

**ATTENTION NEEDED: MISMANAGEMENT AT THE
SBA - THE GAO FINDINGS**

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BEFORE THE
COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES
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ATTENTION NEEDED: MISMANAGEMENT AT THE SBA - THE GAO FINDINGS

WEDNESDAY, JANUARY 6, 2016

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 11:00 a.m., in Room 2360, Rayburn House Office Building. Hon. Steve Chabot [chairman of the Committee] presiding.

Present: Representatives Chabot, Luetkemeyer, Hanna, Huelskamp, Brat, Radewagen, Curbelo, Hardy, Kelly, Velázquez, Chu, Meng, Adams, and Moulton.

Chairman CHABOT. Good morning. I call the Committee hearing appropriately titled “Attention needed: Mismanagement at the SBA” to order. I also want to welcome back a frequent witness before this Committee, Bill Shear, of the GAO, the General Accountability Office.

Since 1946, federal agencies have been required to operate using rational decision-making procedures. That is the expectation of taxpayers whether it is the law or not. Congress made that sensible idea and the expectations of taxpayers the law when it enacted the Government Performance and Review Act back in 1993. To operate in the manner demanded by statute, agencies must make extensive efforts at strategic planning and actually carry that planning out.

Today, the Committee will hear an assessment from the GAO on the SBA’s—that is the Small Business Administration’s efforts to deliver effective assistance to entrepreneurs in an efficient manner. With a \$100 billion loan portfolio, \$100 billion, the taxpayer has too much invested in this agency to allow mismanagement to continue. Barriers to effective and efficient operation of the SBA include the failure to address longstanding management challenges, failure to develop a human capital plan, failure to institute sound acquisition methods, failure to revise outdated policy directives, and failure to assess the structure of the agency, among other things.

The GAO’s conclusions are clear; the SBA needs a complete overhaul of its operations. Finding a resolution to these problems will not be easy. GAO has taken the first step, identifying the problems at the SBA. The next steps are significantly harder. Meaningful solutions usually are. Problems that have existed for decades will not be resolved overnight. It will take the dedicated effort of agency officials and the watchful eye of those on this Committee to right those wrongs.

This Committee’s efforts will not end with the review of this report. We will convene multiple hearings over the next few months

to examine SBA programs and their implementation by various branches of that Agency. The hearings may reveal other barriers to official and effective operations of the SBA that will require further examination by this Committee and by the GAO. If the report examined today, subsequent hearings, investigations by the Committee, and additional reports by GAO continue to reveal problems that the administration will not fix, the Committee will not hesitate to take legislative action.

The SBA plays a significant role in providing assistance to America's entrepreneurs. The problems that have festered far too long must end so that small businesses and taxpayers can rely on an effective and efficient SBA. The taxpayers of this country deserve no less.

I would now like to yield to the ranking member for her opening statement.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Of the many responsibilities this committee has, one of our most important, is overseeing and examining the Small Business Administration. It is absolutely critical that we conduct this oversight. Doing so ensures that tax dollars are spent efficiently and appropriately. GAO has been a long-term partner of this committee's oversight work and has helped us identify and solve a wide range of issues affecting the agency's programs.

Today's hearing, however, does not focus on a particular program or initiative at the SBA; rather, it focuses on the overall management and strategic vision of the agency. I, along with prior Chairman Graves, requested this broad view of the SBA.

GAO reported several key findings, many of which cite issues already raised by the SBA's own inspector general over the last decade. At the top of the list are organizational matters which are critical to the agency's ability to serve small businesses. GAO found the agency structure to be overly complex and that workforce planning was not up-to-date. Such redundancies and deficiencies can ultimately lead to poor service to entrepreneurs. In addition, GAO found that risk management and IT security are being inappropriately administered. Such co-activities and internal controls are central to the functioning of the SBA, and without adherence to federally-accepted standards, the agency is subjecting itself to unnecessary risks.

Perhaps the most troubling issues raised by the GAO come into areas of procedural guidance and program evaluation. With regard to procedural guidance, GAO reported that as of March 2015, SBA had determined that 74 of its 165 standard operating procedures needed to be revised and 31 needed to be canceled. An additional 9 needed to be issued. Without guidance, it is impossible for program participants or even the SBA to know how a program should operate. This makes it difficult for small firms to work with the agency, and given that these SOPs are not issued pursuant to notice and common rulemaking frustrates those that want greater transparency in how government works. The report shows that SBA has some work to do in improving its overall management of the agency. With that said, I was glad to see SBA has agreed with nearly all of the GAO's recommendations and has begun to take action to address these matters.

Today, I am looking forward to hearing from GAO about whether or not they believe SBA is carrying through on this commitment. This committee stands ready to examine the SBA and its program so that small businesses and the taxpayers benefit more broadly. It is a vital role and one that I want to ask all committee members to take part in. I look forward to hearing the GAO's testimony, and I thank Mr. Bill Shear and his team for their continued work on our behalf.

With that, Mr. Chairman, I yield back.

Chairman CHABOT. Thank you very much. The gentlelady yields back.

And we would ask that Committee members who have opening statements prepared, if they would submit them for the record.

And just to explain very briefly our rules here and the time limits, which Mr. Shear is very familiar with, I am sure, we operate under the 5-minute rule where the witnesses get 5 minutes to testify. In this case, we will give you a little bit longer than that if you need it. Since there is only one witness and we generally have four that does not mean we want you to take 20 minutes, but if you need a little bit more time that is okay, and we will limit ourselves to 5 minute at least in the first round, and then we will determine whether we think it is necessary to go into a second round at the appropriate time.

We have a light system there, as you know. The yellow light comes on and lets you know you have a minute to wrap up. The red light will come on and I will let you go a little bit further than that as I indicated.

And now a brief introduction. Mr. Shear, who is our witness, he is the director of Financial Markets and Community Investment Team at the Government Accountability Office. Most of us refer to it as the GAO around here, and we look very forward to your testimony. And you are recognized for 5 minutes, or as I say, a little bit longer.

Mr. SHEAR. Thank you. I will keep it under 5 minutes.

Chairman CHABOT. Okay. Thank you.

