September 2015
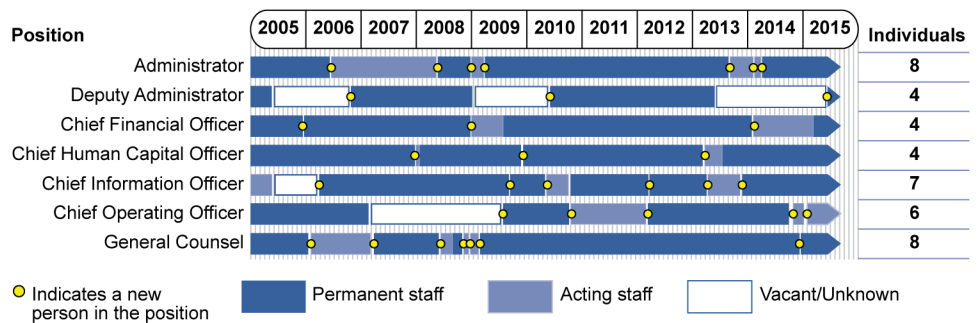
SMALL BUSINESS ADMINISTRATION

Leadership Attention Needed to Overcome Management Challenges

Why GAO Did This Study

SBA has provided billions of dollars in loans and guarantees to small businesses. As of March 31, 2015, SBA's total loan portfolio was about $116.9 billion, including $110.3 billion in direct and guaranteed loans and $6.6 billion in disaster loans. GAO has previously reported on management challenges at SBA. GAO was asked to review SBA management, including whether those challenges were ongoing.

This report discusses SBA's efforts to address management challenges related to specific programs and internal controls. It also looks at challenges in strategic planning, human capital, organizational structure, enterprise risk, procedural guidance, and IT. To do this work, GAO reviewed SBA policies and compared them with federal requirements, key principles for human capital management, and internal control standards. GAO also interviewed officials at SBA headquarters, all 10 regional offices, and 10 of 68 district offices selected on the basis of location and size.

What GAO Recommends

GAO makes eight new recommendations designed to improve SBA's program evaluations, strategic and workforce planning, training, organizational structure, ERM, procedural guidance, and oversight of IT investments. SBA generally agreed with these recommendations and provided additional context. In response, GAO clarified one of its recommendations. GAO also maintains that 69 recommendations it made in prior work have merit and should be fully implemented.

View GAO-15-347. For more information, contact William Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

The Small Business Administration (SBA) has not resolved many of its long-standing management challenges due to a lack of sustained priority attention over time. Frequent turnover of political leadership in the federal government, including at SBA, has often made sustaining attention to needed changes difficult (see figure below). Senior SBA leaders have not prioritized long-term organizational transformation in areas such as human capital and information technology (IT). For example, at a 2013 hearing on SBA's budget, the committee Chairman stated that SBA's proposed budget focused on the agency's priorities but ignored some long-standing management deficits. This raises questions about SBA's sustained commitment to addressing management challenges that could keep it from effectively assisting small businesses.
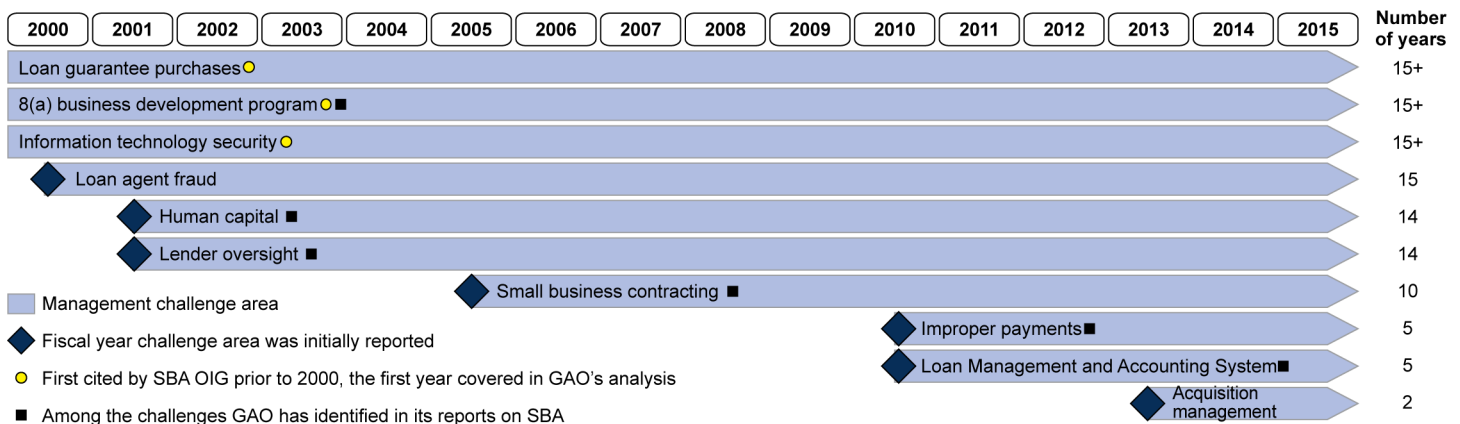
Turnover in Senior-Level Positions at SBA, 2005 through 2015

Source: GAO analysis of Small Business Administration (SBA) information. | GAO-15-347

