Testimony
Before the Committee on Small
Business, House of Representatives

SMALL BUSINESS ADMINISTRATION

Leadership Attention Needed to Overcome Management Challenges

Statement of William B. Shear,
Director, Financial Markets and Community Investment

January 2016

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. GAO has previously reported on management challenges at SBA. In this testimony, which is based on a September 2015 report (GAO-15-347) and related updates on the status of recommendations, GAO discusses (1) the extent to which SBA has addressed previously identified management challenges; and (2) SBA's management of its strategic planning, human capital, organizational structure, enterprise risk, procedural guidance, and IT. To conduct this work, GAO reviewed prior GAO and SBA Office of Inspector General reports on SBA programs, examined relevant SBA documents, and interviewed agency officials.

What GAO Recommends

In its September 2015 report, GAO made eight recommendations designed to improve SBA's program evaluations, strategic and workforce planning, training, organizational structure, enterprise risk management, procedural guidance, and oversight of IT investments. SBA generally agreed with these recommendations and provided additional information about its recent efforts to complete its organizational assessment. In response, GAO clarified its recommendation that SBA document its assessment, including the results and any planned organizational changes. GAO also maintains that 62 recommendations it made in prior reports still have merit and should be fully implemented.

View GAO-16-134T. For more information, contact William Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

As GAO reported in September 2015, 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
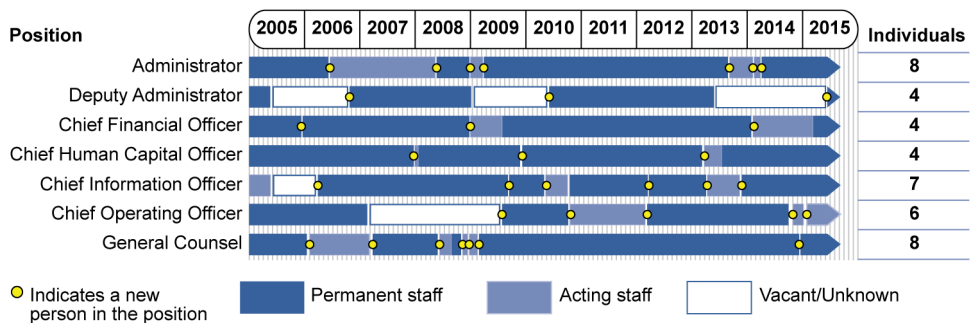
Source: GAO analysis of Small Business Administration (SBA) information. | GAO-16-134T

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. 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 had made limited progress in addressing most of these recommendations but had recently begun taking some steps. A senior SBA official told GAO that improving human capital management, IT, and the 8(a) program (a business development program) were priorities for the current 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 had 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 as of September 2015 was reviewing comments it received.

United States Government Accountability Office

In September 2015, GAO maintained that 69 recommendations it made in prior work continued to have merit and should be fully implemented. As of December 2015, SBA had implemented 7 of these recommendations, including those pertaining to disaster assistance and Small Business Innovation Research. For example, SBA revised its planning documents to adjust staffing and resources available for future disasters by considering the potential effect of early application submissions for disaster loans as GAO recommended. Such action should help improve the agency's timely response to disasters. In addition, SBA had initiated actions in response to the eight new GAO recommendations. For example, SBA officials told GAO that the agency had established an Economic Impact Evaluation Working Group, which was developing evaluation plans for several program offices.

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

- **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 GPRA 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 December 2015, SBA had not yet developed a workforce plan and 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 SBA recently completed an assessment of its organizational structure and determined that major restructuring was not warranted at that time, it has not documented this effort. 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 some 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 had 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 had 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 had 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.

