United States General Accounting Office

GAO

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

June 1997

SMALL BUSINESS ADMINISTRATION

Better Planning and Controls Needed For Information Systems

GAO/AIMD-97-94

GAO

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

Accounting and Information
Management Division

B-276775

June 27, 1997

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

Dear Mr. Chairman:

This report contains the results of our review of the Small Business Administration's (SBA) efforts to develop a risk management database and a loan monitoring system. SBA is developing the database to comply with requirements of the Small Business Programs Improvement Act of 1996. SBA is also planning to develop a loan monitoring system to help support its oversight of increased lender responsibility for servicing loans. Funds to develop the loan monitoring system were requested in the President's fiscal year 1998 budget request.

At your request, we reviewed (1) the status of SBA's development and implementation of the risk management database, (2) whether SBA has established adequate processes and controls to ensure that the database will contain complete and accurate loan data, and (3) whether SBA has performed the planning steps needed to serve as a basis for funding the development phase of the proposed loan monitoring system. To address these issues, we conducted work at SBA's headquarters in Washington, D.C., and at the offices of an SBA contractor in New York, New York. We conducted our work between March and May 1997, in accordance with generally accepted government auditing standards. Details of our objectives, scope, and methodology are presented in appendix I.

Results in Brief

At the time of our review, SBA had completed development of a database structure and taken action to capture data and establish reporting capabilities to comply with the requirements of the Small Business Programs Improvement Act of 1996. SBA officials expect that the system will be capturing the required data and that the reporting capabilities will be developed before the June 30, 1997, deadline mandated by the act.

While SBA expects the system to be operational on time, it has not yet established and implemented the controls needed to ensure that the risk management database contains timely and accurate data which are also required by the act. At this time, the database has missing or incorrect data for about half the guaranteed loans because SBA has not yet effectively implemented controls over lender reporting. SBA also has not yet established controls to identify missing or incorrect underwriting characteristics data on defaulted loans. Until it implements effective controls, SBA has no means of ensuring that the risk management database will be sufficiently timely and accurate for program management and decision-making purposes.

Finally, SBA has not yet performed essential planning needed to serve as a basis for funding the development of the proposed loan monitoring system. To implement the information systems investment requirements of the Clinger-Cohen Act of 1996,[1] the Office of Management and Budget (OMB) established criteria that major information systems investments should meet for funding in the fiscal year 1998 budget. SBA has not performed the planning needed to demonstrate that the loan monitoring system will meet three of the eight criteria, such as simplifying or redesigning work processes and demonstrating a positive return on investment. Without performing essential planning, SBA increases the risk that the loan monitoring system will not effectively meet the agency's goals or provide the best return on investment.

Background

As part of its programs to expand access to capital and assist disadvantaged small businesses, SBA guarantees loans to small businesses that are unable to obtain financing under reasonable terms and conditions through normal business channels. It also makes physical disaster loans to small business and individual victims of natural disasters, and economic injury loans to small business victims of natural disasters. As of February 28, 1997, SBA reported having over $28 billion in loan guarantees and about $7 billion in direct loans outstanding.

The Small Business Programs Improvement Act of 1996 required SBA to establish a risk management database that would provide timely and accurate information to identify loan underwriting, collections, recovery, and liquidation problems. The database would include data on guaranteed business loans and direct disaster loans. The 1996 act required SBA to start capturing data in the risk management database in January 1997, and have the system fully operational by June 30, 1997.

[1]The Clinger-Cohen Act of 1996 provides an analytical framework for making information system investment decisions and managing information system development based on best industry practices.

SBA's guaranteed loans are made and serviced by lenders who collect payments and, in some cases, liquidate defaulted loans.[2] Each lender is required to send to SBA's fiscal and transfer agent[3] (1) a monthly report on the status of the loans, including information on loan collections, deferrals, and delinquencies and (2) loan guarantee fees that are due to SBA. The fiscal and transfer agent processes the reports and remittances and transmits a data file to SBA for its accounting and information systems, including the new risk management database. Disaster loans are made and serviced by SBA, and the accounting records for these loans are the source of data for the risk management database.

