

Congress of the United States
U.S. House of Representatives
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-0515

To: Members, Subcommittee on Economic Growth, Tax, and Capital Access, Committee on Small Business
From: Committee Staff
Date: January 29, 2016
Re: Subcommittee Hearing: "SBA Management Review: Oversight of SBA's Entrepreneurial Development Offices"

On Tuesday, February 2, 2016, at 11:00 a.m. in Room 2360 of the Rayburn House Office Building, the Subcommittee on Economic Growth, Tax and Capital Access of the Committee on Small Business will meet to examine entrepreneurial development (ED) programs operated and overseen by the Small Business Administration (SBA). The United States Government Accountability Office (GAO) recently released a report about the operation of the Small Business Administration (SBA) and found numerous deficiencies in SBA management.¹ As a follow-up to that study, this hearing will examine the Office of Entrepreneurial Development (OED) and Office of Veterans Business Development (OVBD). Specifically, the hearing will look at whether improvements within these Offices are necessary to ensure the SBA is effective in helping small firms without wasting federal funds due to the operation of duplicative programs.

I. Introduction

The United States has consistently recognized the need to encourage entrepreneurship as a means to combat unemployment and promote economic development. Therefore, SBA's mission, as evinced in the Small Business Act, is to "aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns."² Almost a quarter of the SBA's budget is devoted to providing outreach and technical assistance to small businesses.³ This is done through a multiplicity of programs that the SBA operates at the specific direction of Congress such as the Small Business Development Center (SBDC) Program, SCORE Program, Women's Business Center (WBC) Program, and Veteran's Business Outreach Center (VBOC) Program. In addition, the SBA also creates, using its general authority to aid small businesses, initiatives that frequently duplicate those that Congress specifically directed the Agency to implement. The Committee, on a

¹ GAO, SMALL BUSINESS ADMINISTRATION: LEADERSHIP ATTENTION NEEDED TO OVERCOME MANAGEMENT CHALLENGES (GAO-15-347) (2015), available at <http://www.gao.gov/products/GAO-15-347> [hereinafter "GAO Management Report"].

² 15 U.S.C. § 631(a).

³ Consolidated Appropriations Act, 2016 Act, Pub. L. No. 114-113. Specifically, this can be found as part of Division E, Title V. See also 161 Cong. Rec. H9694, H10,140 (daily ed. Dec. 17, 2015) (explanatory statement submitted by Mr. Rogers of Kentucky, Chairman of the House Committee on Appropriations, Regarding House Amendment No. 1 to the Senate Amendment on H.R. 2029).

bipartisan basis, has criticized these efforts to divert funds and agency resources from the specifically authorized programs to SBA-created initiatives.⁴

II. Description of OED and OVBD

Within the SBA, the offices responsible for handling the ED programs are widespread and include: the Office of Investment and Innovation (OII), the Office of Native American Affairs, the Center for Faith Based & Neighborhood Partnerships, OED, and OVBD. Given this array, as has been noted in previous Committee hearings and GAO reports, “some entrepreneurs struggle to navigate the fragmented programs that provide technical assistance.”⁵ Rather than focusing on all of these offices, this hearing will focus on items within the two primary offices responsible for entrepreneurial development, OED and OVBD. OED is responsible for helping “small businesses start, grow, and compete in global markets by providing quality training, counseling, and access to resources.”⁶ Specifically, OED oversees statutorily-created programs such as SBDCs, WBCs, and SCORE as well as several SBA-created ED initiatives.

OVBD is slightly unique as the role of the Associate Administrator (AA) and Office are specifically codified within the Small Business Act.⁷ The Act places the AA of OVBD in charge of all policies and programs related to small business concerns owned and controlled by veterans and small business concerns owned and controlled by service-disabled veterans as well as requiring the AA to act as an “ombudsman for full consideration of veterans in all programs of the Administration.”⁸ According to the SBA, “OVBD’s mission is to maximize the availability, applicability and usability of all administration small business programs for Veterans, Service-Disabled Veterans, Reserve Component Members, and their Dependents or Survivors.”⁹ While the AA of OVBD is more broadly responsible for encouraging veterans entrepreneurship, this office specifically oversees two programs, VBOCs, and the SBA-created initiative, Boots to Business.

III. Description of Congressionally-Mandated Programs Overseen by OED and OVBD

In carrying out its mission to provide small businesses with assistance, SBA oversees a number of programs that offer counseling to potential entrepreneurs and extant small business owners. SBA itself does not generally carry out this training; in most circumstances, the agency enters into a cooperative agreement with another organization to offer such services. The cooperators are termed resource partners¹⁰ by SBA and are required to obtain a significant portion of their operating budgets from non-federal sources (be they private donors or state funds).

