PLACING FEDERAL TAX DOLLARS AT RISK: HOW THE SMALL BUSINESS ADMINISTRATION MISMANAGES THE MODERNIZATION OF ITS INFORMATION TECHNOLOGY

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PLACING FEDERAL TAX DOLLARS AT RISK: HOW THE SMALL BUSINESS ADMINISTRATION MISMANAGES THE MODERNIZATION OF ITS INFORMATION TECHNOLOGY

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WEDNESDAY, FEBRUARY 8, 2012

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

The Committee met, pursuant to call, at 1:10 p.m., in room 2360, Rayburn House Office Building. Hon. Sam Graves (chairman of the Committee) presiding.

Present: Representatives Graves, West, Velázquez, Schrader, Owens.

Chairman GRAVES. Good afternoon. I bring this hearing to order.

As Administrator Mills has pointed out in testimony before this Committee, the Small Business Administration provides credit counseling and contracts to America's entrepreneurs. Today's hearing focuses on the agency's ability to manage its role as a provider or guarantor of credit to small businesses.

While the subject of today's hearing may not be riveting, it is vitally important. The subject, the SBA's capacity to manage modernization of its financial systems, is crucial to ensure that the agency can oversee the lending of capital to small businesses without placing taxpayers at an undue risk for default.

The SBA has utilized a combination of computerized and manual procedures for managing its capital access programs since the 1970s. Those systems, according to outside consultants and the Inspector General, need serious updating.

The SBA began its modernization effort in 2005. Shortly thereafter, the SBA fell behind schedule and faced cost overruns. Despite apparent mismanagement, the SBA was given significant sums to continue revamping its computer systems in the President's stimulus bill. The additional funds did not lead to any improvement in the agency's modernization effort.

In late 2009, the SBA then spent more than half a million dollars on management consultants in an effort to improve the process. A further review in the summer of 2010 led to the realization that the SBA could not perform the updates as originally outlined, nearly five years after the SBA started the modernization effort. This is simply unacceptable.

Today we hear from the Government Accountability Office whether the SBA even has the capacity and procedures in place to manage a scaled-down modernization effort. Furthermore, GAO

will explain to us the risks that still remain in the SBA loan management accounting system.

Little doubt exists among the members of this Committee that the SBA plays an important role in providing the capital to small businesses. However, I also firmly believe that every member of this Committee expects the SBA to manage its information technology in a manner that does not waste taxpayer dollars and ensures that it can obtain accurate information on a loan portfolio in excess of $80 billion.

With that, I turn to Ranking Member Velázquez for her opening statement.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Last week the Department of Labor reported that unemployment fell to the lowest level in three years. This is not only an encouraging sign that the recovery is gaining strength but also a powerful reminder of the role that small businesses play in our economy. Accounting for more than 6 out of every 10 new jobs, small firms are the engine that will continue driving this recovery forward. However, for this to happen they need access to abundant and affordable capital. The SBA's loan and investment programs can help in this effort, but behind every successful program must be strong internal checks to manage an agency's use of taxpayer dollars.

Today we will examine whether the SBA's Loan Management Systems are prepared to meet this challenge and whether reforms that were passed more than 15 years ago have been fully implemented by the agency.

When the SBA's Loan Management Systems were first developed in the 1970s, they were state of the art. Although it has been more than 40 years since then, many of these Legacy Systems are still in service. Today they manage more than $90 billion in credit, investments, and loan guarantees, far more than when they were first put in place. As they have grown more obsolete, the SBA has found it increasingly more difficult to maintain data integrity, keep information secure, and accurately account for loans. Although the SBA has pursued various efforts to upgrade and modernize the Legacy System, these efforts have met with minimal success. Those of us who have been on this Committee for some time are well acquainted with the agency's struggles to modernize this Loan Management System.

The current efforts date back to 1997 when growing concern over the risks posed by the Legacy Systems prompted Congress to pass legislation directing the SBA to upgrade its risk management data. That law laid the foundation for important reforms to the Loan Management System and should have put the agency on the path to a fully upgraded IT system today, more than 15 years since the law was enacted.

Unfortunately, many of the reforms mandated in the act were never fully realized. In 2001, GAO reported that the SBA's efforts to develop and implement upgrades for the Legacy System were not consistent with the 1997 act. Without these basic building blocks for program management, the agency has stumbled from one initiative to another making only marginal changes to keep the system operational.

The most recent initiative dubbed the Loan Management Accounting System began seven years ago with a projected cost of $217 million. Already, however, this program has begun to suffer the same delays and cost overruns that have characterized previous modernization efforts. As we will hear today, these shortcomings are the direct result of poor management practices and lax executive oversight, the same problems that have repeatedly been identified by this Committee, the Government Accountability Office, the SBA's Inspector General, and private consultants.

Perhaps most troubling, however, is the fact that even if successfully implemented LMAS will not result in a fully modern Loan Management System for SBA. Instead of a complete replacement of the Legacy System, SBA has undertaken a scaled back effort of limited upgrades. When all is said and done, the SBA will still rely upon a Loan Management System that is more than four decades old. It is difficult to see how this will position the agency for success in the 21st century and beyond.

In examining the current state of the SBA Loan Management Systems, there can be no doubt that modernization is desperately needed. The question is how the agency can get it done quickly and get it done right. With millions already spent in this effort, SBA cannot continue to throw good money after bad. The key to this will be strong management, thorough planning, and effective oversight at the highest levels within the agency. I hope that these lessons will be taken away from today's hearing.

I would like to thank Ms. Johns and Mr. Powner for being here for this discussion. And I know we all look forward to hearing what they have to say.

Thank you, Mr. Chairman.

Chairman GRAVES. Thank you.

STATEMENTS OF THE HONORABLE MARIE JOHNS, DEPUTY ADMINISTRATOR, UNITED STATES SMALL BUSINESS ADMINISTRATION; DAVID POWNER, DIRECTOR OF INFORMATION TECHNOLOGY, UNITED STATES GOVERNMENT ACCOUNTABILITY OFFICE

Chairman GRAVES. Our first witness is The Honorable Marie Johns, who is the deputy administrator of the United States Small Business Administration. She is responsible for overseeing the day-to-day management of the SBA. Thank you for coming in, Ms. Johns.

STATEMENT OF MARIE JOHNS

Ms. JOHNS. Thank you very much, Chairman Graves, Ranking Member Velázquez, members of the Committee. As always, it is an honor to testify before you.

The Small Business Administration provides access to capital for tens of thousands of small business and disaster victims each year.