**STATEMENT OF WILLIAM B. SHEAR, DIRECTOR, FINANCIAL
MARKETS AND COMMUNITY INVESTMENT, UNITED STATES
GOVERNMENT ACCOUNTABILITY OFFICE**

Mr. SHEAR. Chairman Chabot, Ranking Member Velázquez, and Members of the Committee, I am pleased to be here this morning to discuss our management review of the Small Business Administration. My testimony is based on our September 2015 report and related updates on the status of recommendations. Rather than focusing on individual SBA programs, we conducted a comprehensive assessment of SBA's structure, processes, and systems, including its efforts to address its management challenges.

In September, we reported that SBA had not resolved many of its longstanding management challenges due to a lack of sustained priority attention over time. Many of the management challenges that we and the Office of Inspector General had identified over the years remained, 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. As we state in our report, the agency had made limited progress in addressing most of these recommendations but had recently begun to take some steps to address them. For example, as of July 2015, SBA had implemented four of six recommendations from the 2010 GAO Report on its 8(a) Business Development Program.

In our report, we made eight new 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. We also maintained that the 69 recommendations we made in prior work have merit and should be fully implemented.

As of December 2015, SBA had implemented 7 of the 69 recommendations from prior reports that were identified in our September report. For example, with respect to disaster assistance, 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 we had recommended. In addition, SBA officials told us about actions the agency had initiated in response to the eight new GAO recommendations. For example, the SBA officials told us that the agency had established an Economic Impact Evaluation Working Group, which according to the SBA officials was developing evaluation plans for several program offices.

Chairman Chabot and Ranking Member Velázquez, this concludes my prepared statement. I would be happy to answer any questions.

Chairman CHABOT. Thank you very much, and you definitely kept it under 5 minutes. Thank you.

I will now recognize myself to begin the questioning.

Mr. Shear, in the last year, we have seen the Federal Government hacked in a whole series of breaches. OPM, the Office of Personnel Management, had millions of fingerprint records stolen, Social Security numbers, addresses, health records, financial and biometric data were all taken. We have seen the IRS hit, the State Department, even the White House. Now, in your review of the SBA, the Small Business Administration, you have listed a whole range of deficiencies, areas where the SBA has fallen short, just not cutting it. And the one that worries me the most is in the area of IT security. First of all, the information that they keep on individuals and on small businesses can be pretty sensitive information. Is that right? Information you might not want a rival business, or your neighbors, or the Chinese government to have access to. Would you agree with that and would you like to comment?

Mr. SHEAR. Chairman Chabot, you raise a very good point. And one of the things I just want to say procedurally, that when you take such an extensive operational view of an agency like this, we certainly partnered with SBA's Office of Inspector General, and we greatly appreciate the interactions we had. And you see in our report that we refer to the IG's work quite liberally and some of the issues raised by the IG. The issue of IT security is one where we relied on and we reported on the IG's findings. So basically, there

are issues identified by the IG that require attention. It is a very serious issue, and it is one of the issues—

Chairman CHABOT. Let me interrupt you for a second, if I can. Mr. SHEAR. Yes.

Chairman CHABOT. Despite the logical concern that individuals or small businesses who deal with the SBA might have, the SBA has failed to implement more than 30 of the Office of the Inspector General's recommendations related to IT security; is that correct?

Mr. SHEAR. That is what we report based on what was available in September. We note that information technology security has been identified for well over a decade as a longstanding management challenge. In its most recent report which came out recently, there was not a report of the number, but it certainly is one of the longstanding management challenges, so I cannot attest to exactly what the number is at this time.

Chairman CHABOT. Okay. I have got 2 minutes left, so let me move to a couple other areas that are in your review and that I also find disturbing. I will again quote from the review, and I quote, "In our September 2015 report, we found that the SBA has not resolved many of its longstanding management challenges due to lack of sustained priority attention over time." And you went on to say, "This raises questions about the SBA's sustained commitment to addressing management challenges to keep it from effectively assisting small businesses."

Now, the principal purpose of even having an SBA is to assist small businesses, and it is our responsibility as the Committee of oversight, to make sure that the SBA is living up to their responsibilities to small businesses. So would you like to comment on the fact that they lacked the long-term attention to this issue that it deserved?

Mr. SHEAR. It is very disturbing when an agency, we have been here, with you Chairman Chabot and with Ranking Member Velázquez, and previously with Representative Graves, and it is very disturbing to us that these challenges still remain. And they go down to some very basic functions. And with all the program audits that we have done at SBA, one of the reasons why we even suggested to the Committee the idea of undertaking such a review is that we saw certain recurring themes happen over and over again when you look across the agency that affect all aspects of its operations and its programs. And so we think that there is some work to be done here, and we are looking for some commitment to deal with many of these issues, many of which have an internal control type of issue which we pay very close attention to.

Chairman CHABOT. Thank you. I have got more questions but in order to impose the same 5 minutes on myself as everybody else, I will stop there and I will now yield to the ranking member, Ms. Velázquez.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman, and thank you, Mr. Shear, for being here.

In the report, GAO found that the SBA still has not implemented disaster program reforms which this committee authored when I was chair in 2008. What are the major reasons why SBA has not established the needed Disaster Assistance Program?

Mr. SHEAR. When we have done work, repeated work, and appeared before this Committee on the Disaster Loan Program, there seemed to be some positive movement in the period after the act was passed, the establishment of a Office of Disaster Preparedness within SBA. There appeared, up until I would say 2010, some collaboration that was going on between the Office of Disaster Preparedness, the Office of Disaster Assistance, and the Office of Capital Access, to try to stand up a pilot program for IDAP as a first step to try to move into these areas to better serve the needs of disaster victims. I use the expression “the ball was dropped” by SBA. When we did our work on Sandy, this collaboration just seemed to fall apart, and we have not seen any evidence that there is really a collaborative effort, which I think is what is necessary here, for SBA to try to develop these three programs, including IDAP.

Ms. VELÁZQUEZ. To what degree do you think these reasons may be symptomatic of some of the more general operational challenges you found in your management review?

