 strategic plan includes several improvements that make it more responsive to the requirements of the Results Act. However, as is the case with many other agencies, SBA's development of a plan that conforms to the requirements of the Results Act and to OMB's guidance is an evolving process. As my testimony notes, there are still several areas where improvements need to be made to SBA's strategic plan in order to meet the purposes of the Results Act.

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This concludes my statement. I would be pleased to respond to any questions you or members of the Committee may have.

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