SBA's $90 billion loan portfolio plays an important role in the small business economy. Our loan programs help small businesses who have been left out of traditional credit markets gain access to the capital that they need to grow and create jobs. Today, over 80 percent of our flagship loan programs are processed electronically compared with none 10 years ago. Thus, upgrading our loan man-

agement and accounting systems, or LMAS, while ensuring security and without disruption to our current lending process, has been a major priority at SBA.

In 2005, out of concerns about security, cost, and flexibility, the SBA administrator approved a project to update this 35 year old Legacy System. In 2006, the agency requested development funding for the complete overhaul of LMAS. Work continued in 2007, and in 2008, a contract was awarded to an integration firm to begin transferring SBA's processes to a commercial off-the-shelf program.

However, after 12 months of planning and completion of a pilot, SBA identified new concerns about cost, time, and risk associated with the transfer to a commercial off-the-shelf system. The planning and pilot resulted in a revised development cost estimate of $156 million and time-to-completion estimate of nine years. Due to these concerns, SBA commissioned an outside study of the LMAS project which was delivered in December 2009.

In addition to SBA's concerns, the study showed that implementing a commercial off-the-shelf program would require retrofitting our loan-making processes to match the software which could potentially be disruptive to our loan-making efforts.

Based upon all of this, the LMAS Executive Steering Committee, that is the council charged with overseeing the upgrade of LMAS, decided to change course in May of 2010. This decision coincided with the June 2010 Office of Management and Budget Memorandum M1026, which directed agencies to reduce the cost and scope of large automation projects.

In September 2010, SBA requested authority from OMB's Financial System Advisory Board, or FSAB, to rescope LMAS with a series of more focused and more cost effective improvements to the existing system, which we call LMAS Incremental Improvement Projects or IIPs. The IIPs were approved by FSAB in January 2011 and will address the most important issues surrounding the upgrade of LMAS in a less costly, less risky, and more efficient manner.

Instead of a complete overhaul, the IIPs involve upgrading the hardware and software of our financial systems infrastructure to support our secure web-based loan making and financial reporting. We estimate development for this new approach will total $39 million, which is an overall savings of $117 million from the LMAS budget estimated in 2009.

The incremental improvement approach is better tailored to SBA's current needs and goals. It allows us to make upgrades to LMAS while continuing to make and process loans. Our lenders can still continue to make loans through our web-based process at a record pace while we upgrade the loan accounting software and hardware in the backend.

In May 2011, SBA completed the first IIP, upgrading our administrative accounting system to the latest software release. During this time, SBA also implemented changes to our loan programs brought about by the American Reinvestment and Recovery Act and the Small Business Jobs Act. We have also phased out or converted 275 Legacy programs to a web environment. This year we anticipate completing additional improvements to enhance the functionality offered to lenders, disaster borrowers, and small busi-

nesses while moving the back office loan accounting and financial reporting processes to a standardized, non-proprietary hardware and software solution.

In its audit, the Government Accountability Office stated that there is room for improvement. We at SBA agree there is always room for improvement. One example of the improvement is the strengthening of executive involvement in the project. The LMAS Executive Steering Council has met 17 times from May 2010 to January 2012. Additionally, SBA has improved documentation of the project's progress. I know these improvements because I have chaired the LMAS Executive Steering Council since December 2010.

While we are undertaking these improvements, I wanted to remind the members of the Committee that Fiscal Year 2011 was a record year for the SBA. We supported over $30.5 billion in lending to over 61,000 small businesses. We were able to implement parts of the IIP without any impact to our lending partners or to our borrowers. We recognize the importance of not only continuing to meet the capital needs of small businesses while continuing to upgrade our system, but we are also doing it in a way that is most cost-effective and least disruptive to our lending partners and small business owners.

Thank you for the opportunity to testify. I look forward to your questions.

Chairman GRAVES. Thank you very much.

Our next witness is David Powner.

Mr. POWNER. Correct.

Chairman GRAVES. He is the director of information technology at the United States Government Accountability Office. In that capacity he directs GAO's assessment of federal agency adoption and use of computer technology. Welcome.

STATEMENT OF DAVID POWNER

Mr. POWNER. Chairman Graves, Ranking Member Velázquez, and members of the Committee, it is a pleasure to be here this afternoon to discuss GAO's findings and recommendations on SBA's Loan Management and Accounting System.

In order to strengthen small business, SBA relies extensively on IT systems to support loan accounting and to track loans. The current loan accounting systems are antiquated, expensive to maintain, require extensive data reconciliations, and do not provide efficient loan servicing.

In late 2005, SBA initiated the Loan Modernization Program, a $200+ million acquisition that was to take nine years to complete. In late 2009–2010, the federal chief information officer, OMB's Financial Systems Advisory Board, and an independent contractor found major issues with SBA's approach and management, including stakeholders not being aligned with the projects, undefined business requirements, resource gaps in program management, weak executive governance, and a lack of a target architecture for loan accounting and financial management. In addition, these groups recommended that SBA reduce the scope of the effort by focusing on migrating off the expensive to maintain mainframe and putting in place a modern database.

SBA, to its credit, is implementing this reduced approach in seven planned increments that are to be completed by mid-2013 at a cost of around $30 million. One point I would like to make here though is that the cost that you are going to hear today are all over the board and it is very clear that we do not have a clear baseline when it comes to the cost for this program. Every time we turn around there seems to be another number that is floated around in terms of the total cost. We just heard 39. We had 28. One time it was 43. So that is something we need to get to the bottom of.

Specifically, the increments include migrating off the mainframe platform, migrating the COBAL (Common Business Oriented Language) code from the mainframe to a client server environment, and migrating to a modern database. This incremental, more manageable approach is consistent with current IT and financial reform efforts. Some of the increments are planning efforts to define additional out year projects to address SBA's loan management and accounting weaknesses.

So to be clear, the first seven increment approaches is a start to modernization. There are more incremental approaches to come. Of the seven increments, one is complete, three are in flight, and three have not begun. Of the four completed, our review revealed that the schedules are slipping and costs are increasing.

The success of SBA's efforts depends on the ability to address key management weaknesses. First, SBA needs to strengthen its program management. Several areas where improvements need to be made include requirements. All requirements for the increments where contracts have been let have not been completely defined. Risk management. Not all risks are categorized, nor are all mitigation plans in place. In human capital, SBA needs to better address outstanding human capital needs.

Second, SBA needs to strengthen executive level governance that Ms. Johns mentioned. There are two governing bodies overseeing this acquisition and we made several recommendations in this area. Specifically, SBA should clarify the different boards' responsibilities and ensure that the boards perform aggressive oversight of the programs, risks, and progress.

