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Congress of the United States

U.S. House of Representatives

Committee on Small Business

2361 Rayburn House Office Building
Washington, DC 20515-6315

To: Members, Committee on Small Business
From: Committee Staff
Date: March 15, 2013
Re: Full Committee Hearing: "*Entrepreneurial Assistance: Examining Inefficiencies and Duplication Across Federal Programs*"

I. Hearing Overview

On Wednesday, March 20, 2013 at 1:00 pm in Room 2360 of the Rayburn House Office Building, the Committee on Small Business will meet for the purpose of providing oversight on fragmentation, overlap, and duplication in entrepreneurial assistance programs across the federal government, specifically between the Small Business Administration (SBA) and the United States Department of Agriculture (USDA). This hearing will examine the Government Accountability Office's (GAO's) reports identifying opportunities for improvements across 52 entrepreneurial assistance programs[1] and discuss what steps, if any, agencies have taken to implement GAO's recommendations. Further, as GAO's reports cited a lack of collaborative efforts between agencies, the hearing will focus on whether a Memorandum of Understanding (MOU) between SBA and USDA, which was entered into in order to improve coordination of their respective roles in these programs, is sufficient to provide collaboration.

II. Duplication and Budget Reduction

With the national debt averaging over $16.7 trillion,[2] the need to eliminate duplication and ensure federal program effectiveness has become increasingly important. This memo will discuss each in turn with a focus on GAO's annual reports on duplication and GAO's August 2012 report on duplication, fragmentation, and overlap within entrepreneurial assistance programs across the federal government.

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[1] GOVERNMENT ACCOUNTABILITY OFFICE (GAO), ENTREPRENEURIAL ASSISTANCE: OPPORTUNITIES EXIST TO IMPROVE PROGRAMS' COLLABORATION, DATA-TRACKING, AND PERFORMANCE MANAGEMENT 1 (August 2012) (GAO-12-819) (hereinafter August 2012 GAO Report), *available at* http://www.gao.gov/assets/650/647267.pdf. Please see Appendix III of the report for a list of identified programs.

[2] UNITED STATES DEPT. OF THE TREASURY, THE DEBT TO THE PENNY AND WHO HOLDS IT, *available at* http://www.treasurydirect.gov/NP/BPDLogin?application=np. Specifically as of Mar. 11, 2013, public debt stood at $16,703,943,129,416.14.

In FY 2012 "the federal government incurred a budget deficit of $1.1 trillion,"[3] making it "the fourth consecutive year with a deficit above $1 trillion."[4] The size of the deficit is directly linked to federal spending which "has totaled between $3.5 trillion and $3.6 trillion in each of the past four years."[5] Historically, this means that "over the past 20 years, federal spending grew 71 percent faster than inflation,"[6] and federal debt has nearly tripled since FY 2001.[7] Given this influx in federal spending and burgeoning debt, identifying and mitigating duplication across the federal government is essential.

In light of this and since 2011, GAO has released a yearly report identifying "federal programs or functional areas where unnecessary duplication, overlap, or fragmentation exists, the actions needed to address such conditions, and the potential financial and other benefits of doing so; and [highlighting] other opportunities for potential cost savings or enhanced revenues."[8] For purposes of the report, GAO "considered duplication to occur when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries."[9] However, GAO consistently noted that "determining whether and to what extent programs are actually duplicative requires programmatic information that is often not readily available."[10]

While the first annual duplication report identified a plethora of opportunities for improvement, GAO specifically identified 80 economic development programs[11] across four agencies – the Department of Commerce (Commerce), Department of Housing and Urban Development (HUD), USDA and SBA – as areas with potential for overlap, duplication, and

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[3] CONGRESSIONAL BUDGET OFFICE, MONTHLY BUDGET REVIEW: FISCAL YEAR 2012 1 (Nov. 7, 2012), *available at* http://www.cbo.gov/sites/default/files/cbofiles/attachments/43698-Nov-MBR.pdf.

[4] *Id.*

[5] *Id.*

[6] ALISON ACOSTA FRASER, THE HERITAGE FOUNDATION, FEDERAL SPENDING BY THE NUMBERS – 2012 (Oct. 16, 2012), *available at* http://www.heritage.org/research/reports/2012/10/federal-spending-by-the-numbers-2012.

[7] UNITED STATES DEPT. OF THE TREASURY, HISTORICAL DEBT OUTSTANDING – ANNUAL 2000-2012, *available at* http://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt_histo5.htm; indicating that on Sept. 30, 2000, United States public debt was $5,674,178,209,886.86.