In its fiscal year 1998 budget request, SBA presented plans for increased reliance on lenders to service and liquidate defaulted small business loans. To provide effective monitoring of the lenders' activities, SBA plans to hire personnel with expertise in lender oversight, establish financial performance goals for private-sector partners, create a database for tracking lender and portfolio performance, and develop a new loan monitoring system to provide timely and accurate information to agency management. SBA requested $18 million to improve portfolio management, including about $9.5 million to develop the information system improvements.

SBA Has Developed a Database Structure and Started Capturing Required Data

SBA has developed a database structure, made provisions for collecting data, and begun entering data required by the Small Business Programs Improvement Act of 1996. At the time the act was passed, SBA had a database called the Electronic Loan Input Processing System (ELIPS) that contained most of the required data elements. This included data to identify the borrower, lender, location, loan program, and loan status. To respond to the requirements of the act, SBA decided to expand the ELIPS database structure to include the required loan delinquency and underwriting characteristics data.

As of May 1997, SBA was capturing loan status data in the risk management database as required by the act and had recently issued instructions to field offices for the collection of underwriting characteristics data. Although the act required SBA to start capturing data in January 1997,

[2]SBA requires some lenders to liquidate defaulted guaranteed loans on its behalf, while SBA itself performs the liquidations on other defaulted loans.

[3]SBA's fiscal and transfer agent is a contractor who is responsible for reconciling guarantee fee remittances from lenders to reported amounts, verifying that lenders remit the correct fees, and transferring the fees to SBA.

issuance of instructions for collecting the underwriting characteristics data was delayed due to the lack of standards for calculating some of the required ratios and because reaching a consensus on the calculations took longer than expected. SBA does not expect the delay to affect the planned operational date. According to the SBA official responsible for these operations, field staff will have sufficient time to collect and enter the required data in time for the database to be fully operational by June 30, 1997.

SBA developed a task order for a contractor to determine reporting requirements for the database and develop software applications to produce the reports, but had not issued the task order at the time of our review. Although SBA was a few weeks behind its original schedule for issuing the task order, SBA officials responsible for the risk management database stated that they expect the work to be completed and the system to be fully operational by the June 30, 1997, deadline.

Controls Needed to Ensure Data Reliability

SBA has not yet implemented effective controls to ensure that the risk management database contains timely and accurate data as required by the Small Business Programs Improvement Act of 1996. Until such controls are implemented, SBA will not be able to rely on any analyses or reports produced from the database.

SBA is capturing data from multiple sources for the risk management database—disaster loan status information from files maintained by the SBA field office that services the loans, guaranteed loan status information provided by lenders through SBA's fiscal and transfer agent, underwriting characteristics data collected by field staff from SBA's loan files, monthly loan transactional data, and historical data from existing program and accounting databases. SBA officials told us they are confident that they have complete and accurate status information for the disaster loans; however, they acknowledged quality problems with the data reported by lenders. The quality of status data reported by lenders is important to the overall reliability of the database because guaranteed loans account for about 80 percent of the dollar value of all loans to be included in the risk management database.

According to SBA's records, during the first 3 months of 1997, lenders reported complete and accurate loan status data for only about 50 percent of the guaranteed loans. Officials of SBA's fiscal and transfer agent told us that some of the initial data problems occurred because (1) many lenders were not notified of the new reporting requirements due to wrong mailing addresses in SBA's records or (2) lenders misunderstood the reporting requirements. The officials also told us that the chance of data errors would be significantly reduced if lenders submitted data in digital form—files submitted using diskettes or electronic data transfers—rather than paper documents. About 75 percent of the loans are reported by lenders using paper documents.