In summary, Mr. Chairman, the good news is going smaller and more incremental could position SBA for a successful modernization, but several of these essential program management and governance basics need to be solidified to position SBA to deliver a modernized loan and financial management system on time and on budget. I would like to stress the importance of executive-level oversight driving these improvements. The Deputy Administrators' Executive Steering Committee is the group to make this happen. Driving change from the top, being rigorous in its approach, holding contractors accountable, and planning beyond 2013 are essential for SBA's successful IT modernization.

Mr. Chairman, this concludes my statement. Thank you for your leadership on this important topic and I will be pleased to respond to questions.

Chairman GRAVES. Thank you very much.

I started college 30 years ago and we were learning—that is the punch cards—the little cards. You do a whole bunch of them and you punch them and is that how you program the computer? That

is amazing. I am sorry. I am just absolutely—it kind of takes me back to the old days.

My question to you is, Ms. Johns, when you are going through this evaluation process, have you figured out—and you are trying to streamline. How many of your lending partners out there are still using COBOL?

Ms. JOHNS. Actually, Chairman Graves, a number of our lending partners use COBOL. And COBOL was around when I was in college as well, which has been some time ago. However, COBOL, even though it is a time-tested computer language, it is still widely used, particularly for the kinds of operations where the SBA needs it. That is to provide the technology platform for some of our back office operations.

As I am saying, in addition to the SBA, many of our lenders use COBOL. In fact, the House of Representatives system for payroll management for members and staff uses COBOL. It is still a very widely used language. But that is just a part of our modernization efforts; COBOL, that is. We also use other computer languages. JAVA. We use Oracle. And so COBOL is a part of a very comprehensive and complicated architecture.

Chairman GRAVES. I guess the question that I have, the basic question is if you have got a consultant and the consultant suggested changes, why did you not implement—why did you spend all these taxpayer dollars and not implement the changes? I mean, why was the money spent then?

Ms. JOHNS. Well, if I may, I would like to provide a bit of context going back to—referencing back to my testimony. If you pick up the story in 2005, there was a path that the SBA was going down that was looking at a comprehensive, off-the-shelf product for basically a wholesale change out of the loan accounting system. The agency did research; actually, undertook a pilot. And what quickly was evidenced by that information was that continuing to go down that path would be more costly, more risky, and more time consuming for the agency.

And so at that point another study was done to say, all right, what do we need to do here? And it was a result of that second study that led us to go the incremental improvement project route. And that was also substantiated by OMB, who in their statements talked about concerns about major overhaul projects and how the incremental approach was much more effective.

The issues that we are trying to balance always, Chairman Graves and members of the Committee, is that we do not have the luxury of just putting the agency on hold and doing a complete overhaul of the system. At one time leaders in the agency thought that that might be feasible but it is not. We still have a $90 billion loan portfolio to manage. We also have to implement the will of this body as a result with the Recovery Act as an example, the Small Business Jobs Act. Each of those major pieces of legislation required changes to the system. And we had to implement the modernization, manage the agency, continue to make loans to small businesses, and in fact, last year we had a record loan of over $30 billion to small businesses at a time when the economy really needed that capital to our small business job creators in the country.

So those are the important issues that we have to manage. Modernization, maintaining the agency, and ensuring that we are doing that having the very best use of the taxpayer dollar.

Chairman GRAVES. Going back to COBOL, my staff called the lenders, your lending partners, and none of them use it for their lending practices. They may use it for other reasons or other purposes but they do not use it for their lending practices. And if you are still using it though to do your lending stuff then it is just not——

Ms. JOHNS. If I may——

Ms. VELÁZQUEZ. Mr. Chairman, if you will yield——

Chairman GRAVES. Sure.

Ms. VELÁZQUEZ. You made reference to the money that was given to you under the Recovery Act. Right?

Ms. JOHNS. Chairman, I made reference to the fact that the agency was responsible for administering the Recovery Act at the same time that we were modernizing. That was the point that we have growing concern.

Ms. VELÁZQUEZ. And you asked for $25 million from the Recovery Act to continue to implement the modernization.

Ms. JOHNS. That is subject to check but—what question? I am sorry.

Ms. VELÁZQUEZ. You asked. We did not give it to you.

Ms. JOHNS. All right.

Ms. VELÁZQUEZ. The administration asked for the money for you. Okay.

Ms. JOHNS. But if I could get back to the issue in COBOL, when you say loan practices I am not sure what you mean by that. Most, 80 percent of our loans are managed through a web interface. So in 10 years we have gone from zero web presence to 80+ percent of our loans being managed through a web interface. So the COBOL part of our system is a relatively small part of the system and it serves more of a back office function. And that, indeed, is similar to many of our lending partners.

Chairman GRAVES. Well, as far as the guaranteed lending goes, none of them use it for their lending practices.

Real quick, Mr. Powner, and then I am going to turn to Ranking Member Velázquez, how many of the recommendations did the SBA implement from their consulting firm?

Mr. POWNER. There were—first of all, they consulted along with others. They recommended that you take this incremental approach to focus on getting off of COBOL and the mainframe. So this is clearly where we have a start to both of those, you know, migrating off the mainframe. And I think the desire is to get out of the COBOL world, Mr. Chairman. So those are clearly in the works.

Now, the recommendations on improved governance and program management, there were clear recommendations in those two areas and we found similar weaknesses where those two areas greatly need to be strengthened.

Chairman GRAVES. Ranking Member Velázquez.

Ms. VELÁZQUEZ. I do not know where to start. This is really troubling, especially for members who have been on this Committee for decades now. You know, I remember in 1997 we instructed—we

asked you to start the modernization of the loan system. So here
we are, 2012, after the GAO report in 2001 that found problems
with implementation of required upgrades. In 2007, the IG found
deficiencies in lender monetary system. In 2009, the IG found
shortcomings in the management of the LMAS initiative. In 2009,
SBA paid a private consultant $500,000. In 2010, the IG found no
actions were taken to improve the quality assurance management
of the project.

We understand the challenges because you manage a big port-
folio. But because $90 billion in investment and loans is why you
need to take this seriously. And seriously means from the top
down. And I agree with the GAO conclusion that someone has to
be in charge. And I do not think that the directive is coming from
the top down. Otherwise, we will not find ourselves almost 15 years
after so much money being spent in this predicament.

