

October 2001

SMALL BUSINESS ADMINISTRATION

Current Structure Presents Challenges for Service Delivery



G A O

Accountability * Integrity * Reliability

Contents

| | | |
|---------------------|---|----|
| Letter | | 1 |
| | Results in Brief | 2 |
| | Background | 2 |
| | Objectives, Scope, and Methodology | 5 |
| | SBA Staff Identified Organizational Problems | 6 |
| | Restructuring Efforts of Other Federal Agencies Provide a Framework for SBA Managers | 19 |
| | Observations | 21 |
| | Agency Comments | 22 |
| Appendix I | Legislatively Mandated Programs and Offices in SBA | 23 |
| Appendix II | Legislatively Mandated Staff Positions at SBA | 26 |
| Appendix III | SBA Field Locations Visited | 27 |
| Appendix IV | Comments From the U.S. Business Administration | 29 |
| Figures | | |
| | Figure 1: SBA Headquarters Organization Chart | 4 |
| | Figure 2: SBA Workforce 1992-2000 | 5 |
| | Figure 3: SBA Former Headquarters-to-Field Communication Model With Fully Staffed Regional Offices | 7 |
| | Figure 4: Current SBA Headquarters-to-Field Communication Model | 9 |
| | Figure 5: SBA District Office-to-Small Business Interaction | 11 |
| | Figure 6: Organizational Relationships Between SBA Headquarters and Field Units | 16 |
| | Figure 7: SBA Offices and Resource Partners in the United States | 18 |



G A O

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

October 26, 2001

The Honorable Donald A. Manzullo
Chairman
Committee on Small Business
House of Representatives

The Honorable Christopher S. Bond
Ranking Minority Member
Committee on Small Business and Entrepreneurship
United States Senate

Our recent performance and accountability series report on the Small Business Administration (SBA) described major management challenges and program risks the agency faces to efficient delivery of services.¹ One important management area that our report did not address was how well SBA's organization was aligned to achieve its mission; that is, the integration of organizational components, activities, core processes and resources to support efficient and effective achievement of outcomes. Believing that organizational alignment can be an important factor in determining an agency's efficiency and ability to administer its programs, you requested that we identify and describe (1) SBA's current organizational alignment and issues it poses in SBA's ability to meet its mission and (2) information SBA should consider in determining if and how to reorganize. In a briefing with your staff on May 4, 2001, we presented preliminary information on challenges SBA faces in its current alignment and identified issues to consider if its leadership decides to undertake an organizational realignment. This report documents our briefing and, as requested, provides information on past legislation that mandates certain aspects of SBA's current structure and outlines a proposed framework for SBA to use if it considers restructuring the agency.

¹*Major Management Challenges and Program Risks: Small Business Administration* (GAO-01-260, Jan. 2001).

Results in Brief

SBA's current structure contributes to the challenges SBA faces in delivering services to the small business community. In particular, ineffective lines of communication; confusion over the mission of district offices; complicated, overlapping organizational relationships; and a field structure not consistently matched with mission requirements combine to impede the efforts of SBA staff to effectively deliver services. Among the causes of SBA's structural problems are past realignment efforts during the mid-1990s that changed how SBA performed its functions but left aspects of the previous structure intact, congressional influence over the location of field offices and centers, and legislative requirements such as specified reporting relationships.

Restructuring efforts of other federal agencies provide a framework and a set of steps and considerations that may prove useful to SBA managers if they decide to address the organizational alignment issues present in SBA's current structure. The realignment of the Federal Emergency Management Agency, for example, demonstrated the importance of tying organizational realignment to a clear and comprehensive mission statement and strategic plan, while earlier restructuring efforts at the Department of Energy showed how progress can be hampered by unclear linkage between an agency's mission and a proposed new structure. Efforts at other agencies also demonstrate the need for buy-in from both internal and external stakeholders and the importance of agency efforts to consider the human impact of restructuring activities, including closure of field offices. Some potential restructuring efforts by SBA would require legislation modifying earlier laws mandating specific reporting relationships or other aspects of SBA structure. We are not making any recommendations in this report.

Background

SBA's mission is to maintain and strengthen the nation's economy by aiding, counseling, assisting, and protecting the interests of the nation's small businesses and by helping businesses and families recover from natural disasters. SBA has a total portfolio of about \$52 billion, including \$45 billion in direct and guaranteed small business loans and other guarantees and \$7 billion in disaster loans.² SBA provides small businesses with access to credit, primarily by guaranteeing loans through its 7(a) program. SBA provides entrepreneurial assistance through partnerships with private entities that offer small business counseling and technical

²As of September 30, 2000.

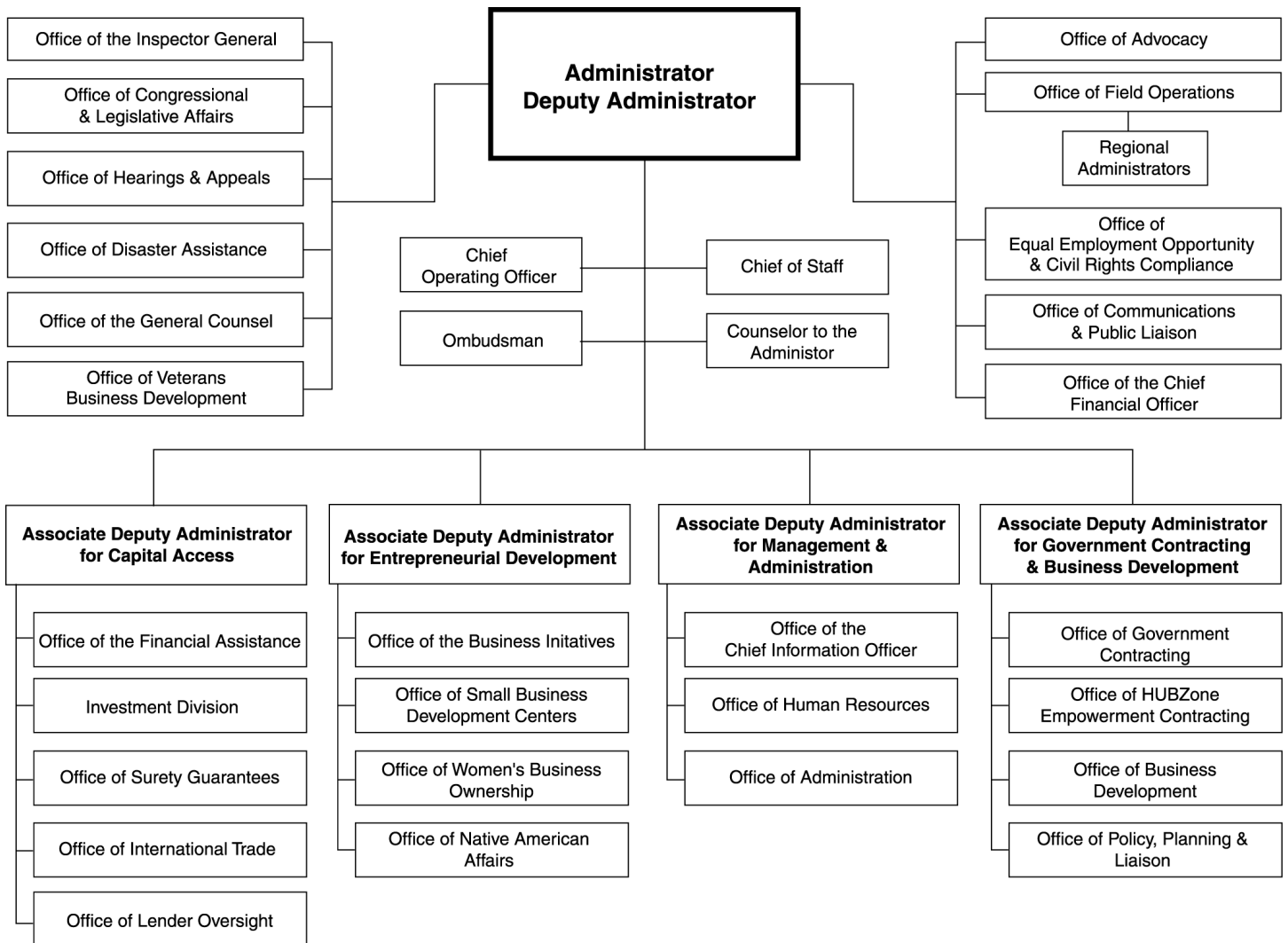
assistance. SBA administers the 8(a) business development program, which is designed to assist small disadvantaged businesses in obtaining federal contracts. SBA also makes loans to businesses and families trying to rebuild in the aftermath of a disaster.