To reduce data quality problems, the fiscal and transfer agent established controls to help identify incomplete and inaccurate data from lenders. These controls include (1) edit checks to identify invalid data, such as missing data in required data fields or invalid status codes and (2) comparisons of loans reported by lenders with SBA's records to identify unreported loans. If the controls identify inaccurate or missing loan data, the fiscal and transfer agent sends a notice to the lender requesting the needed data. Officials of the SBA fiscal and transfer agent told us that these controls have helped reduce unreported loans from 43 percent (79,000) in January 1997 to 29 percent (54,000) in March 1997 out of the total SBA guaranteed loans. Similarly, we were advised that errors for reported loans decreased from about 27,000 to about 24,500 during the same period.

For underwriting characteristics data collected by its field offices, SBA has developed edit checks to alert staff when they are entering invalid data or not entering all required data for individual loans. However, SBA has not established any controls to alert managers when data on defaulted loans are not entered or incomplete data are entered into the database. SBA's Chief Financial Officer agreed that the addition of these controls would serve to increase the reliability and integrity of the data, and agreed to look into establishing controls for their database.

The lack of effective controls may be attributed, at least in part, to SBA not developing data quality standards.[4] Because SBA had to develop the database within a few months and most of the data needed were already captured in existing systems, SBA narrowly focused its system development activities to begin with the development phase. Therefore, SBA did not perform many steps normally completed in the definition

[4]The need for developing data standards, also referred to as data requirements, has been specified in federal guidance, such as Federal Information Processing Standards Publication 38, for many years. The definition of data requirements, as part of the data stewardship function, is also specified by the Framework for Federal Financial Management Systems issued by the Joint Financial Management Improvement Program in January 1995. One of the objectives of data stewardship is to provide accurate, complete, timely, and reliable information. The framework establishes the requirements for all federal financial systems and specifically covers guaranteed loan system requirements.

phase of a project, including the development of data quality standards.[5] Such standards define the timeliness, validity, accuracy, and availability required for the intended system users to rely on the data for program management and decision-making purposes. The standards also serve as a basis for establishing adequate controls for data collection and processing. Without data standards and implementation of effective controls to meet the standards, SBA can not ensure that data in the risk management database are sufficiently timely and accurate for the system's intended purpose.

Essential Planning Not Performed for Loan Monitoring System

SBA has not yet performed the essential planning needed to serve as a basis for funding the development phase of the proposed loan monitoring system. SBA has not conducted any benchmarking studies, defined system requirements, identified alternatives, or prepared benefit/cost or return-on-investment analyses on the alternatives. Because SBA has performed limited planning, this proposed information system investment does not meet the OMB criteria for funding in fiscal year 1998.

SBA officials told us that, although this project was in the early conceptual phase when the fiscal year 1998 budget request was submitted, funds were requested because SBA needed to move quickly to develop a system to meet increasing responsibilities for lender monitoring. In addition to SBA's plans to increase use of lenders for servicing and liquidating loans, the Small Business Programs Improvement Act of 1996 gave lenders increased authority to service and liquidate loans without prior SBA approval. With this increased reliance on lenders and the need to monitor their activities, SBA requested funds to develop a system even though the planning had not yet been performed to define the system.

SBA's planning for the loan monitoring system does not meet OMB's criteria for funding information system investments. In implementing the information technology investment requirements of the Clinger-Cohen Act of 1996, OMB specified eight criteria that major information system investments should meet for funding in the fiscal year 1998 budget (see appendix II). Four of the criteria relate to capital planning, one concerns the use of an information architecture to align information technology with mission goals, and three concern risk management. In comparing SBA

[5]The development of an automated information system is a disciplined process with prescribed phases that should be completed. Successful system development normally proceeds through the following phases: (1) system planning and initiation, (2) requirements definition and analysis of alternatives, (3) design and development, (4) programming and testing, and (5) implementation. There are a number of planning activities associated with each phase.

planning actions to these criteria, we found that SBA has not performed the planning or analyses needed to demonstrate that the loan monitoring system will meet three of the criteria. SBA has not performed the work needed to (1) simplify or redesign work processes, (2) demonstrate a positive return on investment, or (3) ensure that the proposed system is consistent with the agency's information architecture. Without performing the planning actions to comply with the Clinger-Cohen Act, SBA increases the risk that the loan monitoring system will not effectively meet its mission goals or provide the best return on investment.

