



Accounting and Information
Management Division

B-280331

June 30, 1998

The Honorable James M. Talent
Chairman
The Honorable Nydia M. Velazquez
Ranking Minority Member
Committee on Small Business
House of Representatives

The Honorable Christopher S. Bond
Chairman
The Honorable John F. Kerry
Ranking Minority Member
Committee on Small Business
United States Senate

Subject: Small Business Administration: Mandated Planning for Loan
Monitoring System Is Not Complete

As required by the Small Business Reauthorization Act of 1997, we have reviewed the Small Business Administration's (SBA) June 2, 1998, report on its status in completing eight legislatively mandated planning actions for a proposed loan monitoring system.

In its fiscal year 1998 budget request, SBA asked for \$18 million to improve its capabilities for monitoring lenders' loan servicing and liquidation actions. SBA said that these funds were to be used for (1) recruiting expertise in lender oversight, (2) establishing financial performance goals for private sector partners, and (3) creating a database for lender and portfolio management and developing information systems for timely and accurate reporting to agency management.

We reported in June 1997 that SBA had not undertaken the essential planning actions needed to develop the proposed information system--referred to as a

loan monitoring system.¹ The Congress subsequently enacted provisions in the Small Business Reauthorization Act of 1997 that required the Administrator of SBA to ". . . perform and complete the planning needed to serve as the basis for funding the development and implementation of the computerized loan monitoring system, including—

- (1) fully defining the system requirement using on-line, automated capabilities to the extent feasible;
- (2) identifying all data inputs and outputs necessary for timely report generation;
- (3) benchmark loan monitoring business processes and systems against comparable industry processes and, if appropriate, simplify or redefine work processes based on these benchmarks;
- (4) determine data quality standards and control systems for ensuring information accuracy;
- (5) identify an acquisition strategy and work increments to completion;
- (6) analyze the benefits and costs of alternatives and use to demonstrate the advantage of the final project;
- (7) ensure that the proposed information system is consistent with the agency's information architecture; and
- (8) estimate the cost to system completion, identifying the essential cost element."

The Administrator was also required to submit a report on the progress in carrying out these requirements within 6 months of enactment of the act. In this case, SBA's report was due by June 2, 1998. In addition, we were required to evaluate and report on SBA's compliance with this provision of the act within 28 days of receipt of SBA's report.

Accordingly, our objective was to determine whether SBA had performed and completed the required eight planning actions in accordance with federal

¹Small Business Administration: Better Planning and Controls Needed For Information Systems (GAO/AIMD-97-94, June 27, 1997).

guidance and generally accepted system development practices.² In this regard, we analyzed SBA's systems development and related information resources management policies and procedures, reviewed SBA's activities to prepare for undertaking the required planning actions, and reviewed and analyzed SBA's June 2, 1998, report to the Congress on its progress in carrying out the eight required actions that was issued pursuant to the Small Business Reauthorization Act of 1997. Our work was performed from December 1997 through June 1998, in accordance with generally accepted government auditing standards. We received written comments on a draft of this letter from SBA on June 25, 1998. These comments are included in the enclosure.

Our review of SBA's planning initiatives and its June 1998 report showed that SBA formed a project team for the loan monitoring system in December 1997, but it had not yet completed any of the eight planning actions required by the Small Business Reauthorization Act of 1997. SBA's report explains how the loan monitoring system fits into an agencywide systems modernization effort and provides a project plan for completing the eight mandated planning actions. The project plan describes the methodologies that SBA plans to use and specifies the tasks, time frames, and estimated costs for planning and developing the loan monitoring system. The project plan shows that SBA commenced work on the first of the required planning actions in May 1998 and projects that it will complete work on the last of them in August 1999.

AGENCY COMMENTS AND OUR EVALUATION

SBA stated that the Small Business Reauthorization Act of 1997 only requires it to plan to meet the eight mandated actions but not that it actually complete them before investing in its loan monitoring system. SBA also stated that our letter should evaluate its project plan and should recognize that SBA started its overall planning for the loan monitoring system in December 1997.

SBA's interpretation is inconsistent with the clear wording of the act. The act specifies that "The Administrator shall perform and complete . . ." (emphasis added) the eight specific actions listed earlier in this letter.

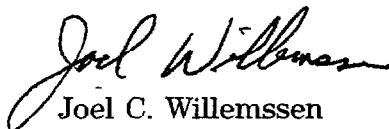
The type of actions listed in the Small Business Reauthorization Act of 1997 are not new requirements. They are fundamental to effectively investing in

²Federal guidance includes guidance issued by the Office of Management and Budget, the Joint Financial Management Improvement Program, and the General Accounting Office. Generally accepted system development practices include those specified in guidance issued by the Software Engineering Institute, Federal Information Processing Standards, and other widely accepted practices.

information technology and based on the practices of leading organizations. The Clinger-Cohen Act of 1996 and related OMB implementation instructions require that sound investment practices be followed before making major investments in information technology, and in our June 1997 report we cited substantially identical actions that SBA needed to complete before investing in its loan monitoring system. Accordingly, the objective of our review, as clearly stated during our meetings with SBA officials, was to determine whether SBA had completed the eight specific actions required by the Small Business Reauthorization Act in accordance with federal guidance and generally accepted system development practices.