As of May 2001, SBA had 2,859 employees.³ About three-quarters of SBA's staff are assigned to the agency's 10 regional offices and over 100 other field locations. In addition to its federal workforce, SBA's infrastructure includes over 1,000 resource partners located nationwide who provide technical and advisory assistance to small businesses. According to SBA, the agency can have up to 60 appointee staff—4 presidential appointee positions, an Office of Personnel Management allowance of 18 noncareer Senior Executive Service appointees, and 38 other appointed positions.

As shown in figure 1, the agency's management structure is relatively flat in headquarters, with 19 offices reporting to the Office of the Administrator.

³This number excludes 107 employees in the Office of the Inspector General and 1,180 in the Office of Disaster Assistance and does not include contract personnel.

Figure 1: SBA Headquarters Organization Chart



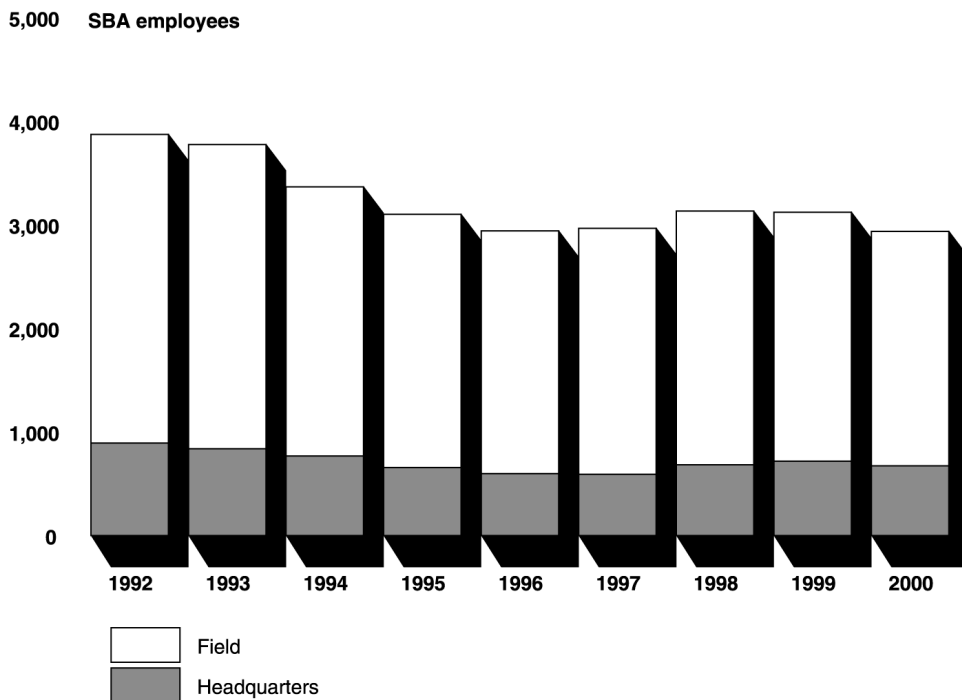
Source: SBA.

In the past 10 years, SBA has seen changes made in how it delivers services and to its organization. The largest change to SBA’s service delivery has occurred in its lending programs, where the agency went from making loans directly to guaranteeing loans made by commercial lenders. SBA’s loan programs have also been the focus of a major organizational change in the creation of centers to process and service the majority of these loans—work once handled largely by district office staff. Processing and servicing of about three-quarters of SBA-guaranteed loans were

handled in centers instead of district offices in 2000. In response to budget reductions, SBA also streamlined its field structure during the 1990s, downsizing the 10 regional offices, moving the workload to either district offices or headquarters offices, and eliminating most of the regions' role as an intermediate management layer between headquarters and the field. SBA created the Office of Field Operations to take over the role of intermediary.

As shown in figure 2, SBA's overall workforce has also decreased by more than 20 percent since 1992.

Figure 2: SBA Workforce 1992-2000



Note: Employee data were as of September 30 of each year. These numbers exclude employees in the Offices of the Inspector General and Disaster Assistance and do not include contract personnel.

Source: GAO analysis of SBA staffing reports.

Objectives, Scope, and Methodology

To assess issues raised by SBA's current organizational structure, we conducted 58 interviews with 78 senior SBA officials in headquarters and in the field. We met with senior officials and obtained documents on both current SBA alignment and past reorganization efforts from 15 of the 19 headquarters offices reporting to the Administrator. At the request of your

staffs, our scope did not include two of these offices, the Office of Advocacy and the Office of the Inspector General. We also selected 17 field locations to visit in consultation with SBA headquarters officials, with the aim of visiting a mix of geographic areas and office types and sizes. The 17 field locations were a judgmental but representative sample. As shown in appendix III, we visited offices in the eastern, southern, midwestern, and western areas of the United States. Among the locations we visited were small, medium, and large district offices and a variety of centers across the country, including loan processing and servicing centers, a disaster area office, and a Business Information Center. At each field location, we interviewed and gathered documents from the manager of the location and other program managers. We also held discussions with lenders and lender associations from the National Association of Government Guaranteed Lenders, National Association of Development Companies, and Independent Community Bankers of America. The issues raised in this report represent common themes we heard from many senior officials in interviews throughout our fieldwork at the various locations.

Additionally, we conducted a literature review of best practices that included restructuring experiences of other federal agencies as well as issue papers and books published by individuals having practical and research experience in organizational structures. We also analyzed laws mandating aspects of SBA's current organization.

We conducted our work from February through June 2001 in accordance with generally accepted government auditing standards.

SBA Staff Identified Organizational Problems

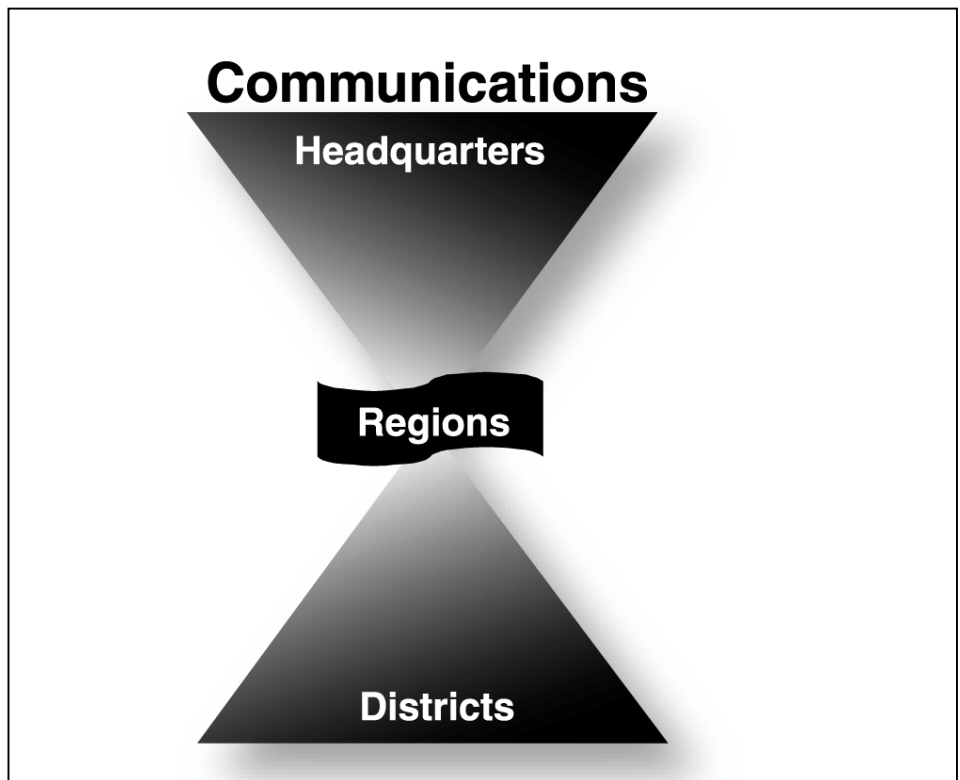
Senior SBA officials in headquarters and the field identified aspects of the current organizational alignment that contribute to the challenges faced by SBA management, including cumbersome communication links between headquarters and field units; confusion over the mission of district offices; complex, overlapping organizational relationships; and a field structure not consistently matched with mission requirements.