Chairman Chabot, Ranking Member Velázquez, and Members of the Committee:

Thank you for the opportunity to discuss our general management review of the U.S. Small Business Administration (SBA). SBA oversees a number of programs that are designed to provide small businesses with resources and tools, including access to capital, help with federal contracting opportunities, entrepreneurial counseling and training, and disaster assistance.[1] According to SBA, in fiscal year 2015 these programs aimed to support more than $32.5 billion in small business financing and nearly $4 billion in long-term investment capital and provide access to over $80 billion in federal contracting, among other things.[2]

My statement today is based on the key findings in our September 2015 report on SBA's management and related updates on the status of recommendations.[3] Specifically, this testimony discusses (1) the extent to which SBA has addressed previously identified management challenges; and (2) SBA's management of its strategic planning, human capital, organizational structure, enterprise risk, procedural guidance, and information technology (IT). In preparing this statement, we relied on the work supporting our September 2015 report, as well as an interview conducted in December 2015 with SBA officials to discuss efforts they had undertaken to implement our recommendations. More detailed information on our scope and methodology can be found in our September 2015 report.[4]

The work on which this testimony is based was performed in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate

---

[1]SBA provides low-interest rate disaster loans to businesses of all sizes, private nonprofit organizations, homeowners, and renters to repair or replace real estate, personal property, machinery and equipment, and inventory and business assets that have been damaged or destroyed in a declared disaster.

[2]Small Business Administration, *Fiscal Year 2015 Congressional Budget Justification and Fiscal Year 2013 Annual Performance Report* (Washington, D.C.: 2014). 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.

[3]GAO, *Small Business Administration: Leadership Attention Needed to Overcome Management Challenges*, GAO-15-347 (Washington, D.C.: Sept. 22, 2015).

[4]GAO-15-347.

evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
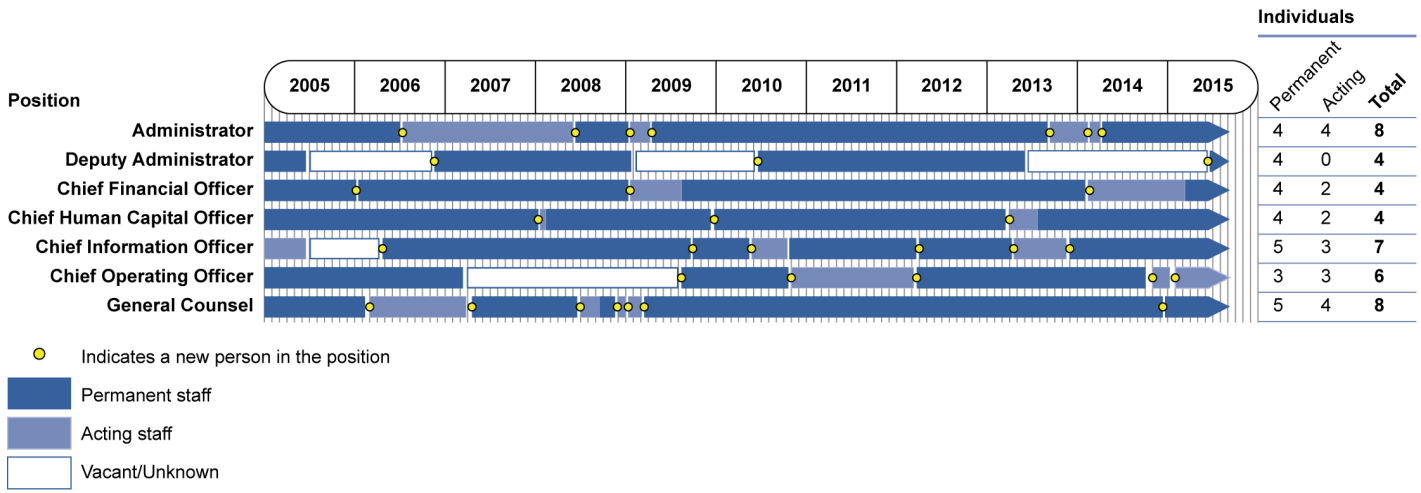
SBA Has Not Resolved Many of Its Long-Standing Management Challenges

In our September 2015 report, we found that SBA has not resolved many of its long-standing management challenges due to a lack of sustained priority attention over time. In a September 2008 report, we noted that frequent turnover of political leadership in the federal government, including at SBA, often made it difficult to sustain and inspire attention to needed changes.[5] SBA has undergone turnover in many of its senior leadership positions (see fig. 1). We found that senior SBA leaders have not prioritized long-term organizational transformation in areas such as human capital and IT. For example, at a 2013 hearing on SBA's budget, the committee Chairman stated that SBA's proposed budget ignored some long-standing management deficits.[6] This raises questions about SBA's sustained commitment to addressing management challenges that could keep it from effectively assisting small businesses.