Concerning work processes, SBA has not yet analyzed the work processes associated with lender monitoring or benchmarked them against other organizations' work processes to determine whether the processes need to be simplified or redesigned to improve efficiency and effectiveness. Subsequent to the budget submission, SBA officials began looking at processes and systems used by other organizations to monitor lenders' loan servicing activities. According to an SBA official involved in this effort, SBA learned that the proposed loan monitoring system project may be much more complex and costly than initially envisioned. For example, other organizations studied use various approaches to collect loan information electronically from lenders, while SBA's lenders provide loan information primarily on paper documents—as mentioned earlier, about 75 percent of the time. Nevertheless, SBA has not performed formal benchmarking studies or analyses of alternatives to serve as a basis for making system requirements decisions.

Concerning demonstrating a positive return on investment, SBA's fiscal year 1998 budget request stated that requiring lenders to service and liquidate loans, requiring lenders to liquidate business chattel prior to SBA purchase, and increasing SBA oversight will result in a reduced subsidy rate for the guaranteed loans and a reduced need for appropriations in fiscal year 1998 of $44.2 million. However, SBA does not have any studies or analyses to support this estimate, according to the Deputy Chief Financial Officer. In addition, SBA views the $18 million requested as the fiscal year 1998 portion of the project, and as the functional and technology requirements are further defined, remaining costs associated with the project in fiscal year 1999 and beyond will be known.

Finally, SBA has not yet defined its requirements, analyzed alternatives to meet the requirements, or completed other actions needed to propose a specific system that would be consistent with its information architecture. An SBA official responsible for this system development effort stated that the agency is in the process of further defining this project and plans to hire a contractor to perform a requirements analysis.

Conclusions

SBA has made progress in establishing a risk management database, collecting the required data, and arranging for reporting capabilities. However, until SBA establishes data quality standards for the database and effectively implements the controls needed to ensure that the data are sufficiently timely and accurate, the database will be unreliable and will not meet the intent of the Small Business Programs Improvement Act of 1996.

While SBA's proposal for a loan monitoring system has merit, the agency has not performed the necessary planning mandated by the Clinger-Cohen Act to provide a solid basis to begin developing such a system. Because SBA has not performed the work needed to simplify or redesign work processes, demonstrate a positive return on investment, or ensure that the proposed system is consistent with the agency's information architecture, it faces increased risk that the development will fall short of expectations and result in a system that does not effectively and efficiently meet its objectives.

Recommendations

We recommend that the Administrator of the Small Business Administration establish data quality standards for the risk management database and implement a system of controls to ensure compliance with the standards. For the proposed loan monitoring system, we recommend that the Administrator not proceed with funding the system development until adequate plans are prepared in accordance with the Clinger-Cohen Act and OMB's criteria for fiscal year 1998 information technology investments. Further, in developing the plans, we recommend that the Administrator

- benchmark loan monitoring business processes and systems against comparable processes used by other organizations and, if appropriate, simplify or redesign work processes;
- analyze the benefits and costs of the alternatives and use these to demonstrate that the project will have a positive return-on-investment; and
- ensure that the proposed information system is consistent with the agency's information architecture.

Agency Comments and Our Evaluation

SBA's comments and our evaluation are summarized below, and the comments are reprinted in appendix III. SBA was concerned about our findings and conclusions and suggested that the report be revised significantly. We disagree and have not substantially revised our report.

Concerning the status of the development and implementation of the risk management database, SBA asserted that it has taken reasonable and prudent actions to meet the deadline for the congressionally mandated project. SBA said our use of the Clinger-Cohen Act as a benchmark for evaluating the project is not justified since the act does not address congressionally mandated projects, especially those with extremely challenging deadlines.

Although we did not use the Clinger-Cohen Act in our discussion of SBA's efforts to develop the risk management database because its development was substantially completed, it does apply to all information system projects whether or not they are congressionally mandated. Our report focuses on a factual analysis of the status of SBA's efforts to develop the risk management database in order to meet the requirements of the Small Business Programs Improvement Act of 1996.