⁴ This is clearly demonstrated by the Views and Estimates of the Committee on Small Business transmitted to Committee on the Budget for FY 2012 – FY 2016.

⁵ ENTREPRENEURIAL ASSISTANCE: OPPORTUNITIES EXIST TO IMPROVE PROGRAMS’ COLLABORATION, DATA-TRACKING, AND PERFORMANCE MANAGEMENT summary (2012) (GAO-12-819). 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.*

⁶ <https://www.sba.gov/offices/headquarters/oed>.

⁷ 15 U.S.C. § 657b.

⁸ *Id.* at § 657b(b)2.

⁹ <https://www.sba.gov/offices/headquarters/ovbd>.

¹⁰ In this case, resource partners refer to the non-federal partners that provide training authorized by the Small Business Act and funded, in part, by federal appropriations. These include SBDCs, WBCs, VBOCs, and SCORE.

The largest such program is set out in § 21 of the Act.¹¹ The program is denominated as the SBDC program because the resource partners, SBDC grantees, operate service centers where small business owners and potential entrepreneurs can receive free counseling.¹² Typically, the grantee is an institution of higher education (but not always) and the grantee agrees to offer these services throughout a state or through a portion of the state.¹³ Although their missions and scope of service territories vary, the WBCs¹⁴ and VBOCs operate in a fashion akin to that of the SBDCs.

The other major entrepreneurial outreach program, SCORE, operates somewhat differently. Although SCORE also offers free advice (from volunteer active and retired business executives), almost all of SCORE's funds are appropriated by Congress. The SBA also is required to provide offices and other ancillary services to SCORE at no charge to SCORE or their clients.

IV. Description of Initiatives

Despite this array of specifically authorized statutory ED programs,¹⁵ SBA has felt the need to create and request funds for new entrepreneurial training initiatives that trod the ground of the just limned programs. Of those initiatives, the SBA has focused most of its efforts and funding requests on four: Entrepreneurial Education; Growth Accelerators; Boots to Business; and Regional Innovation Clusters. As Growth Accelerators are overseen by OII and were discussed at a prior hearing, they will not be discussed at this hearing.¹⁶

a. Entrepreneurial Education

Entrepreneurial Education is an expansion and reconfiguration of Emerging Leaders, an SBA-created initiative started in FY 2009, which provided training to executives in urban areas and for Native American entrepreneurs. According to SBA, “the Entrepreneurship Education initiative offers high-growth small businesses in underserved communities a seven-month executive leader education that elevates their growth trajectory, creates jobs, and contributes to the economic well-being of their communities.”¹⁷

b. Boots to Business

¹¹ 15 U.S.C. § 648.

¹² SBDCs are responsible for providing an array of services which are delineated in the Act. These include one-on-one counseling; aiding individuals awareness of credit practices and requirements; assisting in developing business plans, financial packages, credit applications, and contract proposals; and working with the SBA to develop and provide information tools on starting or expanding a business or export planning. *Id.* at § 648(c)(3).

¹³ The grantee agrees to provide services throughout a state; two states – California and Texas – do not have statewide grantees.

¹⁴ With respect to WBCs, it is important to note that at least 25 percent of their clients are men according to testimony offered by the WBCs in hearings before this Committee.

¹⁵ In addition to those already described, there are a number of other initiatives that are specifically recognized in statute by which the SBA educates small business owners. Under the Microloan Program (§ 7(m) of the Small Business Act), microloan intermediaries are appropriated funds to offer their borrowers education on operating a business. The agency also is authorized to contract with third parties to offer assistance to participants in the 8(a) government contracting program the authority for which is found not in § 8(a) but in § 7(j). The logic of statutory drafting which located this power in § 7(j) is beyond the scope of this memorandum.

¹⁶ *Oversight of the Office of Investment and Innovation and the SBA Before the H. Subcomm. on Health and Technology of the H. Comm. on Small Business*, 114th Cong. (2016).

¹⁷ UNITED STATES SMALL BUSINESS ADMINISTRATION, FY 2016 CONGRESSIONAL BUDGET JUSTIFICATION AND FY 2014 ANNUAL PERFORMANCE REVIEW 67 (2015) [hereinafter SBA Budget Submission].