[5]GAO, *Small Business Administration: Opportunities Exist to Build on Leadership's Efforts to Improve Agency Performance and Employee Morale*, GAO-08-995 (Washington, D.C.: Sept. 24, 2008).

[6]*The Budget Outlook for the Small Business Administration*, hearing before the House Committee on Small Business, 113th Cong. 2 (2013).

Figure 1: Turnover in Senior Leadership Positions at the Small Business Administration (SBA) from Calendar Years 2005 to 2015
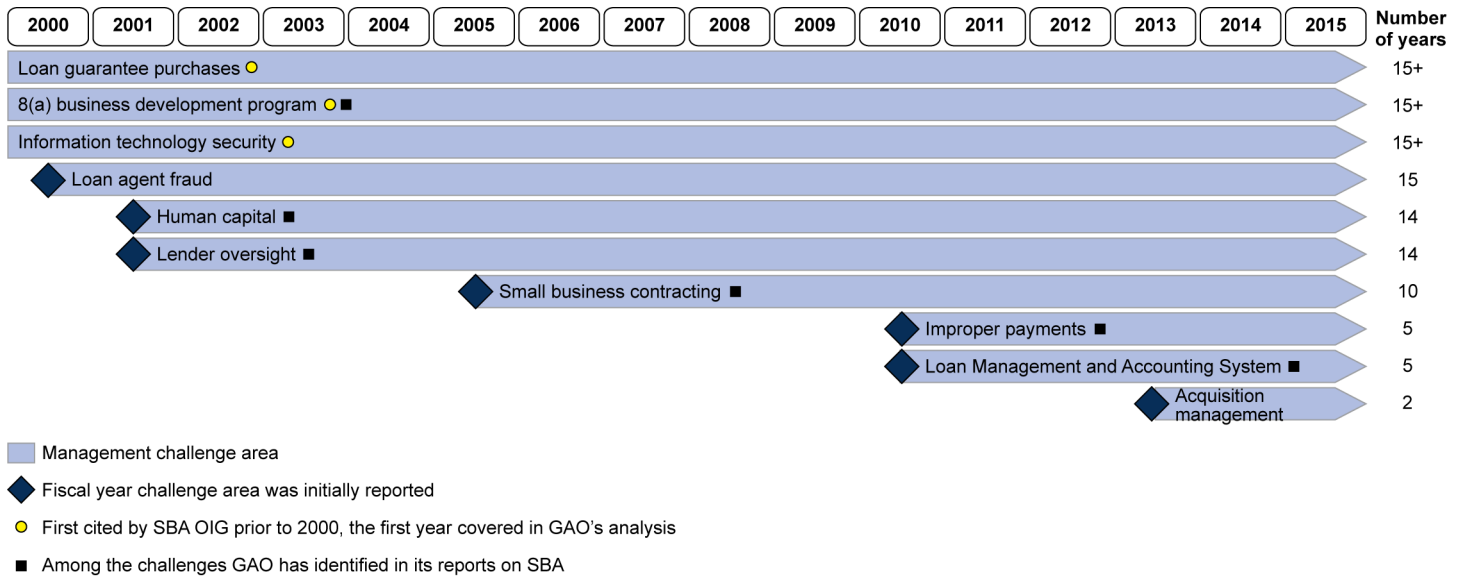

Position	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Individuals Permanent	Acting	Total
Administrator												4	4	8
Deputy Administrator												4	0	4
Chief Financial Officer												4	2	4
Chief Human Capital Officer												4	2	4
Chief Information Officer												5	3	7
Chief Operating Officer												3	3	6
General Counsel												5	4	8

○ Indicates a new person in the position

▇ Permanent staff

▇ Acting staff

☐ Vacant/Unknown

Source: GAO analysis of SBA information. | GAO-16-134T

Note: The number of permanent and acting officials may not add up to the total because in some cases the acting official became the permanent official.

