



U.S. Small Business Administration

TESTIMONY of

MARIA CONTRERAS-SWEET

Administrator, U.S. Small Business Administration

House Small Business Committee

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Thank you, Chairman Chabot, Ranking Member Velazquez, and members of this committee for the opportunity to testify.

I'd like to open today with a quick review of Fiscal Year 2015. It was one of the most successful years in our agency's history. SBA achieved a 22 percent increase in the number of loans, and a 23 percent increase in the dollar value of those loans, compared to FY14. These gains matter because FDIC data shows that conventional small business lending has only returned to 84 percent of its pre-recession level, adjusted for inflation. Filling those gaps in the marketplace is the very purpose for which the SBA was created.

We made notable progress increasing 7(a) loans to businesses with the greatest difficulty accessing capital.

- The dollar value of our loans was up, year-over-year, 22 percent to women, 23 percent to minorities, and 103 percent to veterans.
- Our number of loan approvals was up 29 percent to women, 27 percent to minorities, and 47 percent to veterans.

These successes would not have been possible if not for the swift work of this committee this past summer. Due to our record-breaking year, SBA ran up against our statutory lending cap this August, two months before the end of the fiscal year.

At the urging of SBA and our stakeholders, in less than a week, you passed a \$4.5 billion increase in our 7(a) authority and ushered its passage on the House floor. Your leadership allowed entrepreneurs across the country to continue accessing the requisite capital to start and grow their businesses.

In addition to our historic loan volume, SBA also accelerated our small business investment under the SBIC program. We grew our portfolio by 10 percent to a record \$25 billion.

And in FY16, the 7(a), 504, and SBIC programs will share a common thread: All three programs are expected to operate at zero subsidy.

Thanks to this committee for working across the aisle to include in the omnibus the permanent reinstatement of 504 Refinancing Authority and an increase in the SBIC program's family of funds limit. These policy changes will each inject significant capital into our small business ecosystem.

Another priority area for the SBA is federal contracting. The federal government awarded an all-time high of 24.99 percent of government contracts to small businesses, supporting 550,000 American jobs. We reached historic procurement levels for small disadvantaged businesses and firms owned by women and service-disabled vets.

To summarize: A record year in small business lending, a record year in investment, a record year in contracting, with zero taxpayer subsidy needed to sustain our momentum. This is the context in which today's hearing takes place.

Let me take this opportunity to acknowledge the Government Accountability Office (GAO) for identifying areas of shared concern and offering constructive suggestions to address them. From my very first days in office, I have prioritized the need to modernize SBA's operations, enterprise-wide, to respond to the technological, demographic and globalization changes that are transforming our small business economy. To that end, I agree with many of the GAO's recommendations and appreciate this opportunity to update you on our efforts to bring SBA fully into the 21st century.

I was pleased to read that the GAO's review acknowledges SBA's recent strides to address management challenges. Specifically, the report notes that I have prioritized improved human capital management, IT, and the 8(a) Business Development Program. The report also notes that these efforts have already begun to show progress. The report highlights SBA's renewed attention to address some internal control weaknesses that the GAO and the SBA Office of Inspector General (OIG) identified as an Agency management challenge. This renewed attention has produced positive results. Since the beginning of FY 2015, SBA has resolved:

- 14 of the 63 open GAO audit recommendations, and
- 150 of the 199 open OIG audit recommendations.

SBA further provided updates to GAO on 32 recommendations in FY 2015 and an additional 9 in FY 2016 to date. These numbers mark a significant improvement in closing out recommendations for the Agency. In fact, we resolved more GAO recommendations in FY 2015 than in the previous four years combined. This progress came after I personally met with the Comptroller General of the GAO and made it clear that resolving recommendations was a top priority for the entire agency during my tenure.

One of our most significant strides is the creation of an Enterprise Risk Management (ERM) Board chaired by my Deputy Administrator. The ERM Board has established a special sub-committee solely to address open GAO and OIG audit recommendations. In addition we have designated a GAO/OIG Recommendations Resolution Officer who reports directly to the Director of Risk Management in the Office of the Chief Operating Officer, whose principal work is to pursue enhanced audit closure strategies. With the ERM Board's attention, I am confident in the continued momentum in closing out recommendations during the remainder of FY 2016.

The GAO report recommends that SBA take certain corrective actions around each of its recommendations. Let me take this opportunity to outline the actions we are taking for each of these specific recommendations.

- 1.) Recommendation:** To improve management of the Small Business Administration and to ensure that SBA assesses the effectiveness of its programs, the SBA Administrator should prioritize resources to conduct additional program evaluations.

My background in banking impressed upon me the importance of managing risk to optimize the return on investment. When we put precious taxpayer dollars to use, we have to make every effort to use those dollars wisely, based on the best available data. I wholeheartedly agree that evaluations are important to understanding the efficacy of SBA's programs.