Mr. SHEAR. I think that it is a great question because one of our concerns, and sometimes we use a simple word like “silo effect.” SBA has a complex organizational structure, and you have reporting relationships that differ from working relationships. And you have different parties that are involved here. And the idea that with disaster assistance, it involves a number of parties, and it just seems like what I will call a silo effect, as far as the inability to work across the organization, it is relevant to the work we did on enterprise risk management. The failure to identify risks that are common to the agency and working on those risks across the agency, it just does not seem like that collaboration is there. And I really have to be critical about our first interview dealing with the three private loan programs when we were doing the Sandy work where we were told that there was a conference call after Sandy occurred with three lenders, and the three lenders could not even be named. It was not a documented interview, but the three lenders did not like IDAP. Well, that was a case I had to direct to SBA the people that had been involved earlier that were part of this collaborative effort to try to stand up IDAP, and that never came to the table. So it even seemed almost like if it was something that was developed, or there was work on such development by previous people in those positions, that had also kind of fallen off the table.

Ms. VELAZQUEZ. So since the Tri-State area was affected by Hurricane Sandy, would you tell us that based on what you have seen, that if there is another large-scale disaster, such as Hurricane Sandy, that the SBA, will be prepared to tackle the challenges that we saw during Sandy?

Mr. SHEAR. I do not think SBA has a real plan for addressing it, and especially when you have a congressional mandate to create three private loan programs, there was a rationale to those programs. Much of it, like, for example, with IDAP, there is certainly in the Gulf Coast with Katrina, and based on our work on the ground with constituents in the Tri-State area with Sandy, there certainly appeared to be demand for things like a bridge loan type of program and things like that, and I do not think SBA has really put itself in a position to serve those needs.

Ms. VELÁZQUEZ. Have you conducted any other management review with any other federal agency?

Mr. SHEAR. As an agency, we did a lot of broad management reviews in basically the 1980s and 1990s, and now this was one time where we thought SBA was an agency, because of these recurring problems, that would require one. We currently have an ongoing general management review of HUD, and so that is one. We have done other things that would not be called general management reviews but are pretty broad looks at agencies, including one that we did a number of years ago at SBA.

Chairman CHABOT. The gentlelady's time is expired.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Chairman CHABOT. The gentleman from Missouri, Mr. Luetkemeyer, who is vice chairman of this Committee is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Mr. Shear, your report is quite damning and quite concerning from the standpoint that it looks like we have an agency that is mismanaged from top to bottom. You know, I represent the district in Missouri that just got hardest hit in our state with regards to flooding these past 2 weeks. And so when I look at the Office of Disaster Assessment and then, because it could not really figure out what to do, they created the Office of Disaster Planning, and now because they cannot coordinate those two with anybody else, they are going to create an Office of Disaster Interagency Affairs. This is an example of government run amuck. We have one agency that cannot do the job, so we create a second agency that cannot do the job, and now we have got a third agency. Am I misreading what is going on here, the ineptness of the agency caused it to create more agencies which continue to be inept? Yes or no works for that.

Mr. SHEAR. Okay, thanks. I see your concerns. You raise a very good point, and basically, what we look for generally with the way SBA operates, including assessing the risk of meeting its mission that you just need more thorough plans on how to do this and just creating additional entities is not necessarily the way to do that. You really need to develop a plan and think strategically about how to deliver this assistance.

Mr. LUETKEMEYER. Well, through your discussion in your report you talk about GAO had—their own IG had 11 different challenges, and after 10 years only seven of them still existed. And some of them, as the chairman alluded to here, one of them is extremely important, which is, you know, the security of the data that this agency holds. Other ones in there, improper payments. This is a pretty basic function of the agency I would assume. Do you know off the top of your head what the past due rate is of the portfolio?

Mr. SHEAR. I am sorry, the what?

Mr. LUETKEMEYER. The past due rate for the SBA loan portfolio?

Mr. SHEAR. No. If you want to make a question for the record—

Mr. LUETKEMEYER. That is fine. I was just curious if you knew off the top of your head—

Mr. SHEAR. No, I do not.

Mr. LUETKEMEYER.—whether it was going up or down. That is always an indication of management problems when you have that as well as economic times.

Also, you know, you are talking about they developed strategic plans, and yet, when they get the plan done, nobody goes in and is able to review it. Am I reading that right within your report? They develop strategic plans but yet there is no follow up as to seeing if the strategic plan is followed and whether there is an evaluation of its effectiveness, whether it was accurate.

Mr. SHEAR. The strategic planning, the deficiency we identified—and it is consistent with other work we have done on individual programs—has been the lack of evaluations of its programs for effectiveness consistent with what the chairman brought up with GPRA. And here I refer to the GPRA Modernization Act, and state that there is a lack of evaluations, and the evaluations are not really being incorporated into strategic planning, and it is hard to really have an effective strategic plan if you do not have a concept of how well the various programs are working.

Mr. LUETKEMEYER. Well, coming from the private sector, you need to have a strategic plan, know where you are headed. You need to have a review of that strategic plan on a regular basis so you know what you did right, what you did wrong, and how you can improve. And having a plan is fine, but if there is no follow-up action it is worthless. It is a waste of time. It is an exercise in futility.

Also, you talk about the standard operating procedures here in rules and regulations, which seem to be either ignored or they just create them and they just kind of go off on their own tangent. There is no coordination. Can you elaborate just a little bit on that?

Mr. SHEAR. Yes. It is in and of itself that the standard operating procedures are so out-of-date and are not kept up-to-date, and they might be being relied upon too heavily because there is a lack of specificity to begin with for operating programs. But if you put the different pieces together from what we have done, you have staff that are in the district offices. They are referred to as the “boots on the ground,” so you have staff in district offices that are not being well trained to conduct their functions. When you have that, when you do not have clear guidance, we found it with individual program audits, clear guidance for how those regulations are supposed to be carried out, and then you are doing things in a makeshift manner that the SOPs do not reflect current practices, you are going to have what we have observed, which is a lot of inconsistency and incomplete oversight of SBA programs.