Communication Problems Exist Between Headquarters and Field Offices

Several SBA district office managers expressed frustration with ineffective field and headquarters communications. SBA officials told us that prior to the mid-1990s restructuring of the regional offices, communication between headquarters and the field was carried out in a different way from how it is now. When the regions played a role as a layer of management between headquarters and the field, they served as a filter. Headquarters

program offices only had to communicate with the 10 regions to provide direction or make information requests. The regions would then communicate to the districts. The regions were also in a position to identify confusing or redundant information requests and prioritize new initiatives for the districts. While some SBA officials felt that the regions had a positive effect on communication between headquarters and the districts, others felt that the regions were an unnecessary layer of management and were more likely to be a bottleneck, hampering the effective flow of information through the agency. SBA's former headquarters-to-field communication model is depicted in figure 3.

Figure 3: SBA Former Headquarters-to-Field Communication Model With Fully Staffed Regional Offices



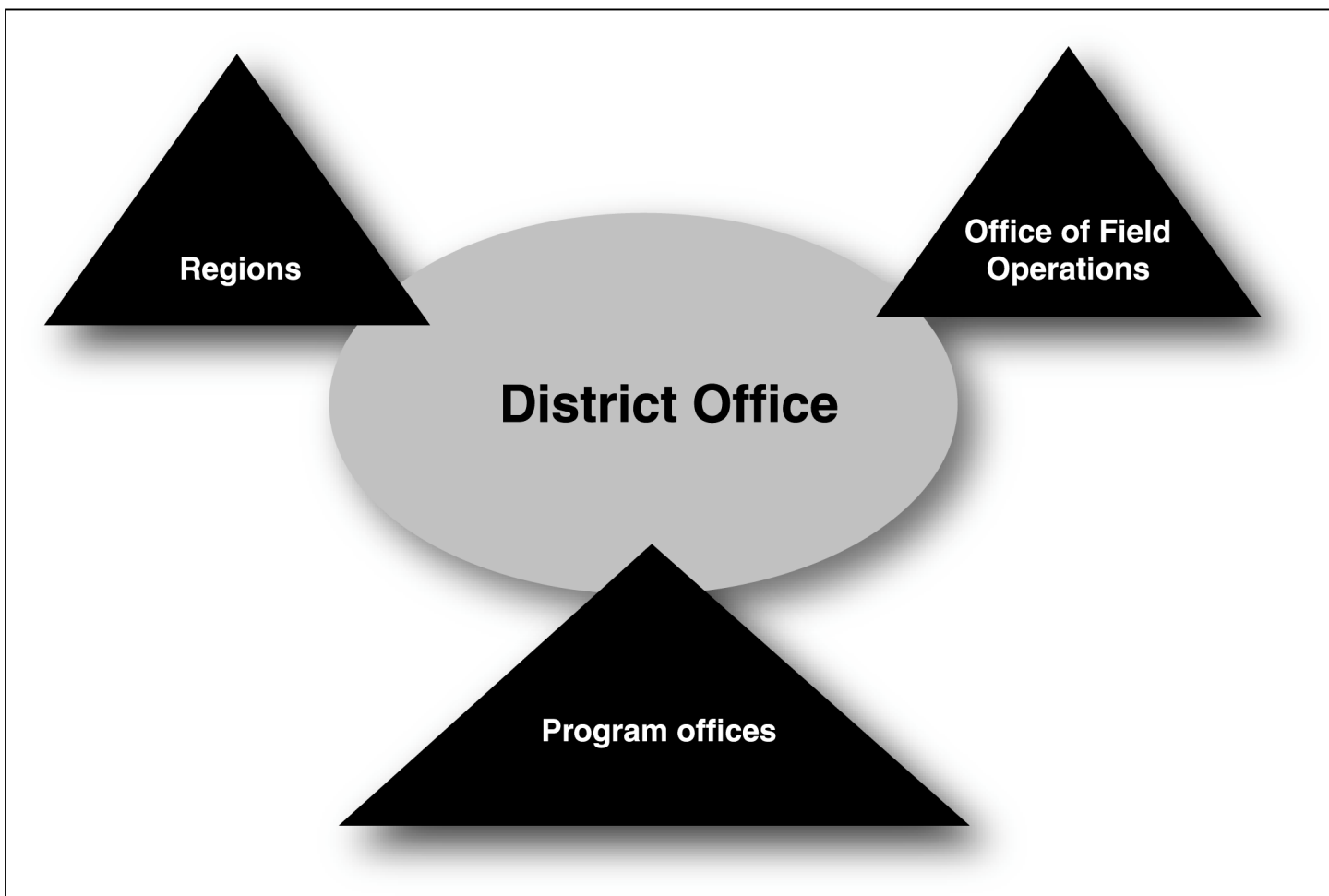
Source: GAO analysis.

Senior SBA officials in headquarters and the field said that the realignment—in which the regions were downsized, but not eliminated, and the Office of Field Operations was created, but never fully staffed—

created communication problems. The primary function of the Office of Field Operations was to facilitate the flow of information between headquarters and district offices. However, the Office of Field Operations has fewer than 10 staff, and senior SBA officials told us that it would be impossible for such a small office to have the same information conduit responsibility once held by multiple staff in each of 10 regional offices. As a result, headquarters program offices sometimes communicate with the district offices through the Office of Field Operations, but they more often communicate directly with district office staff working on the SBA programs they manage. For example, district officials said that the Office of Capital Access may make a request for loan information through the Office of Field Operations or may make the request directly to loan program managers in every district office. Officials described how these multiple lines of communication with the district offices have led to district staff being on the receiving end of conflicting or redundant requests. Finally, regional offices were downsized but not closed, and they still play a role in monitoring goals and coordinating administrative priorities with the districts. For example, officials told us that district office goals are disseminated through the regions.

In addition, district managers said that districts are on the receiving end of a flood of information but that the information received may not clearly indicate priority or may lack practical application. District managers described how the possibility that important information might be buried among the large number of messages that are of little concern to them meant having to spend hours sorting through incoming messages. Furthermore, they described how important information may not be disseminated at all. For example, district staff were notified of headquarters blood drives or job opportunities open only to headquarters staff but said that they were not formally notified when the former administrator left the agency. Also, a District Counsel told us that she was not notified when a new SBA General Counsel was named. Figure 3 depicts current headquarters-to-field communication in SBA.

Figure 4: Current SBA Headquarters-to-Field Communication Model



Source: GAO analysis.

The SBA Inspector General found similar problems with communication within SBA. In 2000, the Inspector General conducted management challenge discussion groups with almost 50 senior officials from SBA headquarters, regional, and district offices and found that communication issues were a recurring theme in these discussions. Participants in these groups described the advantages provided by the former regional office structure in funneling and distilling information and policy directives from headquarters to the districts and the impossibility of a small Office of Field Operations playing the same role. The senior officials noted that communication gaps resulted in confusion and lower morale in the field. They suggested that a more coordinated approach is needed where issues

or problems arising in the field can be channeled to headquarters, and vice versa.⁴