In the spring of 2012, Boots to Business initially launched at a few locations. Today it is a “two-step entrepreneurial training program offered by the [SBA] as a training track within the Department of Defense’s Transition Assistance Program (TAP).”¹⁸ The two phases are: first, a two-day course entitled Introduction to Entrepreneurship; and second, an eight-week online course entitled Foundations of Entrepreneurship.¹⁹ As a subsidiary initiative, the SBA also recently created Reboot: Boots to Business, which utilizes the same phases as Boots to Business but is for non-transitioning military members. Notably, the SBA is provided statutory authority to assist with TAP; however, this assistance is required to take place through VBOCs rather than a separately funded initiative.²⁰

c. Regional Innovation Clusters

The SBA’s Regional Innovative Cluster initiative began in FY 2010 and awards grants to non-federal entities that in turn help create clusters (a geographically confined group of firms in the same or similar industries). Initially SBA funded 10 pilot clusters, and today the SBA has 14 active Regional Clusters.²¹ It is important to note that SBA is one of several agencies, including the United States Department of Defense, United States Department of Commerce, and United States Department of Labor, that all engage in supporting and providing federal funding for regional clusters.²²

V. Management Challenges and Issues for Consideration

As previously discussed at a prior hearing, the GAO found several management challenges at the SBA.²³ When broken down by each Office, these challenges present unique obstacles for OED and OVBD.

a. Lack of Effective Metrics

In order to undertake a reasoned decisionmaking process concerning the effectiveness of agency programs under the Government Performance and Results Act (GPRA), an agency needs adequate information, including metrics to evaluate such programs. The Committee (in various hearings on a bipartisan basis)²⁴ and GAO have both noted the absence of metrics in evaluating various entrepreneurial education initiatives created by the Agency.²⁵ If the Agency has no effective metrics for evaluation of these programs, it is difficult to assess their effectiveness – a key component of GPRA.

¹⁸ <https://www.sba.gov/offices/headquarters/ovbd/resources/160511>.

¹⁹ <https://www.sba.gov/offices/headquarters/ovbd/resources/160511>.

²⁰ 15 U.S.C. § 657b(d).

²¹ <https://www.sba.gov/about-sba/sba-initiatives/clusters-initiative/sbas-regional-innovation-clusters>.

²² <https://www.sba.gov/about-sba/sba-initiatives/clusters-initiative/history-sbas-involvement-cluster-initiatives>.

²³ For further information please review the GAO Management Report, *supra* note 1, as well as the Committee’s memorandum on *Attention Needed: Mismanagement at the SBA* (Jan. 2016), available at http://smbiz.house.gov/uploadedfiles/1-06-2016_memo.pdf.

²⁴ See *SBA-created Initiatives: Necessary or Redundant Spending? Before the H. Comm. on Small Business*, 113th Cong. (2014) and *Entrepreneurial Assistance: Examining Inefficiencies and Duplication Across Federal Programs Before the H. Comm. On Small Business*, 113th Cong. (2013).

²⁵ GAO also found that SBA lacked effective metrics to evaluate its entrepreneurial education efforts. See GAO, SMALL BUSINESS ADMINISTRATION, COSPONSORED ACTIVITIES CAN BENEFIT SMALL BUSINESSES BUT LACK A CONSISTENT FEEDBACK MECHANISM 13 (2014) (GAO-14-260), available at <http://www.gao.gov/products/GAO-14-260>; GAO, ENTREPRENEURIAL ASSISTANCE: OPPORTUNITIES EXIST TO IMPROVE PROGRAMS’ COLLABORATION, DATA TRACKING AND PERFORMANCE MANAGEMENT 21 (2012) (GAO-12-819), available at <http://www.gao.gov/products/GAO-12-819>.

Further, GPRA requires federal agencies to undertake strategic planning. In 2010, GPRA was updated with the enactment of the GPRA Modernization Act (GPRAMA).²⁶ Among other things, GPRAMA strengthened the strategic planning process by requiring more input from agency leadership.

The weakness found by GAO was not in issuance of strategic plans but rather in the Agency's failure to incorporate program evaluations into those plans.²⁷ The point of the strategic planning in GPRA and GPRAMA is to determine which programs are effective and which require changes. If the Agency, as GAO points out, does not routinely develop metrics and evaluate programs according to those metrics, the utility of the strategic plans are enervated.²⁸ Senior management officials noted that the Agency had trouble conducting such evaluations, which GAO found may stem from the SBA's failure to devote needed management leadership and resources to such assessments.²⁹

b. Information Technology Acquisition

ED program metrics are the key to measure the success and provide Congress with relevant information to assess their effectiveness. Traditionally, SBA has used the Entrepreneurial Development Management Information System (EDMIS) as a central database to collect and maintain performance data for SBDCs, SCORE, and WBCs.³⁰ In response to Congressional and GAO inquiries and disappointment that the system was not collecting useful information on VBOCs or entrepreneurial initiatives, the SBA requested \$1 million to upgrade the system.³¹ Despite the supposed need to upgrade this system in order to provide the requested metrics, the SBA ran into significant difficulties and to date EDMIS is a failed upgrade. That failure means the SBA is unable to obtain data to measure program effectiveness and undermines the ability of the SBA to ascertain whether the services provided by resource partners may support the elimination of SBA-created ED initiatives.