The long-standing management challenges that we and the SBA Office of Inspector General (OIG) have identified over the years are related to program implementation and oversight, contracting, human capital, and IT, among others (see fig. 2). SBA has generally agreed with our prior recommendations, which were designed to address not only these issues but also other challenges related to the lack of program evaluations. In September 2015, we reported that the agency had made limited progress in addressing most of these recommendations but had recently begun taking some steps to address them. For example, 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 current administrator. Also, SBA had begun addressing some internal control weaknesses that we 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) updates its Circular A-123, which is expected to include guidance on implementing 2014 revisions to federal internal control standards. OMB issued a draft of the revised circular in June 2015 and as of September 2015 was reviewing comments it received.

Figure 2: Duration of Small Business Administration (SBA) Management Challenges Identified by the SBA Office of Inspector General (OIG), as of Fiscal Year 2015

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

Challenge area	Number of years
Loan guarantee purchases ○	15+
8(a) business development program ○ ■	15+
Information technology security ○	15+
Loan agent fraud	15
Human capital ■	14
Lender oversight ■	14
Small business contracting ■	10
Improper payments ■	5
Loan Management and Accounting System ■	5
Acquisition management	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 SBA OIG Management Challenges Reports, Fiscal Years 2000-2015. | GAO-16-134T

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.

In September 2015, we maintained that 69 recommendations GAO made in prior work continued to have merit and should be fully implemented. As of December 2015, SBA had implemented 7 of these recommendations, including those pertaining to disaster assistance and Small Business Innovation Research. For example, SBA revised its planning documents to adjust staffing and resources available for future disasters by considering the potential effect of early application submissions for disaster loans, as GAO recommended. Such action should help improve the agency's timely response to disasters.[7] Also with respect to disaster assistance, SBA completed a memorandum of understanding with the Department of Agriculture that increases collaboration between the two agencies on providing disaster assistance to small businesses and

---

[7]GAO, *Small Business Administration: Additional Steps Needed to Help Ensure Timely Disaster Assistance,* GAO-14-760 (Washington, D.C.: Sept. 29, 2014).

agricultural producers, as GAO recommended.[8] As discussed below, SBA has also taken initial actions in response to the 8 new recommendations we made in our September 2015 report to improve SBA's program evaluations, strategic and workforce planning, training, organizational structure, enterprise risk management, procedural guidance, and oversight of IT investments. For example, SBA officials told us that the agency had established an Economic Impact Evaluation Working Group, which was developing evaluation plans for several program offices. In addition, SBA officials stated that the agency had hired a Chief Learning Officer in August 2015 who would be the focal point for training and addressing the skill gaps identified in the workforce plan that is under development.

SBA Planning and Oversight Are Limited in Several Management Areas

In our report, we also found that SBA had not met a federal strategic planning requirement, incorporated key principles for human capital management, or made other improvements in key management areas.

- **Strategic planning and program evaluation:** The strategic planning activities that we 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 GPRA Modernization Act of 2010.[9] OMB has encouraged agencies to increase their use of program evaluations, but SBA has not routinely conducted them and lacks evaluations for 10 of 19 programs we reported on in 2012.[10] Without prioritizing resources to conduct more evaluations of its programs and incorporating the results into its strategic planning process, SBA lacks a critical source of information for helping ensure the validity and effectiveness of its goals, objectives, and strategies. In addition, SBA lacks pertinent information that would help in determining the effectiveness of both new and existing programs. We recommended that SBA prioritize resources to conduct additional program evaluations and use the

---

[8]GAO, *Disaster Assistance: USDA and SBA Could Do More to Help Aquaculture and Nursery Producers*, GAO-12-844 (Washington, D.C.: Sept. 11, 2012).