So under the scaled back approach to LMAS, SBA will make lim-
ited upgrades and keep the COBOL self-aware program which is
now more than 50 years old. And because it is old it is becoming
more expensive also. It is not cheap to maintain. How long does the
SBA plan to keep this antiquated system?

Ms. JOHNS. Chairwoman, we have—we are——

Ms. VELÁZQUEZ. Ranking member.

Ms. JOHNS. I am sorry?

Ms. VELÁZQUEZ. I am the ranking member.

Ms. JOHNS. Ranking Member. Yes, forgive me.

The COBOL reporting, which is one of the seven LMAS IIP
projects, is actually a project to upgrade to a newer version of
COBOL, which is a non-proprietary version that is open to ensur-
ing that we can use all of the advances in COBOL that are avail-
able to us. Part of the problem previously was we were tied to one
vendor and were not able to take advantage of advances that were
in the——

Ms. VELÁZQUEZ. Okay. Yes, I know. I know. But look, you just
cannot come here every year, report after report, and talk about
the obstacles. You are asking for money; we give you the resources.
And we are telling you this is serious business.

Mr. Powner, what are some of the risks and costs associated with
continuing to use COBOL programs rather than moving to more
modern software?

Mr. POWNER. Well, clearly the cost to maintain COBOL code,
even the newer versions, there are not many programmers out
there that understand that language. So you will see many federal
agencies trying to get off the COBOL, out of the COBOL world. If
you look at the goals of the modernization, I still think it is to mi-
grate off of the mainframe. Even though we have ported COBOL
code to a client server environment, I would imagine that down the
road that future increments would be to get out of COBOL entirely,
along with modernizing the loan system. So that is what is really
important to take away here.

These first seven increments, four of them have deliverables;
three of them are studies. And those studies actually will lay the
groundwork and the path for future modernization. And that is
very important. I would bet that COBOL will come up as part of
those future efforts.

Ms. VELÁZQUEZ. Mr. Chairman, yes, I will come back with some other questions.

Chairman GRAVES. All right. Mr. West.

Mr. WEST. Thank you, Mr. Chairman. And also Ranking Member. Thanks to the panelists for being here today.

Honorable Johns, you said three things that kind of hearken back to the previous career I had. You said that you had to balance modernization, maintaining the organization, and steward the taxpayer dollars. And that sounds like the organization I spent 22 years with, the United States Army, and I saw us go from a jeep to a Humvee, armored personnel carriers to Bradleys, M60 tanks to M1 tanks. You know, you name it.

So we are talking about new systems integration. And one of the things that, of course, we looked at, do you have a new systems integration implementation plan with an execution timeline with measures of effectiveness? One thing I am concerned about is that who is the singular bellybutton that is responsible for this? Because that is part of unity of effort and unity command. So can you kind of walk me through, you know, what is the plan out there and, you know, timeline so that you can execute this and we do not have these overruns? And what are the measures of effectiveness as you go through? I mean, do we have a phase plan of integration?

Ms. JOHNS. Yes, Congressman. Thank you for the question.

We do, indeed. Part of the GAO report addressed the issue of governance. There are two bodies who have been involved with the oversight for the LMAS program. We have an oversight body called the BTIC, the Business Technology Investment Council or Committee. And that oversight body has responsibility for technology improvement, technology upgrades enterprise-wide. So they look across the SBA and manage new technology. Are we making the right investments? How is that moving? How does that fit within the enterprise architecture? And so on.

And so when the decision to go down the road of LMAS incremental improvement projects, the BTIC approved that approach. But then we realized as an agency that we needed to have an oversight body that was singularly focused because this was a project of such magnitude and cut across the entire operations of our agency. We wanted to make sure that we had an entity that was focused on LMAS IIP. And that led to the creation of the Executive Steering Council.

So that is the explanation of why there are two bodies. There really is no confusion about that. They have distinct responsibilities and there is significant operational overlap because many of the individuals who serve on the BTIC are also part of the Executive Steering Committee Council. The CIO, the head of our office of Cap Access, for example, the CFO. Those are examples of individuals who serve on both bodies.

Mr. WEST. But who is the one person in charge?

Ms. JOHNS. Well, I chair the ESC.

Mr. WEST. Okay. So everyone reports back to you?

Ms. JOHNS. That is correct.

Mr. WEST. Okay.

Ms. JOHNS. Now, you asked about a plan and a timeline. We have a plan. The timeline is that we have committed to completing

these incremental improvement projects by the end of Fiscal Year 13. We have had some slippage of due dates within that process. That is not unusual for a project of this magnitude. And yet we are on the—we are continuing with making progress toward our commitment to have these seven projects done by the end of Fiscal Year '13.

And if I may say a word about this issue of cost overruns. As Mr. Powner indicated in his testimony, GAO audit has found that the SBA can do a better job in terms of how it presents information and how that information is labeled. And because we have recognized—there has been some confusion about how data has been used to draw certain analyses in the past. The fact of the matter is we were on a path to spend $156 million. The path that we are on currently is $39 million and represents a savings of $117 million to the taxpayer.

In fact, since our IIP approach was approved we have actually had a $4 million reduction from the baseline because our budget was cut. So we are very cognizant of our responsibility to report back to this body and to the public at-large that we are using this money as effectively as possible, maintaining the schedule for modernization, and running an agency that gets capital in the hands of small businesses.

Mr. WEST. What is your percentage measure of effectiveness on this implementation plan? Is it around 100 percent? Where would you say you are?

Ms. JOHNS. Congressman, I really—I cannot give you a number in that regard. What I can say is that we have completed the first project under the IIP. We have made substantial progress on most of the other projects. We have three additional projects that are bit more downstream where we are still in the planning phase and have not yet awarded a contract, but we are meeting on a regular basis and the team assures me that we are on pace to meet the 2013 implementation.

Mr. WEST. Let me just say this. If I was standing before a general and I could not tell him what the measure of effectiveness percentage was where we were in the project, I would be relieved of command. I would be fired. So please, I would say if you are having these council meetings, the first question you should ask is what is our measure of effectiveness.

Mr. Powner, do you have anything you want to add? And then I will yield back.

Mr. POWNER. Well, no, I think that is clear. I want to make it clear also, too, that these first seven increments—and we talk about the $39 million and comparing that to the 156. There is a difference in scope because the 156 included modernizing some of the loan programs. This is really focused on infrastructure changes; putting in place a database, migrating off the mainframe, importing COBOL code. We still have to modify applications to modernize our financial systems and the loan systems. So it is important that we are talking apples to apples and we talk 156 to 39.

Ms. VELÁZQUEZ. Will the gentleman yield?

Mr. WEST. You are in charge. Yes.