Mr. LUETKEMEYER. I appreciate that. And just one moment of indulgence by the chairman, you know, it would seem to me that if we have this kind of, to me, reckless regard for the reports that are sent out, reckless regard for the recommendations, there needs to be some sort of punitive action taken by us, Mr. Chairman, against this agency, starting with freezing of their funds and freezing of all future rules and regulations and SOPs. If they cannot do the job with what they have got now, they do not need to be doing anything further. So I certainly will want to work with you on something along those yields, and I yield back.

Chairman CHABOT. Thank you. The gentleman's time is expired.

The gentlelady from California, Ms. Chu, who is the ranking member of the Economic Growth, Taxation, and Capital Access Subcommittee is recognized for 5 minutes.

Ms. CHU. Mr. Shear, from this report it seems that there is some general agreement between SBA and GAO on the recommendations that GAO has made to address important problems that the agency is facing. It is of concern that of the 69 recommendations, that only seven have been met. However, it is also clear that SBA has taken steps to address at least some of the issues at hand. In preparing this report, did you find disagreement between SBA and GAO on what GAO recommendations should be considered completed or fully implemented by the agency?

Mr. SHEAR. Over the past year, I would say roughly since last April or May, there has been a lot more focus at SBA in looking at our open recommendations, which is a long list. And it has been reported to this Committee before. SBA's track record over the years in addressing our open recommendations has not been very good. The comptroller general actually in November sent a letter to the administrator like he did to other heads of agencies, and in this case, SBA's implementation rate, the way we calculate that rate is around 58 percent and most of the government is around 80 percent. So this has been a concern of ours.

We have seen some attention and movement on this, and there has been, I think, a push from senior management, I would say roughly since last summer, and we have had multiple meetings at SBA, including senior leadership over our open recommendations, so it is a positive sign. So the idea was this actually represents an improvement. As you see in my statement that seven were implemented since issuance of our report is a positive change from what had occurred before, and there were a few that were implemented I would say roughly last summer, for example. I made reference in my statement to some recommendations we made in a report on the 8(a) program in 2010. So there is more attention to this.

There are certain times when we get information from SBA and it says, "Here it is. We think we have implemented the recommendation." That requires a lot of follow-up, and there are certain times where we just do not agree. There are certain times we explain in excruciating detail why we do not agree that a recommendation is implemented. Sometimes there is a back and forth. I will give an example. On disaster loans, the one dealing with the early submission of applications, that is one where it required some back and forth but I would say, James Rivera and his team worked very well with us in saying, okay, "What do we have to do to convince you that we are addressing your recommendation?" And we went through the different pieces of what we needed to understand. So it is a very collaborative process between us and SBA. There is more attention at SBA to make this process work now, but the agency is still very challenged in terms of addressing these recommendations.

Ms. CHU. There were seven recommendations that went to full completion. Can you tell me why you believe SBA chose to

prioritize these over the others and what was it that made these recommendations rise to the forefront?

Mr. SHEAR. I think that there was one of the things that was always present here, the chief of staff said there was an emphasis in looking at the 8(a) program. And I would say the associate administrator that is relatively new to the position certainly reached out to us with the idea that she was taking these recommendations seriously and wanted to better understand what those recommendations were. And, they are somewhat dated, but they are still, we think, very relevant. So we were explaining the context—why were the recommendations the nature of what they were? And it had to do with how the program was operated, when we were writing the report. So there was a fair amount of back and forth and, as we stated, that just prior to issuance of our report four of the six recommendations from the 2010 report, were implemented. So I think there was a focus on 8(a) by both senior management at SBA and also, likewise by the associate administrator herself of the program.

Ms. CHU. Okay. And if there is disagreement, how do you move forward if there is disagreement between the SBA and the GAO?

Mr. SHEAR. A lot of times it is not disagreement but it is kind of a question, does this do it for us? And sometimes the focus becomes very much we need documented evidence that you have actually conducted a change. Like, for example, there are many times where we stated that district office staff needed better guidance for the 8(a) program and other programs for how to carry out their responsibilities, and they would provide us dates where they are stating that training occurred, and we just say that, okay, so tell us what the training entailed. We have to see some substance as far as what is happening here. So it tends to be a back and forth process, and sometimes we reach resolution. A lot of it is just having a focus on these issues. Many of these issues, there is a real focus and a determination. They are not simple issues. They will take time to address. But without the focus on the issues, it is not going to happen, and I think you see a situation here where many of these issues have not had that focus.

Chairman CHABOT. Thank you. The gentlelady's time has expired.

The chair would just note that if you had a teenager and you told them to clean up their room, they had 69 things sitting around the room and they cleaned up seven of them, that might be in a positive direction, but I do not think most parents would be satisfied with that, and I certainly would not be inclined to give them an increase in their allowance.

The gentleman from Mississippi, Mr. Kelly, is recognized for 5 minutes.

Mr. KELLY. Thank you, Mr. Chairman. And thank you, Mr. Shear, for being here.

It is my understanding that doing any interviews with their employees, that they require that their general counsel be present during this. In your experience, has that been the same routine with other organizations or other agencies when these investigations are conducted?

Mr. SHEAR. No. The idea of having district counsel present when we are interviewing nonmanagement district employees, it is an experience we have not had with other agencies.

Mr. KELLY. As a former prosecutor, generally, when people lawyer up, so to speak, that was kind of—when they did not have any reason to, when it was a routine just talking-to, there was generally something behind that.

It is so important when you have an SOP to understand an SOP. And putting on my military side of experience, we have SOPs in every military unit for every single thing that we do. And if you do not understand and use that SOP, it is really not a SOP because that stands for standard operating procedure. And if you do not know and understand it and use it, it is not an SOP; it is just a bunch of guidelines that you are not using. In your experience, is the SOP that the SBA has basically just a bunch of guidelines, or do they actually use and understand and update and continue to update their SOP?

Mr. SHEAR. You have asked a few questions, and the easiest one to answer is have they been in the process of updating SOPs and bringing them up to what their current practices are and trying to create the guidance that the district office staff need. This lack of procedural guidance is one of the major deficiencies, one of the major, I would call it, rather new deficiencies, that we identified in this report. With the SOPs, there is an issue of how specific they are. So, for example, no matter how good the SOP is, because they are pretty general, the idea that when we had district staff saying to us, I was made a business opportunity specialist and I was handled the SOP and that was my training. I might be reporting anecdotal evidence from one or two people but, the point is that within itself the SOP is not sufficient to really prepare somebody to carry out their job duties.