Many of the management challenges that GAO and the SBA Office of Inspector General (OIG) have identified over the years remain, including some related to program implementation and oversight, contracting, human capital, and IT (see figure below). SBA has generally agreed with prior GAO recommendations that were designed to address these issues and other challenges related to the lack of program evaluations. The agency has made limited progress in addressing most of these recommendations but has recently begun taking some steps. A senior SBA official told us that improving human capital management, IT, and the 8(a) program (a business development program) were priorities for the new administrator. For example, he stated that SBA was exploring creative ways to recruit staff and plans to expand SBA One—a database currently used to process loan applications—to include the 8(a) program. Also, SBA has begun addressing some internal control weaknesses that GAO and the SBA OIG identified as contributing to the agency's management challenges. SBA officials noted that the agency had begun to update its standard operating procedure (SOP) on internal controls and planned more revisions after the Office of Management and Budget (OMB) updated its Circular A-123, which is expected to include guidance on implementing GAO's 2014 revisions to federal internal control standards. OMB issued a draft of the revised circular in June 2015 and is reviewing comments it received.

_____ **United States Government Accountability Office**

Duration of SBA Management Challenges Identified by the SBA OIG, as of Fiscal Year 2015

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Number of years

- Loan guarantee purchases ○ — 15+
- 8(a) business development program ○ ■ — 15+
- Information technology security ○ — 15+
- Loan agent fraud (initially reported ~2001) — 15
- Human capital ■ (initially reported ~2002) — 14
- Lender oversight ■ (initially reported ~2002) — 14
- Small business contracting ■ (initially reported ~2005) — 10
- Improper payments ■ (initially reported ~2010) — 5
- Loan Management and Accounting System ■ (initially reported ~2010) — 5
- Acquisition management (initially reported ~2013) — 2

Legend:
- ▭ Management challenge area
- ◆ Fiscal year challenge area was initially reported
- ○ First cited by SBA OIG prior to 2000, the first year covered in GAO's analysis
- ■ Among the challenges GAO has identified in its reports on SBA

Source: GAO analysis of Small Business Administration Office of Inspector General (SBA OIG) Management Challenges Reports, Fiscal Years 2000-2015. | GAO-15-347

Note: Loan guarantee purchases occur when SBA purchases guarantees from lenders following loan liquidations or delinquencies. Loan agents are sometimes used to prepare documentation for an SBA loan application and refer borrowers to lenders. The Loan Management and Accounting System is a project to upgrade existing financial software and application modules and remove them from the mainframe environment.

GAO identified management areas in which SBA had not incorporated key principles or made other improvements.

- **Strategic planning and program evaluation:** The strategic planning activities that GAO reviewed met most federal requirements. But SBA did not describe how it used results from the few program evaluations it had completed to help develop its current strategic plan, as required by the Government Performance and Results Act Modernization Act of 2010. OMB has encouraged agencies to increase their use of program evaluations, but SBA has not routinely conducted them and still lacks evaluations for 10 of 19 programs GAO reported on in 2012. Without evaluations, SBA lacks critical information for ensuring the validity and effectiveness of (1) its goals, objectives, and strategies and (2) both new and existing programs.

- **Human capital management:** SBA improved its human capital plan by developing goals and objectives. SBA also conducted early retirement programs in fiscal years 2012 and 2014 to begin addressing long-standing skill imbalances, but fewer people than expected retired. SBA risked compromising these efforts because it did not first conduct a skills assessment or develop a workforce plan that would allow it to target its hiring and retention efforts. As of May 2015, SBA had not yet developed a workforce plan, and as of June 2015 it had not conducted a skills assessment or determined training goals. As a result, SBA cannot provide reasonable assurance that its workforce has the skills the agency requires.

- **Organizational structure:** SBA's organizational structure has created complex overlapping relationships among offices that have contributed to challenges in program oversight. Although a contractor assessed SBA's organizational structure in March 2015, SBA has not documented its assessment of the contractor's work. Until SBA documents its assessment, it will not have an institutional record of its actions, and it will be difficult for SBA or a third party to validate that SBA's current organizational structure is contributing effectively to its mission objectives and programmatic goals.

- **Enterprise risk management:** Given the range of programs SBA manages and oversees, having a robust enterprise risk management (ERM) system is critical to effectively managing risks. SBA initiated efforts to implement ERM in 2009 and developed a framework to guide its ERM approach in 2012. But the agency has not incorporated elements of a risk management framework, such as goals and specific actions. Without incorporating these elements, SBA cannot reasonably ensure that its ERM efforts fully identify, assess, and manage risks.

- **Procedural guidance:** As of March 2015, SBA had determined that 74 of its 165 SOPs needed to be revised, 31 needed to be canceled, and 60 required no revision. An additional 9 needed to be issued. Federal internal control standards state that documentation must be properly managed and maintained, yet SBA has generally not set time frames for periodically reviewing and completing needed revisions or updates. Without such time frames, SBA staff and their partners may lack the guidance they need to effectively deliver program services in accordance with laws and regulations.

- **Information technology:** SBA has not implemented more than 30 SBA OIG recommendations related to IT security but has recently increased its emphasis on improvements, according to a senior official. Further, SBA has only partially implemented several required IT management initiatives. For instance, SBA established policies to consolidate the number of its data centers and manage software licenses for IT investments. However, contrary to OMB guidance SBA has not conducted regular reviews of its operational IT investments to ensure that they continue to meet agency needs. Until SBA fully implements all of the required IT management initiatives, the agency cannot provide reasonable assurance that its IT investments are cost-effective, meet agency goals, or are effectively managed.