Ms. VELÁZQUEZ. I am glad to hear that.

Mr. Powner, going back to the $39 million, right, in cost savings by terminating existing LMAS projects, should the agency really be claiming this savings when the final costs and completion date are under considerable risk of overruns?

Mr. POWNER. I think the total cost is a big TBD. So when you look at the seven increments, three of the increments, one is prioritizing additional projects. Next is implementing those additional projects. The third is documenting processes so that the business keeps up with the technology. Those additional projects will comprise modernizing SBA's loan accounting system. Okay? So the total cost is still TBD when you look at modernization overall.

Ms. VELÁZQUEZ. Thank you. Thank you, gentleman, for yielding.

Mr. SCHRADER. Thank you, Mr. Chairman.

Well, let us get back to the number and what constitutes—what are the elements of the number? I mean, we have got information here that $100 million has already been spent. We have only completed one piece of the IT program. Am I to understand, Mr. Powner, that you are saying that $100 million was used for other improvements that we are not talking about?

Mr. POWNER. No, I do not think it was used for other projects. I think we have just a fairly significant de-scoping of the project.

Mr. SCHRADER. But we already spent $100 million.

Mr. POWNER. You mean historically? Historically. Oh, the answer is yes. Well, on the predecessor.

Mr. SCHRADER. So my concern is the original, to change the whole bloody system out was supposed to be $217 million. We spent $100 million. We actually spent more than that because we already spent a little bit of the 39 or whatever the magic number is. So we have already spent half of the total turnout for one project out of seven. And I am very concerned that if we have more studies going on, I mean, we could study this. We will be on COBOL 15, which is, I think, totally unacceptable by every member of this Committee. If I was to poll this Committee I do not think there is a single person here that thinks a new version of COBOL is appropriate for the Small Business Administration going forward.

You are a relatively small agency. You have the unique opportunity to be more nimble than many, many others. And I think while the incremental approach is understood, there is a limited number of dollars out there. I get that. But to base it on going to COBOL 54 or whatever your new number is, I think that is not good. What I would like is a report back to the Committee about what the different elements are and what you think they will cost, beyond just the IT piece also. I want to know is the number 28? The number, the sheet we have in our packet here, Table 2, the numbers do not add up to 39. They add up to like 28, maybe 30. So I am as confused as everyone else about what the IT piece is.

And if I read this correctly and listen to the testimony correctly, you have talked about studies. What costs are we going to incur as a result of what the studies recommend the Small Business Administration do? I think it is really important this Committee have a full understanding of the scope of what is in front of it so we do not, frankly, assume you are gaming us down the line. If you give

us honest information up front about the total scope, we can have that discussion now and not be loggerheads, I think, in the future.

Mr. POWNER. Congressman, to your point, one of the increments is titled "root cause analysis." And what it is is it is a prioritization of those additional projects you would like to see. There is a June 2012 delivery date that our report points out. I think that is very important that we get that game plan going forward to your point on what those additional projects are and what the associated costs are.

Mr. SCHRADER. And why are we not going to a web-based technology? I mean, why go through all this? This is pretty simple stuff. I mean, you know, you can get this stuff off the shelf. Any business gets this sort of information. Has loan portfolios. Banks do this. I mean, I do not think too many banks, I assume, are not on COBOL. You could correct me but there has got to be a smarter way to go about this. Anticipating the cloud. Why are we not thinking like that?

Ms. JOHNS. Well, Congressman, actually, we are. As I said in my testimony, 80 percent of our interface with our lenders is web-based. So there is a lot of discussion about COBOL that is taking up a lot of the attention of the Committee, and certainly you have the right to investigate whatever you choose. But COBOL is a very small piece of this overall project, set of projects. As I said earlier, it is a part of the back office operation. We are doing that in concert with other—many of our lender partners who also use COBOL in the same manner. COBOL is used, as I mentioned, by this House of Representatives for certain financial systems.

Mr. SCHRADER. Yes, but the House of Representatives, we are antiquated. We are so back in the Dark Ages. You are comparing us with dinosaurs. I would like to be compared with the Maseratis, you know, the Morgans, some fancy car that is moving into the 21st century.

Ms. JOHNS. All right. The Air Force, Defense Logistics Agency. The point is we did not set out to look for the low standard. We set out to figure out how to make sure that we were modernizing our systems, running a good agency, getting capital out there, and doing all that in the most cost-effective and the most risk-averse way. And that is what led us to the incremental improvement projects, which is in concert with what OMB/GAO are saying is the route we should be taking. And COBOL is a small piece of that overall very comprehensive plan.

Mr. SCHRADER. Well, in my business, perception is reality. I would get rid of COBOL. Man, you would look a lot better right off the bat. You are talking about going forward. Just the real world. And I think your own office, you would be better off.

Ms. JOHNS. I appreciate that. I appreciate that, Congressman. Our view is that we do not want—we would rather make the case for why we are going a route that we think is prudent and is getting the best bang for the buck.

Mr. SCHRADER. All right. I appreciate that.

I will yield back. Thank you.

Chairman GRAVES. I am trying to figure out the time.

Go ahead. Shoot.

Mr. OWENS. In terms of the Committees you have set up to administer or to monitor this program, do you have anybody sitting on those committees who has a prior institutional experience of an entity of this size of doing the type of conversion that you are now going through?

Ms. JOHNS. Yes, Congressman. We have our CIO is on the Executive Steering Council. Our CFO. The head of our Office of Capital Access, as well as other senior leadership from the Office of Capital Access.

Mr. OWENS. Now, they have had prior experience in another institution making a computer conversion of this magnitude?

Ms. JOHNS. These are all people who bring exceptional experience to this project. I cannot give you details about their experience in other organizations but they are very experienced in terms of SBA, the history of this project, and have been excellent thought partners in how we need to move forward in terms of balancing all the critical objectives that I have spoken to earlier. Risk, cost, and timeliness.

Mr. OWENS. I understand you folks may have excellent skills, but because of the magnitude, the size of the agency, the dollars involved, the complexity, it would seem to me that having someone who had prior institutional experience in this type of conversion would be very appropriate to be leading it.

Ms. JOHNS. Well, in addition to the individual that I mentioned, Congressman, we also have outside consultants who are subject matter experts and bring state-of-the-art expertise bear as well.

Mr. OWENS. Who might those be?

Ms. JOHNS. I can provide the names of the companies if you would like me to do that.

Mr. OWENS. That would be very helpful.

Ms. JOHNS. Certainly.

Mr. OWENS. Well, thank you. I yield back.