[8] GAO, OPPORTUNITIES TO REDUCE POTENTIAL DUPLICATION IN GOVERNMENT PROGRAMS, SAVE TAX DOLLARS, AND ENHANCE REVENUE 1 (March 2011) (GAO-11-318SP) (hereinafter 2011 GAO Duplication Report). The report was mandated as part of an agreement to increase the statutory limit on public debt in January 2010 and is required under the Act of February 12, 2010, Pub. L. No. 111-139, Tit. II § 21, 124 Stat. 8, 29-30, codified at 31 U.S.C. § 712 Note.

[9] 2011 GAO Duplication Report at 336.

[10] *Id.*

[11] A substantial challenge in identifying duplication in economic development programs is that across the federal government there is no unifying definition of the term "economic development." Given that, GAO previously developed a list of nine activities that relate to economic development in order to analyze similarly situated federal programs. These nine economic development activities are found in GAO, RURAL ECONOMIC DEVELOPMENT: MORE ASSURANCE IS NEEDED THAT GRANT FUNDING INFORMATION IS ACCURATELY REPORTED 7 (February 2006) (GAO-06-294). Please note that this report further expanded upon GAO's originally developed a list of 6 items accepted as economic development in ECONOMIC DEVELOPMENT: MULTIPLE FEDERAL PROGRAMS FUND SIMILAR ECONOMIC DEVELOPMENT ACTIVITIES 4 (September 2000) (GGD-00-220).

fragmentation.[12] Within the category of economic development, GAO further identified 52 programs across these agencies that focus on entrepreneurial efforts.[13]

Based on the 2011 GAO Duplication Report, GAO further investigated the level of duplication, overlap, and fragmentation across entrepreneurial programs. This new comprehensive GAO study on entrepreneurial assistance programs released in August 2012 found that agencies spent approximately "$2.0 billion on economic development efforts in fiscal year 2011."[14] In this report, GAO was unable to specifically pinpoint duplication, as "most agencies were not able to provide the programmatic information, such as data on users of the program that is necessary to determine whether or not duplication actually exists among the programs."[15] For example, GAO noted that data on entrepreneurs "such as whether they are located in rural or economically distressed areas or the entrepreneurs' type of industry"[16] would be beneficial for technical assistance programs to effectively administer the programs and identify areas of overlap and potential duplication. Even though GAO did not conclude duplication existed, GAO's study revealed significant overlaps and fragmented delivery of assistance.

III. Overlap and Fragmentation in Entrepreneurial Assistance Programs

The United States has consistently recognized the need to encourage entrepreneurship as means to combat unemployment and promote economic development. The GAO studies demonstrate, beyond cavil, that federal resources to encourage economic development are spread across a variety of agencies. Even if the United States were not facing staggering debt levels and a need to reduce the federal budget, eradicating program inefficiencies will ensure the delivery of optimal assistance to entrepreneurs. The ability to provide maximum technical aid is undermined by the fragmented support offered among the 52 programs at USDA, Commerce, HUD, and SBA.[17] As a result, it is not surprising that GAO found "some entrepreneurs struggle to navigate the fragmented programs that provide technical assistance."[18]

GAO, in an effort to measure program efficiency, relies on data generated by the agencies pursuant to the Government Performance and Results Act (GPRA)[19] and the GPRA Modernization Act of 2010 (GPRAMA).[20] GPRA requires agencies to submit five-year strategic plans for performance goals updated every three years, prepare annual performance plans outlining performance goals for each program activity within an agency's budget, and submit annual reports evaluating program performance based on performance indicators to the President

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[12] 2011 GAO Duplication Report at 42.
[13] *Id.* at 43. For purposes of this report, GAO indicates that entrepreneurial efforts include: "helping businesses to develop business plans and identify funding sources."
[14] August 2012 GAO Report at 1.
[15] *Id.* at 12.
[16] *Id.* at 20.
[17] *Id.* at summary.
[18] *Id.* GAO defines fragmented as "circumstances in which more than one federal agency (or more than one organization within an agency) is involved in the same broad area of national interest." *Id.* at 3. Additionally, overlap is defined as "programs that have similar goals, devise similar strategies and activities to achieve those goals, or target similar users." *Id.*
[19] Government Performance and Results Act of 1993, Pub. L. No. 103- 62, 107 Stat. 285 (1993).
[20] GPRA Modernization Act of 2010, Pub. L. No. 111-352, 124 Stat. 3866 (2011).

and Congress.[21] GPRAMA requires common federal performance indicators to ease comparison of programs across agencies.[22] GPRAMA also "establishes a new framework aimed at taking a more cross-cutting and integrated approach to focusing on results and improving government performance."[23] With these tools and data GAO can assess whether agencies are meeting their goals, metrics, and collaborative requirements in providing assistance to entrepreneurs.