c. Failure to Take Actions Mandated by Congress

In 2004, Congress amended § 21 of the Small Business Act by requiring the SBA to promulgate new regulations to protect the privacy of individuals who seek the counseling services provided by grantees who operate Small Business Development Centers (SBDCs).³² In 2007, Congress amended § 29 of the Small Business Act to prohibit the disclosure of WBC client information except in limited circumstances such as when ordered by a court or for financial audits.³³ While the SBA continues to create new delivery systems to provide counseling for small business owners, eleven years and eight years respectively after enactment, the SBA has failed to

²⁶ Pub. L. No. 111-352, 124 Stat. 3866 (2011).

²⁷ GAO Management Report, *supra* note 1, at 39.

²⁸ *Id.*

²⁹ *Id.* at 42.

³⁰ SBA Budget Submission, *supra* note 17, at 62.

³¹ *Id.* This was noted in the most recent budget; however, SBA had begun to upgrade EDMIS prior to the FY 2016 budget submission.

³² Small Business Reauthorization and Manufacturing Assistance Act of 2004, Pub. L. No. 108-447, Div. K, § 142, 118 Stat. 3441, 3454 (2004).

³³ U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, Pub. L. No. 110-28, Title VIII, § 8305, 121 Stat. 112, 210 (2007) (codified at 15 U.S.C. § 656(n)(3)). This amendment to § 29 was contained in the Small Business and Work Opportunity Act of 2007, which was subsumed in the larger appropriations bill.

promulgate regulations to protect the privacy of small business owners seeking assistance from SBDCs and WBC.

Moreover, the SBA also takes action where Congress mandates inaction. Section 18 of the Small Business Act specifically prohibits the SBA from duplicating work or activities of other Federal agencies or departments.³⁴ Despite this statutory prohibition, the SBA created Regional Clusters program as discussed previously in the memorandum. However, the Department of Commerce is statutorily authorized to operate a regional innovation cluster program.³⁵ Given that the SBA's operation of the Regional Clusters program would duplicate the statutorily-authorized work of another federal department, this SBA-created initiative seems to be in direct contradiction to the statutory prohibition.³⁶

VI. Conclusion

The SBA is statutorily authorized to provide a number of ED programs to assist entrepreneurs in their dreams of starting and growing a business. Despite this, SBA-created initiatives are being developed and funding is being requested,³⁷ while required regulations and evaluations languish. As taxpayers' dollars must be wisely spent, it is worth considering whether allocation of funds on SBA's expansion of its ED portfolio is necessary or if the OEC and OVBD should more directly manage their offices in a meaningful way to achieve their various missions.

³⁴ 15 U.S.C. § 647.

³⁵ 15 U.S.C. § 3722.

³⁶ While the SBA will likely note a memorandum of understanding between the two agencies, the operation of the program requires SBA funding and appears to have no input from Department of Commerce as to the awardees of the funds rather than a transference of funds and direct oversight by Commerce which might alleviate some of the concerns that they were working in tandem rather than the SBA duplicating Commerce's efforts.

³⁷ SBA-initiated outreach efforts represent nearly 18 percent of the overall entrepreneurial development budget requested by SBA in FY 2016. SBA Budget Submission, *supra* note 17, Table 6, at 21. Total expenditures requested were \$206 million (which represents a reduction of \$17 million from FY 2015, almost all of which stems from the proposed elimination of the STEP trade promotion program) and with a total Agency request of \$860 million. This excludes salaries and expenses of SBA personnel that manage these programs. While FY 2016 appropriations provided approximately \$231 million for entrepreneurial development programs, it is notable that the SBA requested supplemental funding for potentially duplicative and unauthorized programs rather than utilizing their fund request to fix management challenges such as the EDMIS system which may have required more than the \$1 million requested. *See* 161 Cong. Rec. H9694, H10,140 (daily ed. Dec. 17, 2015) (explanatory statement submitted by Mr. Rogers of Kentucky, Chairman of the House Committee on Appropriations, Regarding House Amendment No. 1 to the Senate Amendment on H.R. 2029).