SBA also takes the position that, rather than evaluating its progress in completing the eight actions mandated in the act, this letter should evaluate SBA's project plan. This position is similarly inconsistent with the requirements of the Small Business Reauthorization Act of 1997. The act requires that "On a date that is 6 months after the date of enactment of this Act, the Administrator shall submit a report on the progress of the Administrator in carrying out subsection (a)." and "Not later than 28 days after receipt of the report . . . the Comptroller General of the United States shall--(A) prepare a written evaluation of the report for compliance with subsection (a)." As discussed above, subsection (a) mandates completion of eight specific actions. These do not include developing a project plan. Accordingly, this letter does not address SBA's efforts to develop a project plan. However, because SBA's project plan is a preliminary step to completing the eight mandated actions, we have ongoing work to evaluate the plan. Finally, with regard to the start date for SBA's planning efforts, we revised the letter to show that it formed a project team in December 1997.

We are sending copies of this letter to other interested congressional committees; the Director, Office of Management and Budget; the Administrator, SBA; 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 willemsen.j.aimd@gao.gov, if you or your staffs should have questions.



Joel C. Willemsen
Director
Civil Agencies Information Systems

Enclosure

COMMENTS FROM THE SMALL BUSINESS ADMINISTRATION

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

OFFICE OF THE ADMINISTRATOR

June 24, 1998

Gene L. Dodaro
Assistant Comptroller General
U.S. General Accounting Office
Washington, D.C. 20548

Re: GAO Report on Loan Monitoring Systems

Dear Mr. Dodaro:

Thank you for allowing the Small Business Administration (SBA) the opportunity to review and comment on your draft report on SBA's Computerized Loan Monitoring System. As we explained during our meeting, we disagree with your conclusion that SBA's loan monitoring plan is not complete. SBA completed its plan in accordance with the requirements of Section 233 of SBA's Reauthorization Bill (P.L. 105-135). Further, we are sure that Congress intended for GAO to provide a meaningful written evaluation of SBA's plan. You indicated the plan is good. Please include those comments in your report.

We understand that GAO believed that its report was to address "completing all eight items." We met with GAO during GAO's six month review. If we had understood at any time during this period that we needed to complete the eight items, we would have approached the plan differently or sought further guidance. You seemed to agree that completing all eight items in six months was impossible without substantial resources. We could not expend the resources without the plan. Under the circumstances, SBA acted responsibly in its approach to meeting the statute's mandate.

Section 233 provides as follows:

The Administrator shall perform and complete the planning needed to serve as a basis for funding the development and implementation of the computerized loan monitoring system. (emphasis added)

Section 233 requires that SBA complete planning to support Congress' decision to fund development, purchase and implementation of SBA's loan monitoring system. We have read P.L. 105-135 to direct SBA to "plan" to complete items (a)(1) through (a)(8) - not

to complete them. We have met that requirement. A logical and plain language reading of the statute, together with the Appropriations Subcommittee interpretation, support our reading of the law.

A letter dated May 7, 1998, from Hal Rogers, Chairman of the House Appropriations Subcommittee on the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies to Administrator Aida Alvarez, supports our interpretation of Section 233. See Attachment A - Chairman Rogers May 7, 1998 letter to Administrator Alvarez. In the letter, Chairman Rogers states that Congress intends that SBA can spend money to complete the planning required by P.L. 105-135. Chairman Rogers' letter was clear that none of the funds could be used to purchase the loan monitoring system at that time.

The Committee has no objection to the obligation and expenditure of the \$8,000,000 provided in the Statement of Managers accompanying P.L. 105-119 on the first phase of the initiative, consistent with limitations on the purchase of a loan monitoring system in the Small Business Reauthorization Act of 1997 (P.L. 105-135). According to your project plan, the first phase will include planning, hiring of staff, business process reengineering, establishment of performance standards, subsidy rate analysis, systems analysis and implementation, new hardware and software, and staff training. While the Committee supports moving forward on the initial project steps, any purchase of hardware and software shall be subject to the limitations of P.L. 105-135, and detailed plans for such purchases shall be presented in advance to the Committees on Small Business and Appropriations. (emphasis added)

SBA also takes issue with two significant assertions contained in the draft report. On page 4, you state that SBA began system planning in May of 1998. This is not true. While SBA could not spend the \$8 million appropriated to complete all of the eight project development requirements until May 7, 1998, SBA did identify methodologies and project management principles. SBA completed the development of a comprehensive project plan to take loan monitoring from the beginning, benchmarking, to the end, full systems deployment. SBA took seriously Congress' charge to develop a plan to serve as the basis for a funding request. We began planning on December 17, 1997 - only fifteen days after P.L. 105-135 became effective. On December 23, 1997, we met with GAO to discuss developing the plan to support the funding request. We tasked EDS to assist us with the planning to support a funding request. See Attachment B - Planning Chronology - for a more complete list of SBA activities in preparing the report. For a detailed list of SBA's plan accomplishments, see Attachment C - "SBA Planning Activities to Meet the Eight Requirements of Section 233 of P.L. 105-135."

SBA is concerned that the draft GAO report concludes that SBA has not completed the planning necessary to move into the purchasing phase for a loan

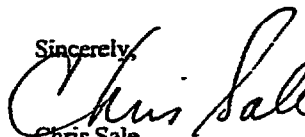
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monitoring system. The four page draft report contains only a conclusion without any real analysis of SBA's plan. SBA recognizes the short deadline under which GAO must report to Congress. Clearly Congress intended for GAO to supply an analytical evaluation to help assess SBA's plan to purchase a loan monitoring system.

We urge you to revise your report in light of Congress' intent and SBA's analysis of Congressional requirements. We believe that a rereading of the statute will lead you to agree that SBA is only required to plan to meet each of the eight planning steps. We are also confident that reviewing SBA's plan under this interpretation will lead you to conclude that SBA has more than adequately planned to design and develop its loan monitoring system.

Thank you for your attention to this important matter.

Sincerely,



Chris Sale

Chief Operating Officer

Enclosures

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