Mr. KELLY. And now I want to talk about something else that is really important to the military side, which I do not see in the SBA, but that is risk management. And to understand risk, obviously, you have to understand risk, first of all. And it is my understanding they do not have any strategic plan. They do not have a risk management program which is ample to determine what the risks are, and do you know of any way, or do you think they are capable of, first of all, understanding their risk, and second of all, if they do understand it, are they capable of addressing the risk that they have experienced?

Mr. SHEAR. It is a great question. As far as to strategic planning, I think we did find many elements of a positive strategic planning process. The part that we really see as deficient is the inclusion of evaluation in a strategic plan.

With respect to enterprise risk management, it is almost like, well, they have identified the pieces of what would go into enterprise risk management, but it requires a very cross-cutting approach across the agency. They have created a board which is to say that at least in principle should be addressing these issues, but at first, there was unofficially a risk officer named. At the time it was a general counsel in 2009, and here we are years later and you just do not have the elements of a robust enterprise risk management system to really identify the risks not only from a financial

standpoint but the risks having to do with carrying out the agency's mission. Like, for example, in disaster assistance and the other pieces of the agency. So sometimes you can look at enterprise risk management and say, even before it was invented there were some basic common sense business practices where you could find similar types of language. But in terms of the enterprise risk management that is becoming looked upon more by the Office of Management and Budget, it just is that it is at a very premature stage.

Mr. KELLY. And just a final comment. I find it kind of funny that for the personal risk, they made sure they had counsel present at all interviews with employees, but they do not pay that kind of attention to the organizational risk and risk management plan.

I yield back, Mr. Chairman.

Chairman CHABOT. Thank you. The gentleman's time has expired.

The gentlelady from New York, Ms. Meng, who is the ranking member of the Agriculture, Energy, and Trade Subcommittee is recognized for 5 minutes.

Ms. MENG. Thank you, Mr. Chairman.

The GAO identified several longstanding changes at the agency. Of course, of those that you have delineated, which are the most important when it comes to service delivery and more tangible and immediate resources for our small businesses, if you had to?

Mr. SHEAR. As far as the longstanding business challenges, I would really focus on human capital and the need to really assess skills gaps to identify training that might be necessary. And all these different pieces fit together. For example, there are certain issues that are associated with, say, contracting programs that require participation across the agency and the various parts of the agency. So they all kind of fit together in a certain way. But if I had to identify one that really stands out it would be the human capital challenges as far as a longstanding challenge. Another one that has come up here, which whether you call it longstanding or not, is the need to be able to document decisions and to evaluate how well your programs are working and to document those decisions. So these are some of the things that really stand out based on our work.

Ms. MENG. The report notes that the SBA has made significant progress when it comes to the loan guaranty process. Do you believe that the SBA in addressing human capital has helped it begin to turn the corner on some of those concerns?

Mr. SHEAR. The concerns with loan guaranty. I am sorry, just—

Ms. MENG. Developing and implementing a quality control program for the loan centers to verify and document like compliance with the loan process?

Mr. SHEAR. I do not know whether I can link it to human capital or not, but among the work that we cite from the inspector general, there have been certain actions to address those longstanding challenges. I do not know whether it can be linked to any particular type of training or not. I just do not have an answer for that question.

Ms. MENG. I was just curious. Thank you. I yield back.

Chairman CHABOT. The gentlelady yields back.

The gentleman from Florida, Mr. Curbelo, is chairman of the Subcommittee on Agriculture, Energy, Trade, and Hoverboards is recognized for 5 minutes.

Mr. CURBELO. Thank you for recognizing my unfortunate injury over the holiday break. I will reserve all my comments about hoverboards.

Thank you very much for coming in today. There are a lot of specific questions that have been asked, and I think they are all very important. But I want to ask you more broadly, I mean, is this just a cultural issue that is going to have to be addressed beyond the specific fixes that you may recommend? Is there just a cultural structural issue here that we should really focus on? I mean, I do not think Congress is particularly well equipped to get into the details of how an organization is operating, but we can certainly lay out a vision and at least suggest a structure. And I am wondering if you can give us some guidance in that regard.

Mr. SHEAR. You ask a great question, so I am going to stand back from what I will call the detailed auditing here and discuss how pieces fit together, and some of them fit in with enterprise risk management and some of the other matters we have talked about. I used the word earlier, and it has been used over the years with SBA of it being siloed, and the idea that you can have certain reporting relationships and working relationships that are different. And part of that is you do not have the collaboration needed across the agency. So whether you are trying to implement enterprise risk management or simply just manage, how do you put together an operation that has this many pieces to it? There has to be a way of having collaboration across the agency. You have to have more of a culture where bad news can flow to the top. I really think the idea that over the years that there has not been that much focused attention on either our recommendations, or I think I can say that for the IG as well, that there has to be an ability for information to flow up and across the agency. And to some degree, if you step back from enterprise risk management, that is what part of this is.

In terms of the concerns that SBA had with us interviewing, the question came up of interviewing nonmanagement district office staff. SBA officials raised a concern that we were giving a platform for people to complain. Now, this might just come from one or two people in SBA but I just say I do not get the sense that employees at SBA feel that they can offer honest feedback to leadership. And I know from all the efforts we have at GAO, to really embrace employee feedback, that such feedback is important. All these pieces kind of fit together, and they fit together with issues associated with the organizational structure. So stepping back from basically this very detailed audit work, these are some of the observations that I would make.

Mr. CURBELO. And I thank you because we are focusing on a lot of symptoms and, of course, that is important, but I think the root cause, and I agree with you, is a breakdown in communications at SBA. And I look forward to having the administrator in here tomorrow and figuring out with her and with all of my colleagues what we can do to promote a culture of communication where people feel free expressing how they feel, what their frustra-

tions are, and how they think the organization can work better. Thank you.

Mr. SHEAR. Can I make one more point?

Mr. CURBELO. Please.