SBA stated that the congressional deadline to complete the risk management database precluded its ability to undertake a proper level of system analysis, including establishment of data accuracy and reliability standards. SBA said it decided to rely principally on loan data maintained in existing agency databases, supplemented by limited underwriting data to be captured by its field offices. The agency provided some information on its efforts to capture data over the past year, and said it believes its actions to use the fiscal and transfer agent will result in accurate and timely data being input into the risk management database. SBA also noted that it plans to enhance the quality of the data and identify other ways that the data can be used to assess the portfolio risk. With regard to our recommendation to establish data quality standards and implement a system of controls to ensure compliance with the standards, SBA's Chief Financial Officer agreed that controls would serve to increase the reliability and integrity of the data and agreed to look into establishing controls for the risk management database.

Concerning whether SBA has performed the planning needed to serve as the basis for funding the development of the proposed loan monitoring system, SBA said the Clinger-Cohen Act was passed late last year and imposes many new requirements on agencies as they plan for future technology investments. SBA asserted that it is aggressively implementing the Clinger-Cohen Act, but believes it is premature to apply the standards of the act so strictly considering its recent enactment and evolving implementation. Also in this regard, SBA disagreed with our recommendation that the Administrator not proceed with funding the system development until adequate plans are prepared in accordance with the Clinger-Cohen Act and OMB's criteria for fiscal year 1998 information technology investments.

We disagree with SBA's contention that it is premature to apply the Clinger-Cohen Act. The requirements of the act were well known before SBA submitted its fiscal year 1998 budget request. The act was signed into law over a year ago on February 10, 1996, and became effective on August 8, 1996. We believe that SBA should be complying with the act so that it effectively manages its information technology investments. In addition, many of the rudimentary planning actions necessary for effective system development efforts—such as adequately defining systems requirements, analyzing alternative ways of meeting requirements including alternative system designs, and analyzing the benefits and costs of the alternatives—have been required for many years by OMB circulars (particularly A-130 and A-11), Federal Information Resources Management Regulations, Federal Information Processing Standards, and other federal guidance.

As to SBA's disagreement with our recommendation, we believe that it is imperative that SBA perform the essential planning before funding the development phase because this system will directly support SBA's mission activities related to monitoring lenders' servicing of billions of dollars of guaranteed loans. The Clinger-Cohen Act established requirements aimed at increasing the assurance that investments in information technology help agencies meet their mission goals and provide the best return on investment. In this regard, SBA has not performed the work needed to (1) simplify or redesign work processes that this system will support, (2) demonstrate a positive return on investment, or (3) ensure that the proposed system is consistent with the agency's information architecture. As a result, it faces increased risk that the development will fall short of expectations and result in a system that does not effectively and efficiently meet its objectives. We believe that the \$9.5 million information system investment planned for fiscal year 1998, considered by SBA to be the initial portion of a yet to be determined total investment, to be a substantial sum that should be committed to developing the system only after the necessary planning is completed and the project is shown to be a prudent use of funds.

SBA said that we made no reference to the planning effort each year to produce a 5-year information technology plan. According to SBA, this plan documents its overall information technology strategy and details the specific developmental efforts planned for the upcoming years. As part of our work, we reviewed SBA's latest 5-year information technology plan. We note that the proposed loan monitoring system is not discussed in the latest plan, and therefore, there is no need to discuss the plan in our report.

We are sending copies of this report to the Ranking Minority Member of the Committee on Small Business; other interested congressional committees; the Administrator, Small Business Administration; the Director, Office of Management and Budget; and other interested parties. Copies will also be made available to others upon request.

I can be reached at (202) 512-6408 or by e-mail at *willemssenj.aimd@gao.gov*, if you or your staff have any questions. Major contributors to this report are listed in appendix IV.