Ms. VELÁZQUEZ. May I ask——

Chairman GRAVES. Yes. Absolutely. Go ahead.

Ms. VELÁZQUEZ. Ms. Johns.

Ms. JOHNS. Yes.

Ms. VELÁZQUEZ. Is the CIO on that? Who is responsible? Who is in charge?

Ms. JOHNS. Yes. Yes, Ranking Member. The chief information officer is a member. He chairs the BTIC and he is a member of the Executive Steering Council.

Ms. VELÁZQUEZ. Is that position being vacated or not?

Ms. JOHNS. No.

Ms. VELÁZQUEZ. Okay. So let me ask you, OMB had a role in scaling back the LMAS project and approving the current set of projects. To what extent is OMB involved in the planning for future improvements?

Ms. JOHNS. Well, we report regularly to OMB about our progress. And even the inspector general. We have—we regularly keep the inspector general apprised of how we are proceeding. And have not even invited a member from the Office of Inspector General to join our Executive Steering Council meetings. We hope that that will happen, but that invitation remains open to them.

And in fact, I am hoping—looking forward to Mr. Powner joining us as well at a meeting because we are—clearly it is my intent that we draw from all the expertise that we can across the government and outside of the government because certainly not on my watch would I want to endanger our ability to serve our small businesses and make sure that our loan management accounting system is functioning as effectively as possible.

Ms. VELÁZQUEZ. It may not be under your watch but it has taken 15 years basically, 1997. So maybe 15 years later under somebody's watch.

Ms. JOHNS. Well, I am working very hard to lay a very strong foundation.

Ms. VELÁZQUEZ. I yield back, Mr. Chairman.

Chairman GRAVES. I want to thank both of you for coming. In light of the time constraint with votes, we will go ahead and close the hearing. But I expect the Committee is going to continue to examine the SBA as it continues to update its financial systems because we want to protect the taxpayer. That is the biggest thing.

I would ask unanimous consent that all members have five legislative days for advising the extent of their marks. Without objection, so ordered.

This hearing is adjourned.

[Whereupon, at 1:50 p.m., the Committee hearing was adjourned.]

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

TESTIMONY OF

MARIE C. JOHNS
DEPUTY ADMINISTRATOR
U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

HEARING ENTITLED:
"PLACING FEDERAL TAX DOLLARS AT RISK: HOW THE SMALL BUSINESS ADMINISTRATION MISMANAGES
THE MODERNIZATION OF ITS INFORMATION TECHNOLOGY"

FEBRUARY 8, 2012

Thank you, Chairman Graves, Ranking Member Velazquez, and members of this Committee. As always, it is an honor to testify before you.

The Small Business Administration (SBA) provides access to capital for tens of thousands of small businesses and disaster victims each year. SBA's $90 billion loan portfolio plays an important role in the small business economy. Our loan programs help small businesses who have been left out of traditional credit markets gain access to the capital they need to grow and create jobs.

Today, over 80% of our flagship loan programs are processed electronically compared to none 10 years ago. Thus, upgrading our loan management and accounting systems (LMAS)—while ensuring security and without disruption to our current lending process—has been a major priority at SBA.

In 2005, out of concerns about security, cost, and flexibility, the SBA Administrator approved the project to update this 35 year-old legacy system.
In 2006, the agency requested development funding for the complete overhaul of LMAS.

Work continued in 2007, and in 2008, a contract was awarded to an integration firm to begin transferring SBA's processes to a commercial off-the-shelf program.

However, after 12 months of planning and completion of a pilot, SBA identified new concerns about cost, time, and risks associated with the transfer to a commercial, off-the-shelf system. The planning and pilot resulted in a revised development cost estimate of $156 million and time-to-completion estimate of 9 years. Due to these concerns, SBA commissioned an outside study of the LMAS project, which was delivered in December 2009.

In addition to SBA's concerns, the study showed that implementing a commercial off-the-shelf program would require retrofitting our loan making processes to match the software, which could potentially be disruptive to our loan making efforts.

Based upon all of this, the LMAS Executive Steering Council (ESC) – the council charged with overseeing the upgrade of LMAS -- decided to change course in May of 2010.

This decision coincided with the June 2010 Office of Management and Budget (OMB) memorandum M-10-26, which directed agencies to reduce the cost and scope of large system automation projects.

In September 2010, SBA requested authority from OMB's Financial Systems Advisory Board (FSAB) to re-scope LMAS with a series of more focused and cost effective improvements to the existing system, which we call LMAS Incremental Improvement Projects, or IIPs.

The IIPs were approved by FSAB in January 2011 and will address the most important issues surrounding the upgrade of LMAS in a less costly, less risky, and more efficient manner.

Instead of a complete overhaul, the IIPs involve upgrading the hardware and software of our financial systems infrastructure to support our secure web-based loan making and financial reporting.

We estimate development for this new approach will total $39 million[1], which is an overall savings of $117 million from the LMAS budget estimated in 2009.

The incremental improvement approach is better tailored to SBA's current needs and goals. It allows us to make upgrades to LMAS while continuing to make and process loans. Our lenders can still continue to make loans through our web-based process at a record pace while we upgrade the loan accounting software and hardware in the back end.

In May 2011, SBA completed the first IIP, upgrading our administrative accounting system to the latest software release. During this time, SBA also implemented changes to our loan programs brought about by the American Reinvestment and Recovery Act and the Small Business Jobs Act.

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[1] Totals referenced are development contractor only costs.

We have also phased out or converted 275 legacy programs to a web environment. This year, we anticipate completing additional improvements to enhance the functionality offered to lenders, disaster borrowers, and small businesses while moving the back office loan accounting and financial reporting processes to a standardized, non-proprietary hardware and software solution.

In its audit, the Government Accountability Office (GAO) stated that there is room for improvement. We at SBA agree – there is always room for improvement. One example of the improvement is the strengthening of executive involvement in the project. The LMAS ESC has met 17 times from May 2010 to January 2012. Additionally, SBA had improved the documentation of the project's progress. I know these improvements because I personally Chair the LMAS ESC.

While we're undertaking these improvements, I wanted to remind the Members of the committee that fiscal year 2011 was a record year for the SBA. We supported over $30.5 billion in lending to over 61,000 small businesses. We were able to implement parts of the IIP without any impact to our lending partners or our borrowers. We recognize the importance of not only continuing to meet the capital needs of small businesses while continuing to upgrade our system, but we are doing it in a way that is the most cost-effective and least disruptive to our lending partners and small business owners.

Thank you and I look forward to answering your questions.