Mr. SHEAR. One of the things that—we did not do a general management review, but earlier in President Bush's administration, we evaluated something called Agency Transformation. It did not work out real well. Then Steve Preston came in as administrator, he implemented something he called business process re-engineering, and there were certain actions there. And a lot of that stretched toward the end of that administration. And so one of the things that we were very conscious of when we reported on those efforts was that there is really a need for someone or some group of people in senior positions, because by its very nature, political appointments change with each administration even when you do not have changes in party. So the idea here is that we were kind of looking at what senior executive service career people might be in a position to kind of take hold of some of these efforts and to expand them? And I think that is one of the issues that this Committee should be thinking about and that SBA should be thinking about, because there is about a year left in this administration.

Mr. CURBELO. Thank you.

Chairman CHABOT. Thank you. The gentleman's time is expired.

The gentlelady from North Carolina, Ms. Adams, who is the ranking member of the Investigations, Oversight, and Regulations Subcommittee is recognized for 5 minutes.

Ms. ADAMS. Thank you, Mr. Chair. I am from North Carolina. It was a mistake.

Thank you, Ranking Member Velázquez, as well, and Mr. Shear, thank you for being here and for your testimony.

As an enthusiastic supporter of the work that SBA performs for our nation's small businesses, it is critically important that the agency is run both efficiently and effectively. I am sure you would agree to that. But the GAO report noted that SBA is considering expanding SBA-1, an expedited application process, to include the 8(a) program, which is critical for minorities to gain a foothold in the Federal Procurement Marketplace. Do you believe that this is a move in the right direction?

Mr. SHEAR. It is a move that can be a promising move. From the basis of our audit work, on the use of technology, in this case, for the 8(a) program, I will emphasize the following. The Office of Management and Budget has very specific requirements that we have used in our audit work, our IT team that has worked with us on this, used, as far as analyzing existing IT, and in terms of requirements for investing in new IT. And SBA is engaged in a number of activities which SBA states that, might be sufficient for their IT outlook. But these very specific OMB requirements are there for a purpose, and we think that if SBA really wants to use technology to improve program delivery, which is a good thing to be thinking about, that it should have a more rigorous method for following the requirements that OMB has for IT investments and for the operational analysis of existing investments.

Ms. ADAMS. Thank you. GAO found that SBA had not conducted regular interviews of its operational IT investments to ensure that they continue to meet agency needs. Why is this significant?

Mr. SHEAR. For example, over time you might have certain systems that you have in place that become redundant with new investments, so that is part of the forward looking that I just mentioned in answering your question about SBA-One. And it is significant that way. And it is important to know, especially when you have systems that have been in place for a long time, whether they still are effectively meeting the needs of the agency in delivering its programs. So you are running a little bit blind if you do not go through these steps.

Ms. ADAMS. Thank you. And in its report, GAO found several issues that SBA has not resolved. So what are the key actions or management changes that SBA needs to take to address these challenges?

Mr. SHEAR. I think that we reiterated that at the time it was 69 recommendations from earlier reports and now it is down to 62, but we had eight new recommendations. We think they are very substantive recommendations that are really necessary to be addressed to try to improve the operations of the agency.

Ms. ADAMS. Okay. Let me quickly ask. The review found that SBA field office employees are primarily evaluated on quantitative measures, not qualitative. GAO also found that employees have reported technical problems with aspects of the electronic performance system. As a result, many field office employees feel that they are not being properly evaluated. So what is SBA doing to correct this problem?

Mr. SHEAR. I think it is a good question to ask the administrator because I really think that among these issues, a lot of it comes down to having, in terms of our work, it falls into the pieces of the human capital planning, the training that is involved, and the appraisal system where we do note that the system seems to be heavily dependent on quantity, like how many events did you hold rather than the quality of those events. And the development of performance standards really gets at the quality issue—all government agencies have a challenge in this area—but I think SBA has a way to go this way, and I hope that they are developing responses to that.

Ms. ADAMS. Thank you. I am out of time.

I yield back, Mr. Chair.

Chairman CHABOT. Thank you. The gentlelady yields back.

The gentleman from New York, Mr. Hanna, who is chairman of the Subcommittee on Contracting and Workforce is recognized for 5 minutes.

Mr. HANNA. Thanks. I appreciate that.

I do not know where to go with this. There is so much to talk about, especially the new American dream and the old one, right, that people are saying is disappearing. It was always built by small business, and according to Walter Mead, who has written widely about this, that it is the key to the future, and small business plays such a critical role in this.

We are going to have the administrator here tomorrow to talk about this. It sounds like they are just ignoring you; that they do not regard you as either your agency either knowing what you are talking about or they do not consider it important because it does not feel like there is any urgency to this. And yet, we know that about 2 to 3 percent of business loans in this country flow through them and that number is growing. And we have authorized more money to go into those programs. But what do we really do about this? It sounds like we are going to have this same meeting again next year.

Mr. SHEAR. I think oversight is important, and I would say there has been a slight change at SBA. I do not know how extensive the change is. We will see over time. But the idea that last summer, certain efforts were initiated by GAO and SBA. It was not just by me and our team. It included my managing director. It also included the new chief of staff at SBA convening meetings to go over open recommendations.

Mr. HANNA. Do they take you seriously? Or do you believe that they agree with you or that they want to implement what you are asking? It sounds like they are just stonewalling you.

Mr. SHEAR. It is one area where we see some positive movement. So unlike all the other times that I have been here and said, well, SBA seems to always agree but then it is very rare that actions are fallen. It is just in certain pockets and certain programs where we might have an associate administrator who is really in tune with our recommendations that an action is taken. There seems to be some movement, but I think time will tell, and I would hope—

Mr. HANNA. Is it just the case you have no levers to pull to make them do and follow your recommendations? All it is is polite conversation?

Mr. SHEAR. So let me go back to what we do as an agency. Just recently, the Comptroller General, Gene Dodaro, testified about the importance of agencies implementing our recommendations and how doing such can improve the functioning of government. And this was all tied in again with him sending letters to the heads of agencies on recommendation implementation rates. We do get a lot of movement in the sense that government-wide, 80 percent of our recommendations are implemented. We just do not have that track record at SBA. We have not had it. There has been some positive movement—

Mr. HANNA. You said they are at a 50 percent productivity level compared to other agencies that are closer to 80 or more.