Sincerely yours,

Joel C. Willemssen
Director, Information Resources Management

Contents

Letter	1
Appendix I Objectives, Scope, and Methodology	14
Appendix II OMB Criteria for Funding Information Systems	16
Appendix III Comments From the Small Business Administration	19
Appendix IV Major Contributors to This Report	22

Abbreviations

ELIPS	Electronic Loan Input Processing System
OMB	Office of Management and Budget
SBA	Small Business Administration

Objectives, Scope, and Methodology

As requested by the Chairman of the Senate Committee on Small Business, our objectives were to review (1) the status of SBA's development and implementation of its risk management database, (2) whether SBA has established adequate processes and controls to ensure that the risk management database will contain complete and accurate loan data, and (3) whether SBA has performed the planning steps needed to serve as a basis for funding the development phase of the proposed loan monitoring system.

To ascertain the status of SBA's development and implementation of its risk management database, we compared the database structure developed by SBA to the requirements of the Small Business Programs Improvement Act of 1996, interviewed SBA officials, and reviewed project documentation. To determine whether SBA had established adequate processes and controls to ensure that the risk management database will contain complete and accurate loan data as required by the act, we identified the processes and controls used to ensure that complete and accurate data are obtained and recorded from lenders and SBA field offices on the status of loans. We analyzed the processes and controls using the requirements specified in the Federal Information Processing Standards Publication 38 and the Framework for Federal Financial Management Systems issued by the Joint Financial Management Improvement Program in January 1995. We also reviewed summary records concerning reporting errors and missing data and reviewed reports showing the results of tests of software applications used to capture and enter data into the risk management database. SBA has a separate system from the risk management database that is used to meet the requirements of the Credit Reform Act. We did not examine that system or the accuracy of data in the system as part of our review.

To determine whether SBA has performed the planning steps needed to serve as a basis for funding the development phase of the proposed loan monitoring system, we interviewed SBA officials and reviewed documentation on the actions taken by SBA to develop the proposal for the system. We compared these actions to the criteria required by the Office of Management and Budget for information technology projects contained in the fiscal year 1998 budget request.

We conducted our work at SBA headquarters in Washington, D.C., and at offices of SBA's fiscal and transfer agent in New York, New York. We performed our work between March 1997 and May 1997, in accordance with generally accepted government auditing standards.

SBA provided written comments on a draft of this report. These comments are presented and evaluated in our report and are reproduced in appendix III.

OMB Criteria for Funding Information Systems

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

October 25, 1996

MEMORANDUM FOR HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Franklin D. Raines

SUBJECT: Funding Information Systems Investments

The Information Technology Management Reform Act (ITMRA) of 1995 (40 USC 1401 et. seq.) directs the Office of Management and Budget to establish clear and concise direction regarding investments in major information systems, and to enforce that direction through the budget process. Accordingly, the decision criteria set out below are established with respect to the evaluation of major information system investments proposed for funding in the FY 1998 President's budget.

The most effective long-term investment strategy is guided by a multiyear plan. The plan is a roadmap for getting from "where we are today" to "where we want to be" -- achieving the strategic mission goals of the organization in the framework of the Government Performance and Results Act (GPRA). Thus the first four decision criteria relate specifically to capital planning. The fifth criterion establishes the critical link between planning and implementation -- information architecture -- which aligns technology with mission goals. Under the ITMRA, the Chief Information Officer is responsible for that architecture. The last three criteria establish risk management principles to assure a high level of confidence that the proposed investment will succeed.

Policy

Investments in major information systems proposed for funding in the President's budget should:

1. support core/priority mission functions that need to be performed by the Federal government;

2. be undertaken by the requesting agency because no alternative private sector or governmental source can efficiently support the function;

3. support work processes that have been simplified or otherwise redesigned to reduce costs, improve effectiveness, and make maximum use of commercial, off-the-shelf technology;

4. demonstrate a projected return on the investment that is clearly equal to or better than alternative uses of available public resources. Return may include: improved mission performance in accordance with GPRA measures; reduced cost; increased quality, speed, or flexibility; and increased customer and employee satisfaction. Return should be adjusted for such risk factors as the project's technical complexity, the agency's management capacity, the likelihood of cost overruns, and the consequences of under- or non-performance.