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United States Government Accountability Office

GAO

Testimony
Before the Committee on Small Business,
House of Representatives

INFORMATION TECHNOLOGY

SBA Needs to Strengthen Oversight of Its Loan Management and Accounting System Modernization

Statement of David A. Powner, Director
Information Technology Management Issues

GAO

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GAO-12-395T

Mr. Chairman and Members of the Committee:

I am pleased to participate in today's hearing on the Small Business Administration's (SBA) efforts to modernize its Loan Management and Accounting System (LMAS). As you are aware, SBA performs a range of significant activities intended to strengthen small businesses and relies extensively on information technology (IT) systems to accomplish these activities. Among these are financial systems used to support loan accounting and track loans through origination, servicing, and liquidation. The loan systems, collectively called the Loan Accounting System, were implemented in the 1970s and outsourced to be run on a contractor's mainframe hardware. SBA has been pursuing efforts to upgrade and modernize its financial systems for several years.

The current effort, referred to as LMAS, dates from 2005 and was a response to concerns about the age and information security risks of the legacy system. The effort was intended to result in a single, integrated loan management and loan accounting solution. However, after an independent study and two reviews by the Office of Management and Budget (OMB) raised concerns about SBA's management of the program, it was restructured into a series of seven more focused projects with shorter time frames, referred to as LMAS-Incremental Improvement Projects (IIP).

You asked us to testify on the status of SBA's LMAS modernization effort and whether SBA has adequate processes and procedures in place to manage and oversee this effort. My statement today is based on our report, *Information Technology: SBA Needs to Strengthen Oversight of Its Loan Management and Accounting System Modernization*, which is being released today at this hearing.[1] This report summarizes the results of our study—which specifically describes the status of the modernization effort and determines whether SBA has adequate process and procedures in place to manage and oversee its LMAS modernization effort. All work on which this testimony is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

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[1] GAO, *Information Technology: SBA Needs to Strengthen Oversight of Its Loan Management and Accounting System Modernization*, GAO-12-295 (Washington, D.C.: Jan. 25, 2012).

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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.

Background

SBA's mission is to aid, counsel, assist, and protect the interests of small business concerns; to preserve free competitive enterprise; and to maintain and strengthen the overall economy of the Unites States. One way that SBA works to grow businesses is through managing a $90 billion portfolio, which includes direct and guaranty loan programs that provide small businesses with access to capital. This portfolio includes disaster loans, in which SBA makes direct loans to individuals, small businesses, and non-profit organizations in declared disaster areas. The portfolio also includes loan guaranty programs, through which SBA guarantees loans to small businesses that private sector lending institutions would not make otherwise. To administer its loan programs, SBA relies on electronic systems to support the full life cycle of loans.

SBA has made several attempts to upgrade its financial software and migrate it off a mainframe environment. The current effort to modernize SBA's loan systems was designed to, among other things, update and improve the agency's outdated Loan Accounting System. The legacy system, implemented in the 1970s, runs on outsourced mainframe software and hardware that requires costly contracts to use and maintain. This system is programmed in COBOL (Common Business Oriented Language), a business application programming language that was introduced in the 1960s and is now becoming obsolete and difficult to manage. The Loan Accounting System is the primary system used to manage and account for loans and loan-related activities for all SBA loan programs, including allotment of funds, loan origination, servicing, liquidation, collections, and disbursements. New technologies added to the loan accounting environment over the years have created a web of stove-piped systems and databases, causing issues with interoperability. Maintaining data integrity in such an environment requires SBA to employ expensive data reconciliations.

In November 2005, SBA announced the initiation of the LMAS program, with estimated total costs of approximately $217 million over a 9-year period. Its goal was to implement a single, integrated loan management and loan accounting solution that aligned with the agency's strategic goals. SBA began work on the LMAS program in early 2006, but was unable to replace the legacy system prior to the expiration of its mainframe contract in February 2007, making it necessary for SBA to

negotiate new contracts for mainframe and application services until December 2011 at a total cost of approximately $30 million.

Following recommendations from an outside study and two reviews by OMB, SBA subsequently reduced the overall scope of the LMAS modernization project and decided to pursue the modernization through a number of smaller projects with shorter time frames. The revised approach, called the LMAS Incremental Improvement Projects (LMAS-IIPs), was approved by OMB in January 2011. It consists of seven projects that are to move software off of the legacy mainframe environment, upgrade two administrative accounting systems, develop new interfaces that are to interact with updated applications, and develop plans for future improvements.

Modernization Projects Have Experienced Increasing Costs and Schedule Delays, and SBA Has Not Fully Implemented Key IT Management Practices

As discussed in our report, SBA had completed one of the seven LMAS-IIPs and awarded contracts for work on three others as of October 2011. However, the projects have experienced increasing costs and schedule delays. Specifically, according to the most recent project schedule, dated August 2011, SBA completed one project in May 2011, 2 months later than planned and expects five of the remaining six projects to finish between 4 and 11 months later than the dates reported to Congress in October 2010. Further, according to the agency's most recent report to Congress, dated March 2011, the total projected cost of the projects increased approximately $5 million since October 2010 and the costs of individual projects had risen between approximately 3 and 53 percent. SBA plans to complete the seven IIPs at a total cost of approximately $28 million by July 2013. Table 1 shows the initial and current expected completion dates and projected costs for the seven LMAS-IIPs.

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Table 1: IIP Initial and Current Expected Completion Dates and Projected Costs (dollars in millions)

LMAS-IIP	Current status	Expected completion date as of October 2010	Expected completion date as of August 2011	Projected costs as of October 2010	Projected costs as of March 2011	Percentage increase in costs
Oracle Upgrade	Completed May 2011	March 2011	Completed May 2011	$8.45	$8.66	2.5%
Migration of User Interfaces	Contract awarded and work in progress	December 2011	May 2012	3.32	3.76	13.3%
Migrate to New Version of COBOL	Contract awarded to conduct assessment	May 2012	April 2013	6.05	8.72	44.1%
Sybase to Oracle Migration	Contract awarded to conduct assessment	October 2011	September 2012	2.51	3.11	23.9%
Root Cause Analyses	Planning initiated	October 2011	June 2012	n/a	n/a	41.0%
Implement Improvements	Expected to start in March 2012	March 2013	July 2013	n/a	n/a	47.8%
Document Loan Accounting	Expected to start in November 2011	March 2013	January 2013	n/a	n/a	52.5%

Source: GAO analysis of SBA data.

Note: Cells marked "n/a" represent potentially sensitive cost estimates, which are therefore not printed here.