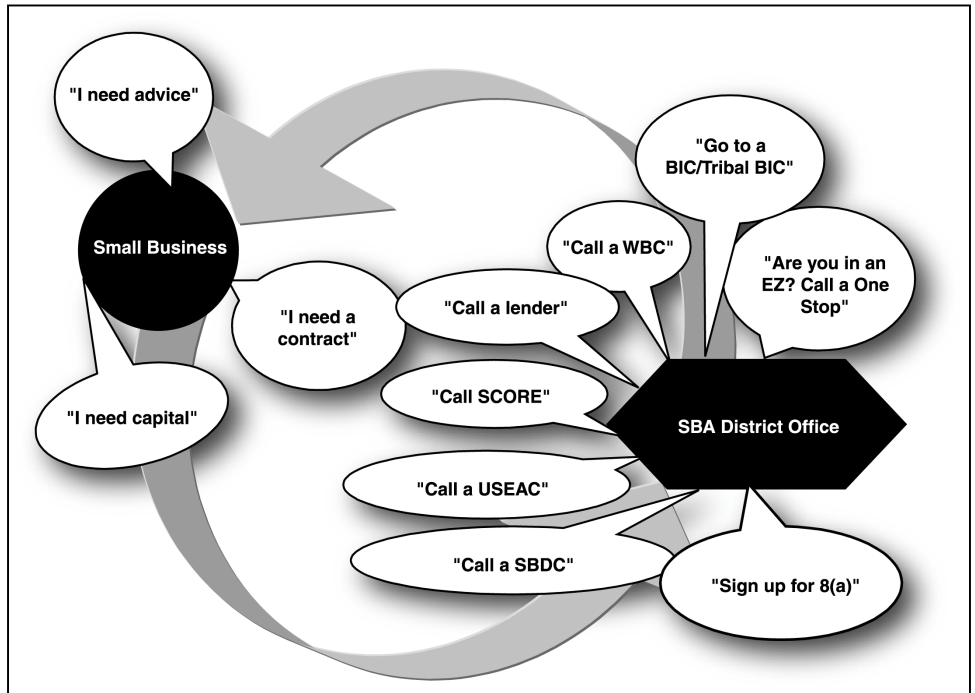
Confusion About SBA District Offices' Primary Customer

We found disagreement within SBA over the primary customer of the district offices. Headquarters executives said that the main customer of the district offices is small businesses, while district office officials told us that their primary clients are lenders—encouraging them to make more SBA guaranteed loans, providing support, and conducting oversight reviews. SBA headquarters executives said that the role of the district office is in transition. Under the previous administration, since lending activities were being increasingly centralized, the district offices' role was primarily to work with small businesses. However, district office managers pointed out that they are still responsible for a high level of interaction with lenders, especially smaller lenders with infrequent involvement with SBA programs. They also noted that they still play a role in servicing problem loans and have a major role in liquidating defaulted loans. Furthermore, although district office managers are given dozens of goals each year related to every SBA program in which they have some involvement, they believe that lender-related goals matter most because their performance rating is weighted heavily on aspects of loan activity. Associations representing lenders that we spoke to also mentioned confusion over whether the districts' customers are lenders or small businesses.

As shown in figure 5, a small business owner seeking information on SBA's main program areas from a district office is likely to be sent to another location, reinforcing the perception of district office managers that the lender rather than the small business is their primary customer. Of the "answers" shown coming from the district office in figure 5, only signing up for and participating in the 8(a) program is likely to involve much in the way of district office activity.

⁴*Advisory Memorandum: Report on the Results of SBA Management Challenge Discussion Groups*, Small Business Administration, Office of the Inspector General (#01-04-01, Apr. 4, 2001).

Figure 5: SBA District Office-to-Small Business Interaction



Note: This chart refers to the following SBA programs or entities: Business Information Center (BIC), Empowerment Zone (EZ), One-Stop Capital Shop (One Stop), Women's Business Center (WBC), Service Corps of Retired Executives (SCORE), U.S. Export Assistance Center (USEAC), Small Business Development center (SBDC), and 8(a) Business Development Program (8(a)).

Source: GAO analysis.

Human capital challenges at SBA make the agency's district office role more complex. SBA continues to deal with the problem of getting properly trained people into the right places, especially the districts, to manage the 7(a) and 8(a) programs. SBA officials said that 7(a) staff have seen their roles change from loan processors to financial institution overseers and that 8(a) Business Opportunity Specialists are facing a role change from program compliance monitors to business development coaches. A 1999 SBA report on agency modernization pointed to the importance of retraining and reorienting SBA staff as a part of the agency's modernization efforts.⁵ Our July 2000 testimony on SBA's human capital

⁵*SBA Modernization: Roadmap to the 21st Century*, Small Business Administration, October 1999.

challenges noted that some district offices are cross-training staff in multiple functional areas.⁶ Executives told us that training and moving the right people into the right places to take on these new roles is an ongoing challenge.

SBA also faces the human capital challenge posed by the agency's accelerated losses of experienced personnel, a problem we have identified across the federal government.⁷ Senior SBA officials pointed out that the loss of experienced personnel is especially troubling at SBA because some of these staff are the "institutional memory" that newer staff seek out when they need information but find themselves stymied by the agency's cumbersome organizational and communication lines. The SBA Inspector General's management challenge discussion groups also raised concerns over SBA's aging workforce and the potential loss of institutional memory as people retire.⁸

SBA Organizational Relationships Are Complicated

We found evidence of complex, overlapping organizational relationships, particularly between field and headquarters units. Senior SBA officials said that district office success depends on their ability to obtain information or support from many other offices. For example, the district offices have a direct relationship not only with both the Office of Field Operations and a regional office but also with the headquarters offices managing their programs. Senior officials said that although some of these complex organizational relationships stem from legislative requirements such as specified reporting relationships, past realignment efforts that changed how SBA performed its functions while leaving aspects of the previous structure intact (e.g., downsizing and taking away much of the role of regional offices but not closing those offices) have also played a part.

District staff working on SBA loan programs report to their district management, while loan processing and servicing center staff report

⁶*Small Business Administration: Steps Taken to Better Manage Its Human Capital, but More Needs to Be Done* (GAO/T-GGD/AIMD-00-256, July 20, 2000).

⁷*High Risk Series: An Update* (GAO-01-263, Jan. 2001) and *Managing for Results: Human Capital Management Discussions in Fiscal Year 2001 Performance Plans* (GAO-01-236, Apr. 2001).

⁸*Advisory Memorandum: Report on the Results of SBA Management Challenge Discussion Groups*, Small Business Administration, Office of the Inspector General (#01-04-01, Apr. 4, 2001).

directly to the Office of Capital Access. Yet, the district office loan program staff sometimes need to work with the loan processing and servicing centers to get information or to expedite loans for lenders in their district. Because loan processing and servicing centers report directly to the Office of Capital Access, requests that are directed to the centers sometimes must go from the district through the Office of Capital Access then back to the centers. District managers and staff said that the effect of these relationships is that sometimes they cannot get answers to questions when lenders call and that they have trouble expediting loans because they lack authority to direct the centers to take any action. The Office of Capital Access commented that they rely on the district offices to handle the most difficult loans and to work with infrequent lenders, while the centers process the more standard loans made by frequent lenders. Lender association representatives said that the lines of authority between headquarters and the field can be confusing and can mean that practices vary from district to district.

The SBA Inspector General's management challenge discussion groups also described how district staff were concerned that centralization has resulted in district offices being increasingly "out of the loop" on decisions affecting their small business customers or potential customers.⁹ SBA's 1999 report on agency modernization also described the district offices' view that centers are not responsive enough to the field, but it pointed out that centralization has freed up district staff to do more marketing and working with small businesses.¹⁰

District managers also said that they are tasked with maximizing the number of loans generated in their area while, at the same time, the Office of Capital Access must make sure that the total number of loans stays below the ceiling set by the SBA appropriation. They said that in 1997, they were told to stop the lenders in their area from generating more loans because of the appropriation ceiling, even though the district's goal was designed to generate more loans.

The Office of Government Contracting and Business Development oversees implementation of the 8(a) program by district office staff (who report to district management). It directly manages Government

⁹ibid.

¹⁰*SBA Modernization: Roadmap to the 21st Century*, Small Business Administration, October 1999.

Contracting field staff in six Area Offices and numerous posts of duty, and business development staff in three Division of Program Certification and Eligibility Centers. However, Business Opportunity Specialists in district offices working on the 8(a) Business Development program compete with Procurement Center Representatives working for the Office of Government Contracting. Officials said that staff working on both programs are working with the same procurement officials in other agencies to encourage more contracting activity, respectively, for procurement preference programs and small minority-owned businesses enrolled in the 8(a) program. Moreover, we reported in 2000 that SBA did not have enough Procurement Center Representatives to review contracts at over 2,000 federal procurement centers.¹¹ The SBA Inspector General's management challenge discussion groups also identified the need for greater cooperation and coordination among these programs.¹² Also, 8(a) staff in the districts said they work with, but have no authority over, the Division of Program Certification and Eligibility Centers to facilitate the approval of 8(a) program applications from firms the district will work with once the firms are in the program.¹³ Senior district office staff said that firms find it difficult to navigate the process and express frustration that they have to deal with more than one office.