5. be consistent with Federal, agency, and bureau information architectures which: integrate agency work processes and information flows with technology to achieve the agency's strategic goals; reflect the agency's technology vision and year 2000 compliance plan; and specify standards that enable information exchange and resource sharing, while retaining flexibility in the choice of suppliers and in the design of local work processes;

6. reduce risk by: avoiding or isolating custom-designed components to minimize the potential adverse consequences on the overall project; using fully tested pilots, simulations, or prototype implementations before going to production; establishing clear measures and accountability for project progress; and, securing substantial involvement and buy-in throughout the project from the program officials who will use the system;

7. be implemented in phased, successive chunks as narrow in scope and brief in duration as practicable, each of which solves a specific part of an overall mission problem and delivers a measurable net benefit independent of future chunks; and,

8. employ an acquisition strategy that appropriately allocates risk between government and contractor, effectively uses competition, ties contract payments to accomplishments, and takes maximum advantage of commercial technology.

As a general presumption, OMB will recommend new or continued funding only for those major system investments that satisfy these criteria. Funding for those systems will be recommended on a phased basis. (For more information on phases, see the discussion of "economically and programmatically separable" modules, in OMB Circular A-11, Part 3, "Planning, Budgeting and Acquisition of Fixed Assets," July 1996.)

A "major information system" is a system that requires special management attention because of its importance to an agency mission; its high development operating, or maintenance costs; or its significant role in the administration of agency programs, finances, property, or other resources. Large infrastructure investments (e.g., major purchases of personal computers or local area network improvements) should also be evaluated against these criteria.

OMB recognizes that many agencies are in the middle of ongoing projects initiated prior to enactment of the ITMRA, and may not be able immediately to satisfy the criteria. For those systems that do not satisfy the criteria, OMB will consider requests to use FY 1997 and 1998 funds to support the redesign of work processes, the evaluation of investment alternatives, the development of information architectures, and the use and evaluation of prototypes.

Action Requested

The policies in this memorandum apply to all agencies. The 28 major agencies listed in Section 3 of Executive Order No. 13011, "Federal Information Technology," should provide, by November 12, 1996, a statement listing the major information systems investments for which new or continued funding is requested in the agency's FY 1998 budget, and an evaluation of the extent to which each investment satisfies the decision criteria. For national security systems as defined in Section 10 of the Executive order, only the list need be provided. OMB will work with the agencies to ensure that national security systems satisfy the criteria to the extent practicable.

Because OMB considers this information essential to agencies' long-term success, OMB will use this information both in preparing the FY 1998 President's budget and, in conjunction with cost, schedule, and performance data, as apportionments are made. Agencies are encouraged to work with their OMB representative to arrive at a mutually satisfactory process, format, and timetable for providing the requested information.

Comments From the Small Business Administration

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

MAY 28 1997

Joel Willemssen, Director
Information Resources Management
General Accounting Office
Washington, D.C. 20548

Dear Mr. Willemssen:

The Small Business Administration (SBA) has reviewed the DRAFT General Accounting Office (GAO) report entitled "Better Planning and Controls Needed for Information Systems" (job code 511421) and are concerned about many of its findings and conclusions. The GAO team had a very limited timeframe to perform its review. It also relied heavily on the recently enacted Clinger-Cohen Act of 1996 as the information technology planning benchmark on which to evaluate SBA. For the reasons stated below, we believe this report should be revised significantly to meet GAO standards for objectivity and completeness.

In response to the three questions raised by the Committee, we offer the following comments. In addition, as an attachment to this letter, we offer specific comments to the various sections in the report.

The first question concerns the status of SBA's development and implementation of the risk management database. PL 104-208 enacted September 30, 1996 required the SBA to have an operational database in place by June 30, 1997, yet provided no appropriations for this effort. SBA took reasonable and prudent steps to meet this deadline. This included the use of existing database elements to meet P.L. 104-208's requirements and realistic additional systems development efforts. The short timeframe imposed by the Congress seriously limited our ability to undertake extensive project planning, as we would have preferred. Citing the Clinger-Cohen Act as a benchmark for evaluation in this situation is not justified since the Act does not address congressionally mandated projects, especially those projects with extremely challenging deadlines.