[9]Pub. L. No. 111-352, 124 Stat. 3866 (2011). This act amended the Government Performance and Results Act of 1993 (GPRA).

[10]GAO, *Entrepreneurial Assistance: Opportunities Exist to Improve Programs' Collaboration, Data-Tracking, and Performance Management*, GAO-12-819 (Washington, D.C.: Aug. 23, 2012).

results of such evaluations in its strategic planning process. SBA generally agreed with these recommendations but noted that it would face challenges in implementing them. For example, SBA said that for some programs it did not have adequate information collection systems that could house and assess the data needed for evaluations. In December 2015, SBA officials told us that SBA had established an Economic Impact Evaluation Working Group, which was developing evaluation plans for several program offices. They also told us that SBA planned to include the results of any completed evaluations and a list of future evaluations in the agency's next strategic plan (for fiscal years 2018 through 2022).

- **Human capital management:** SBA has improved its human capital plan by developing goals and objectives. SBA also made efforts to address long-standing skill imbalances by conducting early retirement programs in fiscal years 2012 and 2014, but fewer people than expected retired. However, 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 December 2015, SBA had not yet developed a workforce plan and had not conducted a skills assessment or determined training goals. Without a workforce plan that fully addresses key principles, including a current agency-wide competency and skill gap assessment and a long-term strategy to close skill gaps, SBA cannot provide reasonable assurance that its workforce has the skills needed to meet the agency's mission. Further, without a more strategic approach to its training and development programs, including incorporating training goals and measures and input on employee development goals in its training plan, it will be difficult for SBA to effectively establish priorities in its training initiatives or address skill gaps. We recommended that SBA (1) complete a workforce plan that includes key principles such as a competency and skill gap assessment and long-term strategies to address its skill imbalances, and (2) incorporate into its next training plan key principles, such as goals and measures for its training programs and input on employee development goals. The agency agreed with these recommendations. In December 2015, SBA officials told us that SBA planned to complete a workforce plan by mid-March 2016 that was to include strategies for addressing skill imbalances. They also told us that the agency had hired a Chief Learning Officer in August 2015 who would be the focal point for training and addressing the skill gaps identified in the workforce plan.

- **Organizational structure:** SBA's organizational structure has created complex overlapping relationships among offices that have contributed to challenges in program oversight.[11] For example, in a March 2010 report on the 8(a) business development program, we found a breakdown in communication between SBA district offices and headquarters (due in part to the agency's organizational structure) that resulted in inconsistencies in the way district offices delivered the program.[12] According to federal internal control standards, organizational structure affects an agency's control environment by providing management's framework for planning, directing, and controlling operations to achieve agency objectives.[13] A good internal control environment requires that the agency's organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting. Despite the organizational and managerial challenges it has faced, SBA's changes to its organizational structure since fiscal year 2005 have been piecemeal. Although SBA told us that it had recently completed an assessment of its organizational structure and determined that major restructuring was not warranted at that time, it had not documented this effort as of August 2015. Until it documents its efforts to examine its structure and any findings, it will be difficult for SBA to provide reasonable assurance or for a third party to validate that SBA's current organizational structure is contributing effectively to its mission objectives and programmatic goals.

In response to our initial recommendation that SBA complete its assessment of the agency's organizational structure, SBA concurred but noted that the agency had recently completed that review and determined that major restructuring was not warranted at the time. However, SBA did not provide us with any documentation of its assessment. Therefore, we revised the recommendation to clarify that

---

[11]We discuss SBA's organizational structure with a focus on its regional offices in a related report. See GAO, *Small Business Administration: Views on the Operational Effects of Closing Regional Offices*, GAO-15-369 (Washington, D.C.: Sept. 22, 2015).