The Office of Entrepreneurial Development has primary responsibility for the operation of over 1,000 Small Business Development Centers, Women's Business Centers, Service Corps of Retired Executives chapters, and One-Stop Capital Shops. Business Information Centers are overseen by staff in the district offices. One district official said that district offices should be given more complete responsibility for entrepreneurial development programs in their districts so that they can create more customized programs better suited to the unique needs of their area. Also, the SBA staff operating the Business Information Centers report directly to their local district manager, but also receive direction and resources from the Office of Entrepreneurial Development. In addition, as reported by the

¹¹*Small Businesses: Limited Information Available on Contract Bundling's Extent and Effects* (GAO/GGD-00-82, Mar. 2000).

¹²*Advisory Memorandum: Report on the Results of SBA Management Challenge Discussion Groups*, Small Business Administration, Office of the Inspector General (#01-04-01, Apr. 4, 2001).

¹³SBA said that it established the Program Certification and Eligibility Central Office Duty stations in response to Congressional direction that it establish field offices as may be necessary to efficiently perform its functions and responsibilities (P.L. 100-656, section 101).

SBA Inspector General, SBA officials identified a disconnect between SBA small business financing and technical assistance programs. Officials noted that a more holistic approach would be for SBA to track SBA borrowers to identify those who may need technical assistance.¹⁴ SBA's agency modernization report also called for the development of cross-trained teams of SBA staff in order to link SBA programs and better serve the agency's customers.¹⁵

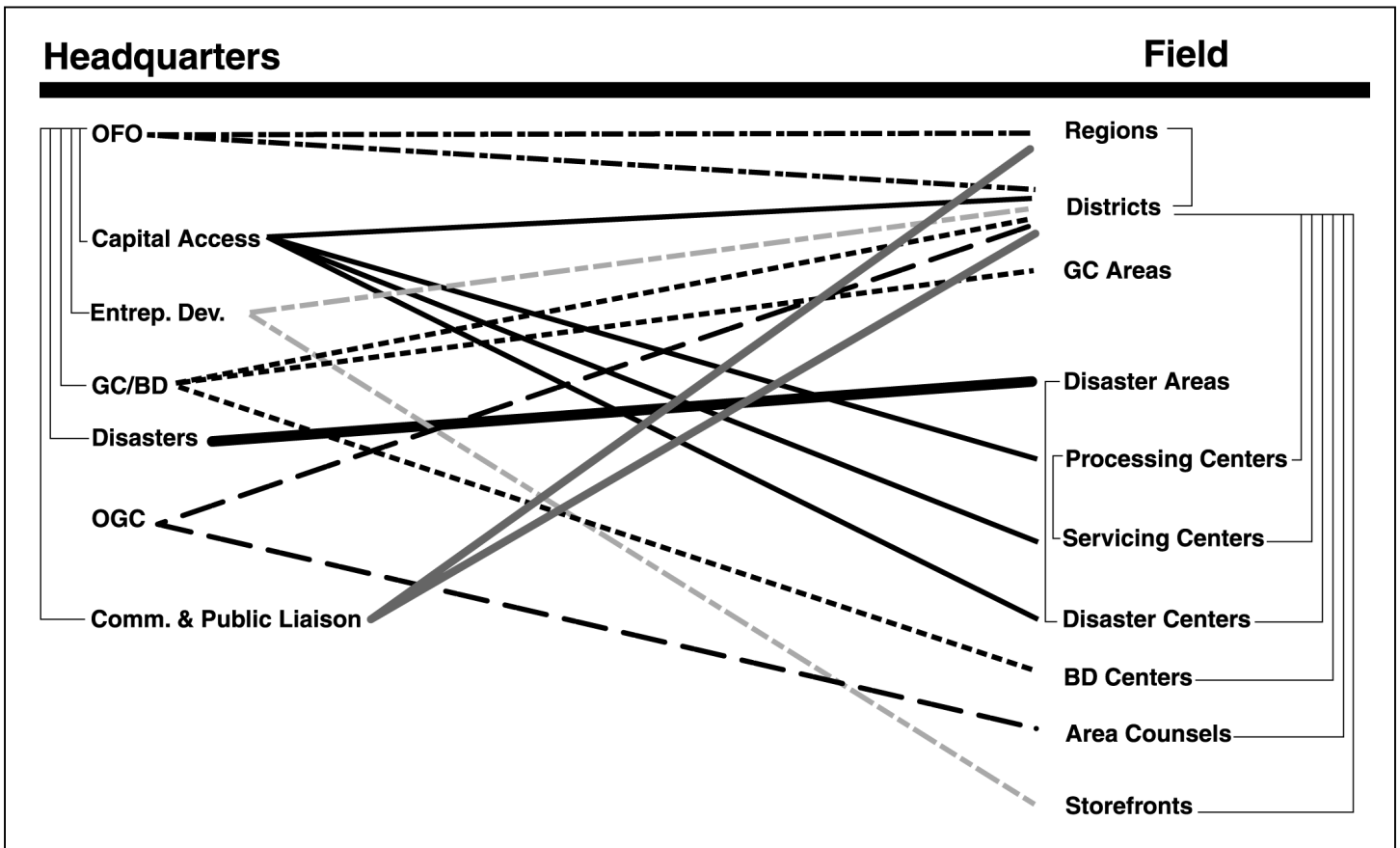
We also found a situation where divided responsibility for a program was working well. The Office of Disaster Assistance handles the processing of loan applications from disaster victims then sends the loans to the Office of Capital Access, which services them in four Disaster Home Loan Servicing Centers around the country. SBA officials described this as a positive relationship, allowing each of the two SBA offices to handle the aspects of the disaster loan program they are best suited to manage.

Figure 6, depicts the variety of organizational relationships we found between SBA headquarters and field units.

¹⁴ibid.

¹⁵*SBA Modernization: Roadmap to the 21st Century*, Small Business Administration, October 1999.

Figure 6: Organizational Relationships Between SBA Headquarters and Field Units



Note: This chart refers to the following SBA offices: Office of Field Operations (OFO), Office of Government Contracting/Business Development (GC/BD), Office of the General Counsel (OGC), Government Contracting Area Offices (GC Areas), 8(a) Division of Program Certification and Eligibility Centers. This chart also uses the term "storefronts" to characterize Small Business Development Centers, Business Information Centers, Women's Business Centers, and other such locations where the public accesses SBA programs.