Evaluation of a number of programs is well under way. SBA established an economic impact evaluation working group in July 2014 with a learning agenda, and the group has been developing evaluation plans. The working group developed a methodology for conducting impact evaluations of the agency's programs using administrative data sources residing at SBA and in other federal agencies, such as the U.S. Census Bureau and the Bureau of Labor Statistics. Numerous SBA program offices participate in this working group, including our Offices of Investment and Innovation, Disaster Assistance, Capital Access, Entrepreneurial Development, and Veterans Business Development. As a result of their participation, each of these offices has either developed its own program evaluation methodology or established a program evaluation framework and begun initial data collection.

For example, SBA's Office of Investment and Innovation, which has begun to work with the Library of Congress to assess the comprehensive impact of the Small Business Investment Company (SBIC) program. The SBA also has completed three credit program evaluations following OMB Circular A-129 guidelines. The Agency evaluated the 7(a) guaranteed loan program, SBIC debenture program and the 504 Certified Development Company loan program.

The Agency remains concerned about its ability to collect some key data on small businesses' resource partners who are in many instances the first point of contact with small businesses. To this end, I've engaged our resource partners to address the criticality of and methodology for proper evaluation metrics. SBA has also begun incorporating requirements into grants and contract solicitations that awardees provide not only the agreed upon service, but also data to allow more robust evaluations of program effectiveness. The Agency looks forward to continuing to work with Congress to address these limitations.

- 2.) Recommendation:** To improve management of the Small Business Administration and to ensure that SBA fully meets GPRAMA requirements, the SBA Administrator should use the results of additional evaluations it conducts in its strategic planning process and ensure the agency's next strategic plan includes required information on program evaluations, including a schedule of future evaluations.

The SBA is currently developing a framework for evaluations and data collection (see recommendation 1). Once completed, the evaluations will be incorporated into the next SBA strategic plan and will help shape the agency's strategic goals and objectives. The process of drafting the next strategic plan will begin in FY 2017. A list of future evaluations will be incorporated into the new plan.

- 3.) Recommendation:** To improve management of the Small Business Administration and to improve SBA's human capital management, the SBA Administrator should complete a workforce plan that includes key principles such as a competency and skills gap assessment and long term strategies to address skills imbalances.

We've taken important actions on our human capital management. I am proud to work alongside so many dedicated public servants at the SBA, and we're working to ensure that the Agency has the talent required to continue serving America's entrepreneurs in the 21st century. We're currently drafting a comprehensive workforce plan, which will include both a skills gap analysis and a gap closure plan. We anticipate that the workforce plan will be issued in March of this year.

We have taken several steps to address the SBA's aging workforce within current budgetary constraints. More than 150 employees took early retirement under the VERA VSIP program, allowing us to recruit candidates with specific competencies. Considering the public-facing nature of our work, we prioritized filling key openings in our field operations. SBA is also reorganizing our Presidential Management Fellows program to increase their impact. We've increased our veterans hiring and partnered with the Peace Corps to attract service-oriented volunteers to fill SBA positions at the conclusion of their missions.

We have also hired SBA's first-ever Chief Learning Officer/Chief of Organizational Effectiveness (CLO) to help existing staff acquire new skills to advance their careers and fill critical agency needs. The CLO is responsible for the implementation of our enterprise learning function, drawing upon best practices from the public and private sectors. The CLO's chief responsibilities include formulating and implementing the agency's learning and development strategy; establishing goals and objectives that support the strategy; developing quantitative and qualitative research and reporting findings associated with each of the goals; and assessing the agency's progress in achieving those goals. Placing a premium on workforce upskilling, SBA will expand education, training, certification, mentoring, and broaden opportunities available to employees at all levels. These actions will build leadership capacity, improve our talent management, and foster a culture of continuous learning.

- 4.) Recommendation:** To improve management of the Small Business Administration and to improve SBA's human capital management, the SBA Administrator should incorporate into its next training plan key principles such as goals and measures for its training programs and input on employee development goals.

SBA has identified learning and development goals we will include in the workforce plan. Upon completion of the competency assessment (referenced in Response 3), the SBA will use the results to inform additional measures for employee development. To support the achievement of overarching goals outlined in the Agency's learning and development strategy, SBA will set quantifiable targets with specific timeframes at the program level. The Agency's CLO, working closely with senior management, will subsequently measure learning effectiveness and return on investment associated with each of the supporting programs. Assessing progress and outcomes against targets will strengthen transparency and accountability.

- 5.) Recommendation:** To improve management of the Small Business Administration and to ensure that SBA's organizational structure helps the agency meet its mission, the SBA Administrator should document the assessment of the Agency's organizational

structure, including any necessary changes to, for example, better ensure areas of authority, responsibility, and lines of reporting are clear and defined.

When I arrived at the Agency in April 2014, I undertook a full review of SBA's organizational structure. While I believe our structure and lines of reporting are well defined in the current structure, we are continually examining the possibilities. Our goal is to optimize SBA's service delivery systems to ensure that entrepreneurs and small businesses receive the support they need as efficiently as possible.