Our report also raises concerns about SBA's inconsistent implementation of key management practices. The success of large IT projects is dependent on agencies' implementing management practices in areas that include software requirements management, IT risk management, IT human capital management, and enterprise architecture. In addition, IT investment management, which constitutes effective institutional oversight, is necessary to ensure that projects adhere to these management capabilities and achieve expected results.

SBA partially implemented the management practices we reviewed. Specifically:

- Requirements management—SBA appropriately managed changes to requirements for the two projects for which this process would be appropriate; however, it did not validate the requirements for one of the ongoing IIPs. In addition, requirements were not documented for two of the ongoing projects.

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- Risk management—risks were identified for three of four active projects; however, SBA did not fully prioritize risks related to one IIP or develop plans to mitigate them.
- IT human capital management—SBA inventoried existing human capital capabilities; however, it did not fully identify gaps in project workforce skills and did not develop strategies to close them.
- Enterprise architecture—SBA drafted target segment architectures for the IIPs; however, the architectures have not been approved by the appropriate officials. In addition, the agency did not fully implement other basic enterprise architecture practices, including maintaining and prioritizing its segment architectures.
- IT investment management—the agency had the overall direction of the IIP effort approved by an executive review committee. However, SBA did not address other capital planning requirements for the program, including approving a schedule baseline or reviewing its risk management plan, or provide evidence that it approved the subsequent changes to the budget estimates reported to Congress.

Inconsistencies in SBA's application of IT management practices occurred, in part, because it did not provide adequate executive oversight through its investment management process, even though it is using two executive bodies to oversee the projects. While these bodies have overlapping responsibilities and lines of authority, several basic oversight responsibilities, including executive approval of the project's schedule, were left unaddressed by either body. In addition, the cost baselines approved by SBA's executive oversight body differ from the projected costs reported to Congress 2 months later. According to SBA officials, additional oversight was provided through undocumented meetings and reviews of reports to Congress. Nevertheless, these weaknesses in the use of basic management practices make it less likely that SBA will be able to complete the IIPs within the time, budget, and scope parameters originally planned.

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SBA Needs to Apply Appropriate Information Technology Management Practices and Clarify Roles of Oversight Bodies

To better ensure that the loan management Incremental Improvement Projects are completed as planned and provide anticipated capabilities, we are making several recommendations to the Administrator of SBA in our report. Specifically, we are recommending that SBA apply the appropriate information technology management practices to the IIPs, by ensuring that

- IIP requirements are managed appropriately, including elicitation, documentation, and verification and validation;
- IT risks to the IIPs are adequately managed, including preparing for risk management, identifying and analyzing risks, mitigating risks, and providing executive oversight of risk management activities;
- the human capital necessary for the IIPs is managed appropriately, including the determination of human capital needs, the identification of gaps between current capabilities and needs, the development of a strategy to close those gaps, and the documentation of these activities; and
- the enterprise architecture segments related to the IIPs are managed appropriately, including the development, prioritization, and maintenance of the segments.

In addition, we are recommending that SBA clarify the responsibilities of the executive bodies responsible for the IIPs and ensure they provide the appropriate oversight of the project's progress. Specifically, these executive bodies should conduct and document executive review and approval of the LMAS modernization's risk management approach, target segment architectures, and cost and schedule baselines.

In written comments on the draft of this report, the Small Business Administration's Assistant Administrator, Office of Congressional and Legislative Affairs, stated that SBA generally agreed with our recommendations. The Assistant Administrator also asked that we clarify two points. First, he stated that the costs of the LMAS modernization had not increased, and that the figures we included from an October 2010 report to Congress included only contractor costs while the figures from a March 2011 report included both contractor and government costs. However, neither the original request nor SBA's response specifically indicate that the costs discussed included only contractor costs. Further, this lack of clarity on the projected cost of the modernization reinforces the need for an approved cost and schedule baseline that can be used to evaluate program progress, as discussed in our briefing.

Second, the Assistant Administrator stated that SBA's executive oversight bodies reviewed the LMAS modernization's overall schedule and cost estimates through both formal and informal discussions, including executive-level meetings in August and September 2010. We considered this information in our initial assessment. However, we do not believe that the records he cites demonstrate that SBA is maintaining current cost or schedule baselines because the approved project cost estimates are inconsistent with estimates subsequently reported to Congress and neither of the meetings' minutes included project-level schedule estimates. The Assistant Administrator stated that SBA is considering formalizing the additional reviews that are currently undocumented. We agree that fully documenting decisions about the projects' costs and schedules would improve SBA's ability to manage the improvement projects.

In conclusion, Mr. Chairman, while SBA has made progress in modernizing its loan accounting system, cost increases and schedule slippage raise concerns about SBA's ability to complete the modernization as planned. More consistent application of basic information management techniques and stronger executive oversight could help SBA arrest or reverse these conditions.

Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or other Members of the Committee may have.

GAO Contact and Staff Acknowledgments

If you have questions concerning this statement, please contact David A. Powner, Director, Information Technology Management Issues, at (202) 512-9286. Other individuals who made key contributions include James R. Sweetman (Assistant Director), Eric Costello, Franklin Jackson, Lee McCracken, Meredith Raymond, and Karl Seifert.

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The Honorable Marie Johns, Deputy Administrator, SBA

1. When the SBA releases a new online application, what efforts does the Administration take to coordinate with and educate potential loan applicants about how to utilize these applications?

When the SBA releases a new online application, what efforts does the Administration take to coordinate with and educate potential loan applicants about how to utilize these applications?

As Deputy Administrator Johns testified, over 80% of SBA's loan guaranty processing occurs online. These online processes are not utilized by small businesses – they are actually utilized by SBA's lending partners. SBA has several routine practices for coordinating and educating our lending partners on how to utilize our online processes. Whenever we roll-out a new loan program or loan processing improvement, we first coordinate with our field lender relation specialists who provide local training sessions and "boots on the ground" to our lending partners in 68 District Offices throughout the country. These lender relation specialists tailor their training to our lending partners through online sessions, lender round tables, and site visits. Additionally, SBA provides training at lender conferences and posts a variety of training materials on our interactive website.

We are happy to report that SBA's online activity has grown each year and by the end of this fiscal year every loan guaranty program will have an online processing option.

Since August of 2008, our Office of Disaster Assistance has offered disaster victims an alternative to completing a paper application. Applicants that chose to do so can complete an Electronic Loan Application (ELA) and submit their information to SBA via a secured internet connection. Currently, 26% of all applications are submitted via the ELA.