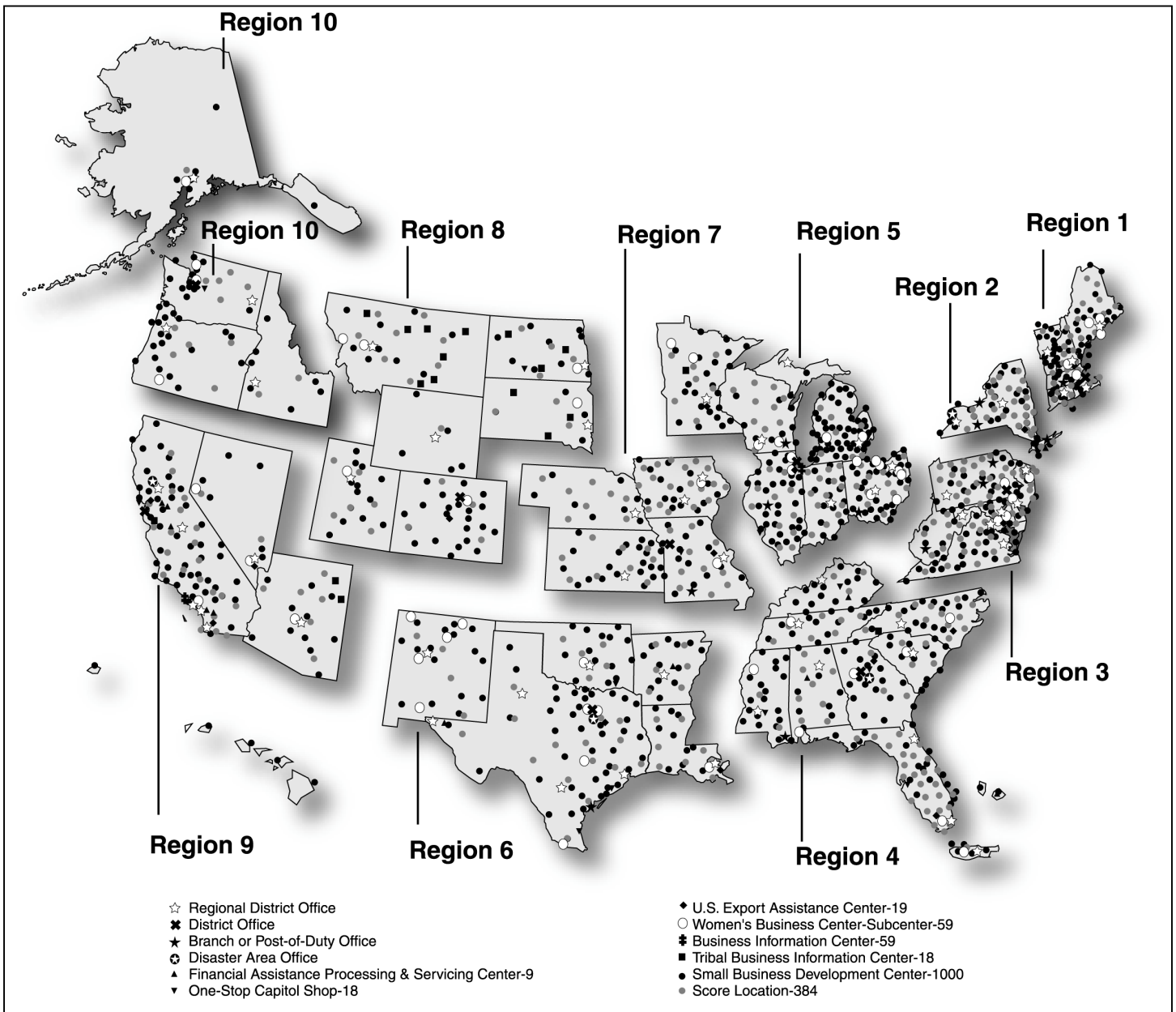
Source: GAO analysis of SBA organization.

Senior SBA officials said that some of SBA's past efforts to change the agency's alignment have led to current problems because too much of the prior structure was left intact. For example, the creation of loan processing and servicing centers moved some, but not all, loan-related workload out of the district offices. District offices retained responsibility for the more difficult loans and loans made by infrequent SBA lenders. Similarly, regional offices were downsized but not eliminated during the 1990s. Although most of the workload of the regions was transferred to

other offices, the regional offices remained open and still retain some organizational responsibility for overseeing the districts, along with the newly created Office of Field Operations.

SBA managers also told us that some offices and centers are not located to best accomplish the agency's mission. For example, Iowa has two district offices located less than 130 miles apart and neither manages a very large share of SBA's lending program or other workload. SBA has a loan-processing center in Hazard, Kentucky; although, according to SBA officials, the center is in an area with a small employment base, relatively high costs, and is remote from major transportation hubs, making it difficult to attract and retain staff and to oversee loan-processing activities at the site. SBA also has another loan-related center located in New York City; a very high-cost area where it has trouble attracting and retaining staff. Figure 7 shows locations of SBA offices around the country.

Figure 7: SBA Offices and Resource Partners in the United States



Source: SBA.

SBA officials stressed that congressional direction has played a part in SBA's current structure. SBA officials pointed out that Congress has

created many new offices, programs, aspects of existing programs, and pilot projects and has prescribed reporting relationship, grade, and/or type of appointment for several senior SBA officials. Appendix I lists 78 offices and programs or program changes created by laws. Appendix II lists 11 SBA staff positions and specific reporting relationships required by legislation. SBA officials also said that congressional influence over the agency's field structure has led to placement of field activities in less than optimal locations and prevented the agency from closing or consolidating some of its inefficiently located field offices. Our March 2000 report on the Government Contracting program noted that Congress directed the deployment of SBA's scarce Procurement Center Representatives in 17 specific locations.¹⁶ Also, SBA's current appropriation includes a specific provision precluding the agency from shifting funds between appropriation accounts to relocate offices or employees, or reorganize offices, programs, or activities without notifying the Appropriations Committees.¹⁷

Restructuring Efforts of Other Federal Agencies Provide a Framework for SBA Managers

Organizational alignment is crucial if an agency is to maximize its performance and ensure its accountability.¹⁸ Although difficult to make, the choices that go into aligning an organization to support its strategic and programmatic goals have enormous implications for further decisions. As we testified in 1995, the key to any reorganization plan—and the key to building a consensus behind it—is the creation of specific, identifiable goals.¹⁹ In other words, the first thing to do is to understand what goals the

¹⁶According to SBA Procurement Center Representative guidance, Conference Reports to the SBA Continuing Appropriations for fiscal years 1988, 1989, 1991, 1992, and 1993 and P.L. 100-590, Small Business Reauthorization and Amendment Act of 1998 specify that Procurement Center Representative coverage is required in the following locations: Connecticut; Iowa; Kentucky; Louisiana; Maine; Minnesota; Montana; Omaha, Nebraska; Las Vegas, Nevada; New Hampshire; North Carolina; North Dakota; Oregon; Rhode Island; Tennessee; West Virginia; and Clarksburg, West Virginia. *Small Businesses: Limited Information Available on Contract Bundling's Extent and Effects* (GAO/GGD-00-82, Mar. 2000).

¹⁷This restriction applies to all agencies funded by H.R. 5548, which makes appropriations for the Departments of Commerce, Justice, and State, the Judiciary, and related agencies for the fiscal year ending Sept. 30, 2001. H.R. 5548 became part of P.L. No. 106-553.

¹⁸*Human Capital: Taking Steps to Meet Current and Emerging Human Capital Challenges* (GAO-01-965T, July 17, 2001).

¹⁹*Government Reorganization: Issues and Principles* (GAO/T-GGD/AIMD-95-166, May 17, 1995).

agency is trying to achieve and then to build an organization around those goals.

For example, SBA managers would need to begin any restructuring efforts with an examination of how current activities, core business processes, and resources are aligned to support SBA's mission and how those efforts help to achieve agency goals. A report on the Federal Emergency Management Agency²⁰ points to the critical part played by that agency's development of a clear and comprehensive mission statement that it used as a guide to reorganization. On the other hand, in 1995 we identified the lack of linkage between mission and structure as a missing piece of restructuring efforts at the Department of Energy.²¹ Our earlier review of SBA's human capital management has shown that SBA has completed the critical first element of this process in developing a shared vision of its mission and has consistently communicated that vision in its planning documents.²² SBA's next step would be to build an organization around its shared vision and goals.

SBA managers would need to obtain extensive input from internal and external stakeholders first to identify (1) how well the current structure is aligned with the agency's mission and strategic plan and establishes clear lines of authority and accountability, (2) how well the current structure facilitates communication with both internal and external customers, (3) how well the number and location of offices facilitates the agency meeting its mission as efficiently and effectively as possible, and (4) the extent of buy-in for the current structure from internal and external customers. SBA managers would use this information to develop a prototype organization structure. Next, SBA would present the proposal to the stakeholders, obtain their input on the prototype, and revise it accordingly.

Use of this step-by-step approach could help increase acceptance of the changes—a critical need for any restructuring effort. Without this acceptance, restructuring is impeded. For example, we reported in 2000

²⁰*Learning From the Leaders: Results-based Management at the Federal Emergency Management Agency*, Jerry Ellig, Ph.D., Senior Research Fellow, Mercatus Center at George Mason University, Mar. 29, 2000.

²¹*Department of Energy: A Framework for Restructuring DOE and Its Missions* (GAO/RCED-95-197, Aug. 1995).