In this regard, we analyzed and instituted several structural changes in FY 2015. For example, the Office of Field Operations (OFO) completed a position review for its Managers, Business Opportunity Specialists, Lender Relations Specialists, and Economic Development Specialists. We incorporated the identified attributes into updated Position Descriptions. OFO revised critical elements and performance standards as a result. We have established an Office of Intergovernmental Affairs to address streamlining challenges at the local government level, where most small business licensing occurs. The Office of the Chief Information Officer underwent an organizational restructuring at the division level to improve workflow.

6.) Recommendation: To improve management of the Small Business Administration and to ensure that SBA can effectively identify, assess, and manage risks, the SBA Administrator should develop its enterprise risk management consistent with GAO's risk management framework and document the specific steps that the agency plans to take to implement its enterprise risk management process.

As GAO reported, SBA designated a senior agency official as the Director of Risk Management in October 2013. Early in my tenure I met with the Director, and in October 2014, I approved the creation of an Enterprise Risk Management Board. We formalized the composition of the ERM Board in April 2015, and added a dedicated Enterprise Risk Program Manager in June 2015. Together they have been developing a comprehensive Enterprise Risk Management (ERM) process. I believe it is critical that we continue to develop and document the ERM process to address ever-evolving risks. As a former community banker, I have a keen appreciation for the importance of managing risk. We are making considerable progress with implementation of our ERM process and will continue to monitor this critical function to ensure milestones are met.

Recognizing the importance of this work, I appointed the highest-ranking official under my command, SBA's Deputy Administrator, as Chairman of the ERM Board. They have met 12 times from May to December 2015. One of the early projects of the ERM Board was to draft an SBA ERM Board Charter, which I approved on December 18, 2015. I remain personally committed to developing an ERM program that meets SBA leadership needs and is in compliance with GAO and evolving OMB guidance.

7.) Recommendation: To improve management of the Small Business Administration and to improve SBA's program and management guidance, the SBA Administrator should set time frames for periodically reviewing and updating its SOPs as

appropriate.

SBA has in place Standard Operating Procedure 00 23 (Directives Management Program), which outlines the creation, format, clearing, publishing and distribution of formal SOPs and their revisions. SOP 00 23 requires an annual attestation by the head of each program office that a review of their SOPs has determined the following: 1) no revisions are required, 2) the SOP(s) are under review, 3) the SOP(s) are being revised, and/or 4) the SOP(s) may be canceled. In an effort to improve our SOP updates, I have required senior management to be directly responsible for ensuring the review and dissemination of SOPs under their jurisdiction. While the GAO reported that 71 SOPs had not been updated since the 90s, and some not since the 80s, SBA has already updated approximately 15% of its SOPs in the last two years. SBA Program heads are working diligently to continue this momentum.

8.) Recommendation: To improve management of the Small Business Administration and to help ensure that SBA's IT operations and maintenance investments are continuing to meet business and customer needs and the agency's strategic goals, the SBA Administrator should direct the appropriate officials to perform an annual operational analysis on all SBA investments in accordance with OMB guidance.

By the end of FY2015, we successfully completed operational analysis for each of SBA's investments that have operations and maintenance components. OCIO conducts the operational analyses on an annual basis, but also conducts them on an as-needed basis when issues arise. We continue to complete operational analysis for each of these investments during their system life cycles, and we maintain the documentation for required OMB reporting of investment artifacts.

SBA has made significant strides in addressing the information technology challenges. We're in the midst of a major upgrade of our IT systems. It starts with a comprehensive network infrastructure modernization to give our systems greater capacity and reliability. We are in the final stages of moving our entire email system into the cloud. Additionally, we're investing in mobile technology because we recognize that our SBA team members in the field need to get out beyond the walls of federal offices and meet entrepreneurs where they are. As you know, we have also launched projects to modernize our loan and contracting systems and to re-engineer our disaster credit management system.

This modernization agenda complements our work to update our external platforms by bringing advances such as automation, digital signatures, greater transparency, reliability and online matchmaking to our lending partners and the entrepreneurs we mutually serve. These time-saving and cost-saving technological enhancements have encouraged community bankers, CDFIs, and credit unions across the country to initiate or increase their SBA lending.

I've been on the job at SBA for 20 months, and I'm proud of the progress we have made in that time. But the truth is, members of this committee have been committed to building a strong SBA since long before I arrived. As a result of your leadership and the daily efforts of our dedicated staff, I inherited an agency highly leveraged and operating at a high level in fulfilling our statutory mission.

The proof is in our record-breaking performance.

Of course, there is always room to improve, and I look forward to continuing to work with all of you, your staffs, the Inspector General and the GAO to make the reforms necessary to deliver the services that small businesses seek as well as the systems and controls that taxpayers expect and deserve.

Thank you.