GAO found that information is not tracked for several programs. This failure is compounded by the fact that agencies operating "19 programs failed to meet their annual performance goals related to entrepreneurial assistance."[24] Despite these evident failures, only 20 out of 52 programs GAO identified have been evaluated since 2000, and these evaluations typically have only been one-time occurrences.[25] As a result, GAO indicated that agencies may not be able to accurately determine the programs, or parts thereof, that were properly functioning and ensure that agencies resources were devoted to the most effective programs.[26]

GAO also uncovered a lack of collaboration between the agencies and recommended the agencies "work together to identify opportunities to enhance collaboration among programs, both within and across agencies."[27] This would, in the opinion of GAO, lead to maximal aid to small business owners. GAO noted that since March 2011, "the agencies have taken initial steps to improve how they collaborate by entering into formal agreements, but they have not pursued a number of other good collaborative practices GAO has previously identified."[28] Specifically, despite these formal agreements "agencies generally have yet to develop compatible guidance to implement these agreements in the field."[29] Therefore, collaborative efforts are lacking among federal agencies providing assistance to small businesses. These minimal efforts have not resulted in program improvements or subsequent benefits to entrepreneurs.

IV. SBA and USDA's Responses and Collaborative Efforts: Fixing the Problem?

As GAO describes, agency cooperation and collaboration is necessary when working to alleviate inefficiencies caused by overlap and fragmentation. In April 2010, prior to the release of GAO's first report in March 2011, SBA and USDA established a MOU which intended to "coordinate their programs to assist small businesses in underserved rural areas."[30] The MOU noted that rather than begin this process throughout the entire United States, it would focus on 10 states and that the agencies would meet every 3 months to measure progress. Although the MOU leaves open the possibility for collaboration in other areas, the MOU specifically mentions: marketing and outreach, use of technology, agency cross training, joint lending engagements, local/regional food supply network lending, harmonizing loan program and forms,

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[21] Government Performance and Results Act of 1993, Pub. L. No. 103- 62, 107 Stat. 285 (1993).
[22] GPRA Modernization Act of 2010, Pub. L. No. 111-352, 124 Stat. 3866 (2011).
[23] August 2012 GAO Report at 5.
[24] *Id.* at summary.
[25] *Id.* at 25.
[26] *Id.* at 25 and 28.
[27] *Id.* at 29.
[28] *Id.* at summary.
[29] *Id.* at 18.
[30] SBA AND USDA, MEMORANDUM OF UNDERSTANDING 2 (Apr. 2010).

and program management and review, as key areas where collaboration will occur between the agencies.[31]

The GAO report did not specifically address the MOU between USDA and SBA. However, GAO noted that "while agencies have a number of interagency agreements in place, our review found that agency field staff do not consistently collaborate and may not be able to help entrepreneurs navigate the large number of program available to them."[32] GAO also indicated that "without enhanced collaboration and coordination, agencies may not be able to make the best use of limited federal resources and may not reach their intended beneficiaries in the most effective and efficient manner."[33] Thus, it does not appear that a MOU, including the one between USDA and SBA, reduces overlap and fragmentation of entrepreneurial assistance programs.

Following GAO's August 2012 report, SBA was the only agency that failed to provide a 60-day response letter specifying the agency's response to GAO's recommendations. SBA's letter was not provided until February 15, 2013, some three months after the 60-day response letter was due. Unlike the other agencies evaluated by GAO, the SBA never submitted a letter to GAO with formal comments. However, SBA's late 60-day letter indicates attempts to collaborate both internally and with other agencies, specifically noting that referrals to USDA occur when appropriate. SBA also indicated that its resource partner data collection system, known as EDMIS, is undergoing substantial modernization which may address GAO's concerns and that SBA is engaged in reviewing its performance measures.

USDA's comments to GAO's report addressed the unique obstacles faced by rural entrepreneurs, strategies for data collection, and their support for continuing to collaborate with other agencies to foster economic development in rural communities. Specifically, USDA mentioned six roundtables held with SBA during 2011 and 2012 as examples of collaboration. However, USDA further noted that it did not feel the recommendations were explicit enough to be able to effectively address GAO's concerns.

V. Conclusion

The MOU between SBA and USDA regarding these programs is scheduled to expire in April 2013 with the option of being extended for an additional two years. In order to ensure that collaboration makes the best resources available for entrepreneurs, this hearing will examine whether SBA and USDA have responded to GAO's concerns and the extent of collaborative efforts occurring between the agencies.

GAO has identified 52 federal government entrepreneurial assistance programs. As GAO's reports indicate, agencies must enhance collaboration and strengthen data collection in order to analyze the benefits and drawbacks of each program. While the federal government has long recognized the need to aid entrepreneurs, the federal government must utilize limited monetary resources and work within budget constraints. Therefore, it is necessary to determine

[31] *Id.* at 4-6.
[32] August 2012 GAO Report at 28.
[33] *Id.*

which programs serve entrepreneurs most effectively and eliminate programs which are duplicative and/or ineffective.