²²*Small Business Administration: Steps Taken to Better Manage Its Human Capital, but More Needs to Be Done* (GAO/T-GGD/AIMD-00-256, July 20, 2000).

that employee resistance to organizational changes was hampering restructuring efforts at the Department of Agriculture.²³ In another report, we noted that Nuclear Regulatory Commission staff confusion over the direction of their agency impaired their ability to focus on results or make as full a contribution as they might otherwise make.²⁴ Our work has shown that many agencies continue to struggle with clearly understanding how what they do on a day-to-day basis contributes to agency results. Some agencies have begun to use performance agreements to strengthen the alignment of daily operations with results-oriented performance goals. Emerging benefits of results-oriented performance agreements are that they (1) strengthened alignment of results-oriented goals with daily operations; (2) fostered collaboration across organizational boundaries; (3) enhanced opportunities to discuss and routinely use performance information to make program improvements; (4) provided results-oriented basis for individual accountability; and (5) maintained continuity of program goals during leadership transitions.²⁵

Observations

SBA's current organizational alignment has some weaknesses that contribute to challenges in delivering services to the small business community. When budget constraints forced SBA to downsize, it responded by significantly reducing but not eliminating the regions, and by creating a headquarters office to handle field operations. While there is considerable disagreement among senior SBA officials about which structure is preferable, it is clear that by leaving remnants of the regions in place and creating only a very small Office of Field Operations, SBA has not enhanced communications along organizational lines. Instead, organizational relationships, as shown in figure 6, are complicated. The centralization of a majority of loan processing and the planned transition of district staff from processing loans to working with small businesses leaves unanswered questions for district managers whose performance is still rated solely on aspects of loan activity. In addition, senior officials believe that some SBA offices and centers are not located to best accomplish the agency's mission.

²³*USDA Reorganization: Progress Mixed in Modernizing the Delivery of Services* (GAO/RCED-00-43, Feb. 2000).

²⁴*Management Reform: Elements of Successful Improvement Initiatives* (GAO/T-GGD-00-26, Oct. 15, 1999).

²⁵*Managing for Results: Emerging Benefits From Selected Agencies' Use of Performance Agreements* (GAO-01-115, Oct. 30, 2000).

Restructuring is admittedly a difficult endeavor and there is no perfect organizational alignment. If SBA leadership decided to restructure the agency, any plan would need to begin with examining key questions about the organization to establish a framework for restructuring. Such a framework would need to support SBA's mission and strategic plan, establish clear lines of accountability, facilitate communication, and offer a rational justification for office location. Restructuring efforts would also need to include getting buy-in from stakeholders and minimize the impact of changes on SBA employees as much as possible. Congressional support for SBA restructuring would be a necessary aspect of any changes SBA proposes. Moreover, some changes may require legislation modifying mandated structural elements specified in earlier laws.

Agency Comments

We received written comments on a draft of this report from SBA. SBA did not disagree with our findings and offered technical comments, which we have incorporated where appropriate. SBA's comments appear in appendix IV.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days after the date of this report. At that time, we will send copies of this report to the Chairman of the Senate Committee on Small Business and Entrepreneurship, the Ranking Minority Member of the House Committee on Small Business, other interested congressional committees, and the Administrator of the Small Business Administration. We will make copies available to others on request. This report will also be available on our homepage at <http://www.gao.gov>.

Please contact me at (202) 512-8678 if you or your staff have any questions. Major contributors to this report were Susan Campbell, David Lewis, and Alexandra Martin-Arseneau.



Davi M. D'Agostino, Director
Financial Markets
and Community Investment

Appendix I: Legislatively Mandated Programs and Offices in SBA

| Public law | Program/office established |
|--|--|
| Small Business Act Amendments of 1961, P.L. No. 87-305, 75 Stat. 666 (1961) | • Added 8(d) Subcontracting Program |
| Housing and Urban Development Act of 1970, P.L. No.91-609, 84 Stat. 1770 (1970) | • Surety bond guarantees |
| Small Business Investment Act Amendments of 1972, P.L. No. 92-595, 86 Stat. 1314 (1972) | • Loans to the handicapped |
| Small Business Amendments of 1974, P.L. No. 93-386, 88 Stat. 742 (1974) | • Capital ownership development program (7(j)) |
| Small Business Investment Act Amendments of 1976, P.L. No. 94-305, 90 Stat. 663 (1976) | • Pollution control facilities • Office of Advocacy |
| Small Business Act and Small Business Investment Act of 1958 Amendments, P.L. No. 95-89, 91 Stat. 553 (1977) | • Loans to finance residential or commercial construction for sale |
| Small Business Energy Loan Act, P.L. No. 95-315, 92 Stat. 377 (1978) | • Loans to enable small business concerns to design, engineer, manufacture, distribute, market, install, or service certain energy measures |
| Small Business Act and Small Business Investment Act Amendments of 1978, P.L. No. 95-507, 92 Stat. 1757 (1978) | • Governmentwide procurement goals |
| Small Business Act Amendment, P.L. No. 95-510, 92 Stat. 1780 (1978) | • Service Corps of Retired Executives transferred to SBA |
| Small Business Administration Authorizations, P.L. No. 96-302, 94 Stat. 833 (1980) | • External economic database • Preferred Lenders Program • Loan guarantees for qualified employee trusts • State of Small Business report • Small Business Development Centers • Development company debentures |
| Small Business Export Expansion Act of 1980, P.L. No. 96-481, 94 Stat. 2321 (1980) | • Office of International Trade |
| Small Business Innovation Development Act of 1982, P.L. No. 97-219, 96 Stat. 217 (1982) | • Small Business Innovation Research program |
| Small Business Secondary Market Improvements Act of 1984, P.L. No. 98-352, 98 Stat. 329 (1984) | • Secondary market for sale of guaranteed loans |
| Small Business Computer Security and Education Act of 1984, P.L. No. 98-362, 98 Stat. 431 (1984) | • Cosponsorship authority |
| Continuing Appropriations, 1985, P.L. No. 98-473, 98 Stat. 1837 (1984) | • Disaster loans for small businesses affected by El-Nino-related ocean conditions |
| Omnibus Trade and Competitiveness Act of 1988, P.L. No. 100-418, 102 Stat. 1107 (1988) | • Guaranteed loans for small business concerns engaged in or adversely affected by international trade |
| Women's Business Ownership Act of 1988, P.L. No. 100-533, 102 Stat. 2689 (1988) | • Certified Lenders Program • National Women's Business Council |
| Small Business Administration Reauthorization and Amendment Act of 1988, P.L. No. 100-590, 102 Stat. 2989 (1988) | • Deferred participation loans for pollution control facilities • Preferred surety bond guarantee program |
| Business Opportunity Development Reform Act of 1988, P.L. No. 100-656, 102 Stat. 3853 (1988) | • Guaranteed loans to 8(a) participants • Small Business Competitiveness Demonstration Program |
| Departments of Commerce, Justice, State, the Judiciary, and Related Agencies Appropriations Act, 1991, P.L. No. 101-515, 104 Stat. 2101 (1990) | • Tree Planting Program • Central European Enterprise Development Commission |