[12]GAO, *Small Business Administration: Steps Have Been Taken to Improve Administration of the 8(a) Program, but Key Controls for Continued Eligibility Need Strengthening*, GAO-10-353 (Washington, D.C.: Mar. 30, 2010). The 8(a) business development program helps small, disadvantaged businesses to participate in the federal contracting market through sole-source and set-aside contracts.

[13]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

SBA document its assessment, including the results and any changes. In December 2015, SBA officials told us that they had not yet documented an assessment of the agency's organizational structure.

- **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. However, it could not provide us with adequate documentation on the progress of these efforts or on any future plans. In addition, the agency has not incorporated elements of our risk management framework, such as goals and specific actions.[14] According to a senior SBA official, the Enterprise Risk Management Board plans to assess SBA's risks in the near future. The official plans to ask the board to consider our risk management framework at that time. Given the long-standing management challenges related to specific SBA programs discussed earlier, it may be challenging for SBA to establish an agency-wide ERM system. However, until SBA identifies and fully documents the steps that it plans to take to implement its ERM process and incorporates the elements of our risk management framework, it will not be able to provide reasonable assurance that its efforts effectively identify, assess, and manage risks enterprise-wide before they can adversely affect SBA's ability to achieve its mission. We recommended that SBA develop its ERM program consistent with our risk management framework and document specific next steps. SBA agreed with the recommendation. In December 2015, SBA officials told us that the Enterprise Risk Management Board had been meeting biweekly to identify risks and discuss alternatives for addressing these risks in accordance with our risk management framework. The officials also noted that the board's charter had been drafted and was undergoing final review. However, they did not provide a time frame for when they expected to complete this effort.

---

[14]GAO, *Risk Management: Further Refinements Needed to Assess Risks and Prioritize Protective Measures at Ports and Other Critical Infrastructure*, GAO-06-91 (Washington, D.C.: Dec. 15, 2005). We developed our risk management framework by reviewing, analyzing, and synthesizing several sources of information, including risk literature and our previous reports and testimonies; experts in the fields of risk management, risk modeling, and terrorism; and numerous frameworks from industry, government, and academic sources.

- **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 setting time frames to help ensure that SOPs are properly maintained and periodically updated, it will be difficult for SBA to hold staff accountable for updating the SOPs as intended and to illustrate its progress in doing so. Moreover, without updated SOPs, agency staff and their partners may not have clear guidance on how to most effectively deliver program services in accordance with laws and regulations. We recommended that SBA set time frames for periodically reviewing and updating its SOPs as appropriate. SBA agreed with the recommendation. In December 2015, SBA officials told us that SBA was continuing to update its SOPs but did not provide a timeframe for when they planned to complete this effort.

- **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.[15] Further, SBA has partially implemented several required high-priority 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. We recommended that SBA perform an annual operational analysis on all SBA IT investments in accordance with OMB guidance. SBA concurred with the recommendation. In December 2015, SBA officials told us that the agency had several ongoing efforts to improve IT

---

[15]In its fiscal year 2015 management challenges report, the Small Business Administration (SBA) Office of Inspector General (OIG) found that SBA still needed to address long-standing security weaknesses identified in 35 open IT audit recommendations. See SBA, OIG, *The Most Serious Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2015*, Report No. 15-01 (Washington, D.C.: Oct. 17, 2014).

infrastructure but did not have an update on efforts to perform an annual operational analysis.

Chairman Chabot and Ranking Member Velázquez, this concludes my statement. I would be pleased to respond to any questions you or other Members of the Committee may have.

GAO Contact and Staff Acknowledgment

GAO Contacts	For future questions about this statement, please contact William B. Shear, (202) 512-8678, or shearw@gao.gov.
Staff Acknowledgements	Individuals making key contributions to this testimony include A. Paige Smith (Assistant Director), James Sweetman, Jr. (Assistant Director), Deena Richart (Analyst-in-Charge), Emily Chalmers, Meredith Graves, John McGrail, Marc Molino, and Erika Navarro.