Mr. SHEAR. Yes.

Mr. HANNA. So the proof is in those numbers, that they are not highly functioning. So what would you ask Administrator Sweet tomorrow when she is here? I can imagine, but—

Mr. SHEAR. What would I ask? Many of the questions that you are asking me today are probably good questions to ask. But part of this is the areas where we are looking for in a sense of some of the bigger issues. For example, for SBA to come back to us and say during the course of this, which is saying, have you assessed your organizational structure? Because our analysis indicates that there are a lot of challenges associated with it. So either you have to

change the structure or you have to do things to address the challenges.

Mr. HANNA. What you are saying is that they just do not care.

Mr. SHEAR. But then we get a response at the agency comment period, and then we get response now in a 60-day letter saying we have evaluated organizational structure. So really, the idea of really establishing very firm plans that would extend into the next administration is important. What plans does she have for what she wants to achieve.

Mr. HANNA. So the long-term structural changes that are permanent and not based on the changes in command?

Mr. SHEAR. Yes. I think that to really focus on some of the organizational structure issues and the associated—a lot of these things fall together. The human capital issues, the training needs, all those different pieces. I think, what is your plan for getting the agency to be a more highly functioning agency?

Mr. HANNA. My time is expired.

Chairman CHABOT. Yes, the gentleman's time is expired.

The gentleman from Massachusetts, Mr. Moulton, who is the ranking member of the Health and Technology Subcommittee, is recognized for 5 minutes.

Then we will go to Ms. Radewagen, who is American Samoa, and she is also the chair of the Subcommittee on Health and Technology.

Ms. RADEWAGEN. Thank you, Mr. Chairman. Welcome, Mr. Shear.

During the GAO's investigation of mismanagement of SBA, did you find that any regional offices took on more responsibility than other regional offices? For instance, there are two U.S. territories that do not seem to have regional representation, let alone a district office. Would it be accurate to say that SBA has neglected certain regions while perhaps overserving other regions?

Mr. SHEAR. You ask a great question and I wish that I could say that we did audit work to see what representation there was of regional and district offices in a specific outreach, but we did not try to geocode the different activities of the various district offices in particular. It is a very good question but our audit work just does not address it.

Ms. RADEWAGEN. Thank you, Mr. Chairman. I yield back.

Chairman CHABOT. The gentlelady yields back.

The gentleman from Virginia, Mr. Brat, is recognized if he has any questions.

Mr. BRAT. Thank you, Mr. Chairman, I have no questions.

Chairman CHABOT. Okay. If not, I think the ranking member has another question, and we now yield to her.

Ms. VELAZQUEZ. Mr. Shear, you know, I cannot help but feel frustrated because we have been in this predicament for so many years. I have been sitting on this committee for 23 years, and the Disaster Loan Program has been one that I care about because it has impacted New York City. We have worked on legislation since Katrina and here we are today passing a new law that I authored to reopen the Disaster Loan Programs because the percentage of decline in loan applications were so high. I am happy to see that the administration is moving to provide the assistance people de-

serve, particularly the victims of Hurricane Sandy. But tomorrow we are going to have the administrator before us. We are going to have to ask the tough questions that need to be asked based on the review you just conducted. My question to you, after listening to my colleagues and the answers that you have provided, is that it looks like someone needs to be in charge of watching the store, right? And it goes to the issue of the organizational structure that could survive the fact that pretty soon we are going to be looking at a new administration in the White House. How can we address that? Who do we hold accountable in terms of making sure? Because you said that in terms of the 8(a) program, well, there is an associate administrator that cares about making sure that the suggested recommendations are implemented to make the program better. Nevertheless beyond the administrator, is there anything that could be done at the organizational structure of the agency that will be accountable in making sure all these recommendations are implemented?

Mr. SHEAR. At the organizational structure level, one of the most basic things that we said was there is nothing magical about having the 10 regional offices and the 68 district offices and different lines of reporting, in terms of working relationships and reporting relationships. There are other ways the agency could structure itself. We do not feel that we have the basis for saying this is what the organizational structure should be, but we certainly identify that there are these challenges. And you know, when we reported on the 8(a) program, it is a symptom of a situation where you have district staff that are not necessarily sure what their jobs are in terms of continued eligibility and things like that and the oversight that is needed. But from a standpoint of organizational structure, there was a consultant's report, and when it was not given to us, we did not feel that was very important because the important thing is what are you doing SBA to address, if you are going to keep your organizational structure largely intact, how are you going to address these issues that are associated with it? And we still have not seen anything. When we followed up with them last month, we still do not see anything in terms of what are you going to do about the structure of this agency, or if you are not making structural changes, how are you making changes to make sure that people are accountable and that people are trained to do their jobs and they understand what their jobs are? And I think those are some of the more fundamental issues that we really have here. You can put all these other things aside and you say that is some of the more fundamental issues that have been around for years. There are a lot of things we have talked about over the years with individual programs and even looking more broadly across the programs that now fall under the rubric of enterprise risk management. But that actually gives a pretty good rubric as far as saying how do you really define what the mission of the agency is and how you put the pieces together. And then the other piece that we would certainly discuss, with this Committee and we have discussed with you over the years, we think of the GPRA Modernization Act and the need to collaborate across agencies, whether it be USDA Rural Development or these working groups that the Office of Management and Budget have set up for collabo-

ration in delivering assistance, things like that, a more collaborative approach would be the other things that really stand out when I just step back from all these individual recommendations.

Ms. VELAZQUEZ. Thank you. Thank you, Mr. Chairman. I yield back.

Chairman CHABOT. Thank you. Thank you very much. The gentlelady yields back. Her time is expired.

Just one quick question, Mr. Shear. What is your assessment of the SBA's response to the GAO report that was submitted to Chairman Chaffetz and the Committee on Oversight and Government Reform?

Mr. SHEAR. Oh, boy. You asked for a short answer.