**Appendix I: Legislatively Mandated Programs
and Offices in SBA**

| Public law | Program/office established |
|--|---|
| SBA Reauthorization and Amendments Act of 1990, P.L. No. 101-574, 104 Stat. 2814 (1990). | <ul style="list-style-type: none"> • Small Business Technology Transfer demonstration program • Pilot Technology Access Program • Office of Rural Affairs • Pilot Rural Development Loan Program • Tourism demonstration program • Expanded duties of SBDCs to include assisting rural small business |
| White House Conference on Small Business Authorization Act, P.L. No. 101-409, 104 Stat. 885 (1990). | <ul style="list-style-type: none"> • Planning and administration of conferences at state and local levels |
| Appropriations for Departments of Commerce, State and the Judiciary and related agencies for 1992, P.L. No. 102-140, 105 Stat. 782 (1992). | <ul style="list-style-type: none"> • Pilot technology access program expanded to Small Business Development Centers • Microloan demonstration program |
| Women's Business Development Act of 1991, P.L. No. 102-191, 105 Stat. 1589 (1991). | <ul style="list-style-type: none"> • Women's demonstration projects program |
| Small Business Credit and Business Opportunity Enhancement Act of 1992 P.L. No. 102-366, 106 Stat. 986 (1992). | <ul style="list-style-type: none"> • Defense economic transition assistance program under 7(a) • Transfers examination of Small Business Investment Companies from Inspector General to Investment Division • Extended Small Business Development Center Program to include helping small businesses affected by base closings |
| Small Business Research and Development Enhancement Act of 1992, P.L. No. 102-564, 106 Stat. 4249 (1992). | <ul style="list-style-type: none"> • Small Business Technology Transfer pilot program • Small Business Innovation Research program expanded |
| Small Business Administration Reauthorization and Amendments Act of 1994, P.L. No. 103-403, 108 Stat. 4175 (1994). | <ul style="list-style-type: none"> • Export working capital financing • Accredited Lenders Program • Premier Certified Lenders pilot program • Pilot program for very small business concerns • Mobile Resource Center pilot program • Office of Women's Business Ownership • Prepayment of development company debentures • Deferred participation loan pilot of Microloan program |
| Small Business Regulatory Enforcement Fairness Act of 1996, P.L. No. 104-121, 110 Stat. 857 (1996). | <ul style="list-style-type: none"> • Oversight of regulatory enforcement |
| Small Business Programs Improvement Act of 1996, P.L. No. 104-208, 110 Stat. 3009-725 (1997). | <ul style="list-style-type: none"> • Risk management database • Preferred lender standard review program • Private sector disaster loan servicing demonstration program • Loan liquidation pilot program for development companies |
| Small Business Reauthorization Act of 1997, P.L. No. 105-135, 111 Stat. 2592 (1997). | <ul style="list-style-type: none"> • Welfare-to-work microloan initiative • Criminal background checks on loan applicants • Women's Business Centers • SBA review of bundled contracts • Small Business Technology Transfer outreach program • Service disabled veterans program • Trade assistance for small business concerns adversely affected by NAFTA • Small business export promotion • HUBZone program • Defense Loan and Technical Assistance Program |
| Department of Transportation and Related Agencies Appropriations Act, 1999, P.L. No. 105-277, 112 Stat. 2681 (1999). | <ul style="list-style-type: none"> • Drug-free Workplace demonstration program |
| Small Business Year 2000 Readiness Act, P.L. No. 106-8, 113 Stat.13 (1999). | <ul style="list-style-type: none"> • Year 2000 Computer Problem program |

**Appendix I: Legislatively Mandated Programs
and Offices in SBA**

| Public law | Program/office established |
|---|--|
| A bill to authorize the establishment of a disaster mitigation pilot program in the Small Business Administration, P.L. No. 106-24, 113 Stat. 39 (1999). | <ul style="list-style-type: none"> • Disaster Mitigation pilot program |
| Veteran’s Entrepreneurship and Small Business Development Act of 1999, P.L. No. 106-50, 113 Stat. 233 (1999). | <ul style="list-style-type: none"> • Office of Veterans Business Development • Repayment deferral for active duty reservists • Disaster assistance for military reservists’ small businesses • Entrepreneurial assistance to veterans and active duty reservists |
| Program for Investment in Microenterprises Act of 1999, P.L. No. 106-102, 113 Stat. 1471 (1999). | <ul style="list-style-type: none"> • Program for Investment in Microentrepreneurs |
| Women’s Business Center Sustainability Act of 1999, P.L. No. 106-165, 113 Stat. 1795 (1999). | <ul style="list-style-type: none"> • Women’s business centers sustainability pilot program |
| Appropriations for the Departments of Labor, Health and Human Services, Education and related agencies, 2001, P.L. No. 106-554, 114 Stat. 2763A-653 (2000). | <ul style="list-style-type: none"> • New Markets Venture Capital Program |

Appendix II: Legislatively Mandated Staff Positions at SBA

The following list shows legislatively mandated staff positions at SBA:

- Section 4(b)(1) of the Small Business Act establishes that the management of SBA is vested in an administrator who is appointed by the President and confirmed by the Senate. The President also may appoint a deputy administrator who is to serve in the event of the administrator's absence or disability.
- Section 21(h) of the act provides that the administrator shall appoint an associate Administrator for Small Business Development Centers who is to report to an official who is not more than one level below the Office of the Administrator.
- Section 26(a) of the act provides for a director of the Office of Rural Affairs.
- Section 29(g) of the act provides for an assistant administrator for the Office of Women's Business Ownership to be appointed by the administrator. This position is a Senior Executive Service position. The assistant administrator for Women's Business Centers is a noncareer appointee.
- Section 30(b) of the act requires that the administrator appoint a Small Business and Agriculture Regulatory Enforcement Ombudsman, who is to report directly to the administrator.
- Section 32(b) of the act provides for an associate administrator for Veterans Business Development, who is to be an appointee in the Senior Executive Service and is to report to and be directly responsible to the administrator.
- Section 201 of the Small Business Investment Act provides for an associate administrator for the Small Business Investment Division. The associate administrator is appointed by the administrator and is compensated at the rate provided by law for other associate administrators.
- Sections 4, 7(j)(10), and 8(a)(8) of the act provide for the associate administrator for Minority Small Business and Capital Ownership Development to manage the small business and capital ownership development program. The associate administrator is to be responsible to and report to the administrator and is to be a career appointee in the Senior Executive Service.
- Section 7(j)(11)(E) establishes a Division of Program Certification and Eligibility as part of the Office of Minority Small Business and Capital Ownership Development to be headed by a director who is to report directly to the associate administrator for Small Business and Capital Ownership Development.
- 15 U.S.C. 634a provides for a Chief Counsel for Advocacy.

Appendix III: SBA Field Locations Visited

District Offices

Washington, D.C.
Miami, FL
Kansas City, MO
Cedar Rapids, IA
Minneapolis, MN
San Francisco, CA
Los Angeles, CA
Fresno, CA
Sacramento, CA

Regional Offices

Kansas City Regional Office

Other Field Locations

Kansas City Preferred Lenders Program Review Branch
Sacramento Low Doc Processing Center
Sacramento Preferred Lenders Program Processing Center
Fresno Loan Servicing Center
Sacramento Disaster Area Office
Minneapolis United States Export Assistance Center
Minneapolis Business Information Center

Appendix IV: Comments From the U.S. Small Business Administration



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

OFFICE OF THE ADMINISTRATOR

OCT 16 2001

Ms. Davi M. D'Agostino
Director
Financial Markets and Community Investment
United States General Accounting Office
Washington, DC 20548

Dear Ms. D'Agostino:

Thank you for the opportunity to comment on your proposed report entitled Small Business Administration: Current Structure Presents Challenges for Service Delivery (GAO-02-17). We appreciate the work of Assistant Director Susan Campbell and her staff in studying our organization and in preparing this report. I will find it very useful as we develop the Small Business Administration's 5-year restructuring plan.

We have reviewed the proposed report and have provided Ms. Campbell with a listing of major programs and offices added by statute from 1961 through 1990 to supplement the listing in Appendix 1. We also provided her with three legislatively mandated staff positions that should be added to Appendix 2. Should Ms. Campbell wish to discuss our comments further, she should contact Alan Cecilio, Director of Guidance, Innovation and Review in our Office of Human Resources by phone at 202-205-6798.

Sincerely,

Hector V. Barreto
Administrator

Ordering Information

The first copy of each GAO report is free. Additional copies of reports are \$2 each. A check or money order should be made out to the Superintendent of Documents. VISA and MasterCard credit cards are also accepted.

Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

Orders by visiting:

Room 1100
700 4th St., NW (corner of 4th and G Sts. NW)
Washington, DC 20013

Orders by phone:

(202) 512-6000
fax: (202) 512-6061
TDD (202) 512-2537

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

Orders by Internet

For information on how to access GAO reports on the Internet, send an e-mail message with "info" in the body to:

Info@www.gao.gov

or visit GAO's World Wide Web home page at:

<http://www.gao.gov>

To Report Fraud, Waste, and Abuse in Federal Programs

Contact one:

- Web site: <http://www.gao.gov/fraudnet/fraudnet.htm>
- E-mail: fraudnet@gao.gov
- 1-800-424-5454 (automated answering system)