Our primary focus has been to implement the mandated requirements for the database. We view this database as an evolving tool for SBA managers and the version targeted for June implementation is the starting point. We plan to enhance the quality of the data and identify other ways that the data can be used to assess the portfolio risk.

The second question is whether SBA has established adequate processes and controls to ensure that the database will contain complete and accurate loan data. Again, the Congressional deadline imposed on the SBA precluded our ability to undertake the proper level of systems analysis, including the establishment of data accuracy and reliability standards. We decided to rely principally on loan data maintained in existing agency databases, supplemented by limited underwriting data to be captured by our field offices.

For our 7(a) loans, we have begun a significant transition in the capturing of data on loan guarantees over the past year. We have increased the frequency of reporting by our lenders from quarterly to monthly. Unfortunately, the GAO began work on this audit as SBA worked with its lenders and reporting agent to implement increased lender reporting. As a result of this transition, we have experienced some lapses in the data, which are being corrected and improved each month. It is important to note that this "missing" data is not the principal "cash flow" loan data that is used by SBA to calculate subsidy rates and which has been the area where the Committee has had the most interest in the past. The "cash flow" loan data is captured as part of SBA's purchase of a defaulted loan, and subsequent transactions thereafter. The SBA believes that its actions to utilize the fiscal transfer agent will quickly result in timely and accurate data being input into the information system at a cost significantly less than through use of SBA resources. Further, it should be noted that GAO did not report any problems with SBA data other than that associated with the transition from quarterly to monthly reporting.

The third question raised by the Committee asks whether SBA has performed the planning steps needed to serve as a basis for funding the development phase of the proposed loan monitoring system. The GAO team uses the recently passed Clinger-Cohen Act of 1996 as the benchmark for evaluating SBA's planning performance.

The SBA produces a five-year information technology plan each year that lays out our planned actions and investments. This documents our overall information technology strategy and details the specific developmental efforts planned for the upcoming years. GAO made no reference in its report to this planning effort.

GAO's first recommendation is essentially that SBA undertake Business Process Reengineering (BPR) and redesign work processes in its lending programs. We are in complete agreement with this recommendation. In fact, this is already occurring in the 504, LowDoc and FA$TRAK programs and is scheduled for other lending programs during FY 1998. Further, the Liquidation Improvement Project is underway to identify and implement needed improvements to SBA's liquidation and collection procedures.

The Clinger-Cohen Act of 1996 was passed late last year and imposes many new requirements on agencies as they plan for future technology investments. At the time of development of the SBA's budget request for FY 1998, insufficient time had elapsed for the Executive Branch to implement the Act.

The SBA is aggressively implementing the Clinger-Cohen Act. The SBA Chief Information Officer has been designated and has recently convened the first meeting of our Business Technology Investment Council. Several functional subgroups with headquarters and field office participation are also being established. OMB is preparing implementation guidelines for agencies. As we move forward, we will follow Clinger-Cohen Act guiding principles for information technology investments. We do not concur with the GAO conclusion that the Administrator should not proceed with funding system development efforts until evaluations consistent with each provision of the Clinger-Cohen Act and the OMB guidelines are completed.

In summary, we believe it is premature to apply the standards of the Clinger-Cohen Act so strictly considering its recent enactment and evolving implementation. We appreciate your consideration of our comments.

If you have any questions, please direct them to Maria Moy, the SBA's GAO liaison, at (202) 205-6104.

Sincerely,

J. Larry Wilson
Chief Financial Officer

Attachment

Major Contributors to This Report

Accounting and Information Management Division, Washington, D.C.

David G. Gill, Assistant Director
Mirko J. Dolak, Technical Asistant Director
James R. Hamilton, Evaluator-In-Charge

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066, or TDD (301) 413-0006.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

http://www.gao.gov

PRINTED ON RECYCLED PAPER