One of the things that it does note and I think that I would expect in a 60-day letter, because I have read enough 60-day letters and comments in our draft reports from SBA to know certain common themes, such as we agree and we are taking action. Some of the things that reflect something positive that is in my statement was even though it might be a small number of recommendations, a relatively small number over the last year, that there is at least some focus on those recommendations, and I hope it is not viewed as just a fire drill within SBA that they are trying to do this over a short period of time, but they are trying to create a culture and a management structure that can work over time, even into the next administration on working on those issues.

So as far as there is a lot of activity going around, and a lot of what we found in doing this work and that we found in looking at other programs, particularly the contracting programs over the years, there is always a lot of activity around things that are somehow related to certain things that we are finding, but the idea of going the extra mile is not quite there. There are a lot of initiatives and activities that have occurred but it is a matter of taking it to the next level.

Let me just mention two things that are in the letter where I just say that raises a little bit of concern. One is that I have already referred to, that the agency has conducted an assessment of its organizational alignment. It is not just for the purpose of documentation or for our audit work that we see documented evidence of a thorough evaluation. It should be an important living document over time that its current leadership and future leadership can rely on in terms of addressing the issues of the agency—it is not as important as to whether we see the assessment or not. What is important is that there is documented evidence of a thorough examination of the organizational structure. And then the other one, there was reference made to doing the operational analyses of the IT. This is one where the requirements that OMB has are very specific and our IT team relies on the OMB guidance. And this is one where there is a statement in there that, we and our IT team take some exception to that, we have not seen documented evidence that the required operational analyses have been done. So there might be good things going on in the agency in terms of oversight of its IT, but we just do not see documented evidence that meet these very specific requirements that OMB has.

Ms. VELAZQUEZ. Would the gentleman yield?

Chairman CHABOT. I yield.

Ms. VELÁZQUEZ. On the IT issue, you say that there has to be oversight, OMB, do they conduct any oversight?

Mr. SHEAR. I would like to follow up with the Committee on that and really get the full input. I know that my colleague, Dave Powner, our director in the IT team has testified before this Committee, and I would want to follow up with him on specifically the oversight of OMB. My simple answer to your question is yes; OMB is involved in conducting oversight. Whether it is a question for the record or whether, with Committee staff of following up with Dave and his team, who have collaborated with us so much on this work, I think that could give a more complete answer than what I could give you.

Ms. VELÁZQUEZ. Okay.

Chairman CHABOT. Okay. Reclaiming my time.

Ms. VELÁZQUEZ. Thank you. I yield.

Chairman CHABOT. I would just note that we have heard the shortcomings, the deficiencies. I could use a lot of other words, too, but the problems that are going on at the SBA at this time, the administrator will have an opportunity tomorrow to address the Committee and then to take questions as well, and we would invite members on both sides of the aisle and the public to attend and hear the response tomorrow as well. It is at 11 o'clock in the morning.

I would ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record. Without objection, so ordered.

If there is no further business to come before the Committee, we are adjourned. Thank you very much.

[Whereupon, at 12:15 p.m., the Committee was adjourned.]

A P P E N D I X

United States Government Accountability Office



Testimony
Before the Committee on Small
Business, House of Representatives

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**SMALL BUSINESS
ADMINISTRATION**

**Leadership Attention
Needed to Overcome
Management
Challenges**

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

GAO Highlights

Highlights of GAO-16-134T, a testimony before the Committee on Small Business, House of Representatives

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) 512-8878 or shearw@gao.gov.

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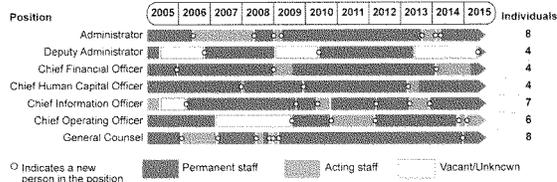
SMALL BUSINESS ADMINISTRATION

Leadership Attention Needed to Overcome Management Challenges

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.

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

¹SBA 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.

²Small 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.

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

⁴GAO-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.

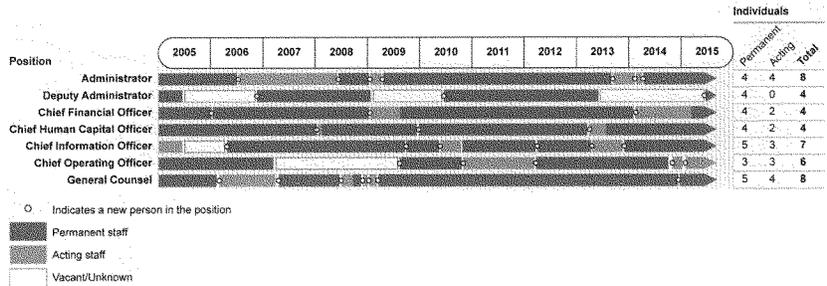
SBA Has Not Resolved Many of Its Long-Standing Management Challenges

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.

⁵GAO, *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

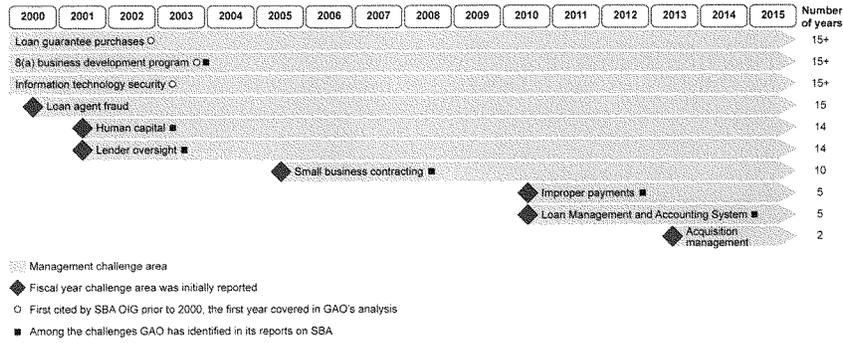


Source: GAO analysis of SBA information. | GAO-16-134T

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



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

⁷GAO, *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

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

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

¹⁰GAO, *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.

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- **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

¹¹We 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).

¹²GAO, *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.

¹³GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-213.1 (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.

¹⁴GAO, *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.

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- **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

¹⁵In 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.

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