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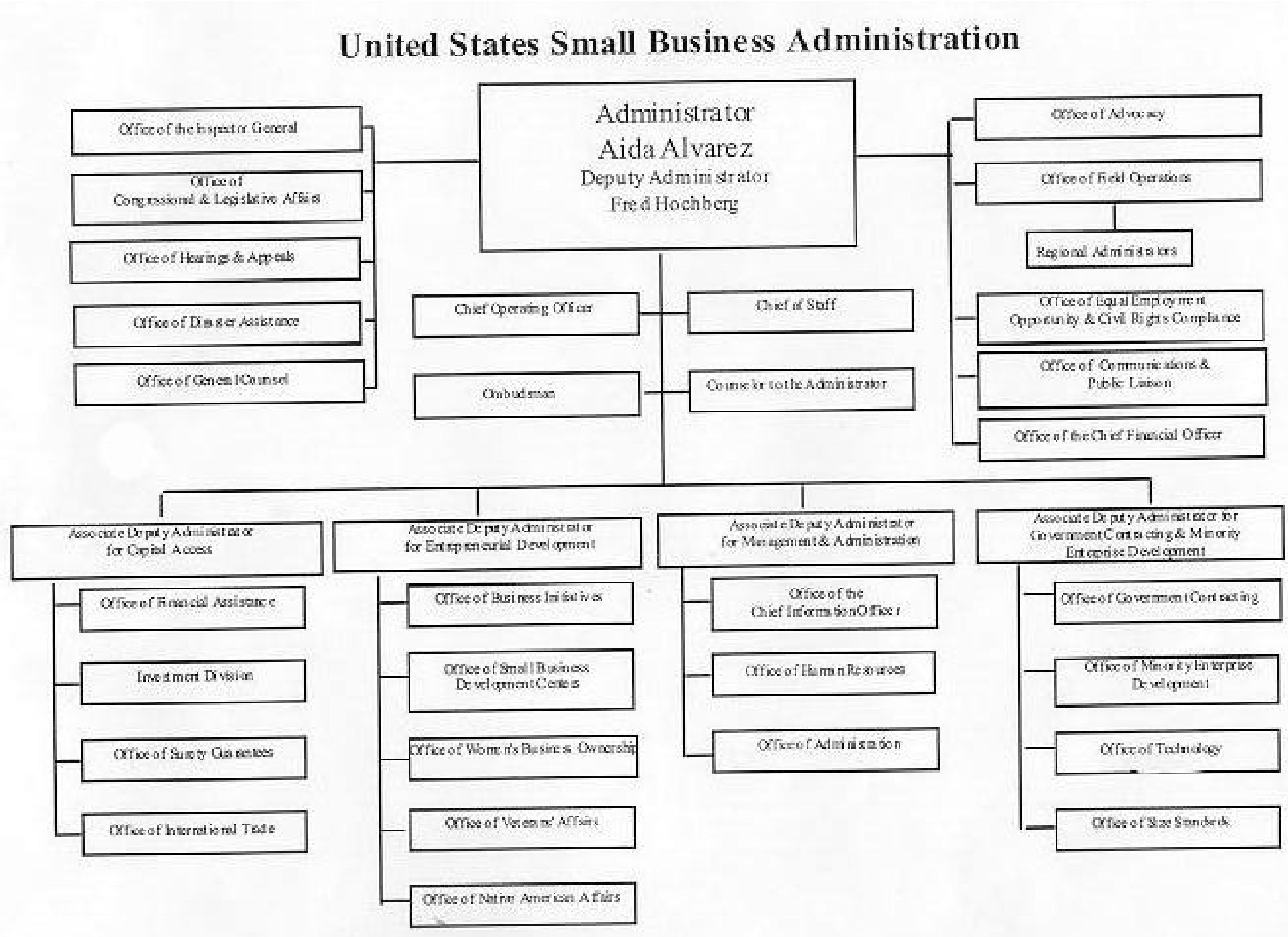

United States Small Business Administration
Administrator
Aida Alvarez
Deputy Administrator
Fred Hochberg
Office of the Inspector General
Office of Congressional & Legislative Affairs
Office of Hearings & Appeals
Office of Disaster Assistance
Office of General Counsel
Chief Operating Officer
Chief of Staff
Ombudsman
Counselor to the Administrator
Office of Advocacy
Office of Field Operations
Regional Administrators
Office of Equal Employment Opportunity & Civil Rights Compliance
Office of Communications & Public Liaison
Office of the Chief Financial Officer
Associate Deputy Administrator for Capital Access
Office of Financial Assistance
Investment Division
Office of Surety Guarantees
Office of International Trade
Associate Deputy Administrator for Entrepreneurial Development
Office of Business Initiatives
Office of Small Business Development Centers
Office of Women's Business Ownership
Office of Veterans' Affairs
Office of Native American Affairs
Associate Deputy Administrator for Management & Administration
Office of the Chief Information Officer
Office of Human Resources
Office of Administration
Associate Deputy Administrator for Government Contracting & Minority Enterprise Development
Office of Government Contracting
Office of Minority Enterprise Development
Office of Technology
Office of Size Standards

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

Joseph P. Loddo

The SBA is pleased to submit its first Accountability Report. The Chief Financial Officer of the SBA has prepared an audited report of entity-wide financial results since fiscal 1991 as part of the CFO Act requirements. This Accountability Report for fiscal 1999 provides additional information on the status of the SBA's internal controls required under the Financial Managers Financial Integrity Act. Information on the SBA's performance results required under the Government Performance and Results Act is provided in a separate report.

The SBA has been a leader in Federal financial management since the 1980s in the areas of credit and cash management and was a leader in the implementation of Federal Credit Reform requirements in the 1990s. The SBA was the first Federal credit agency to receive an unqualified opinion on its financial statements for fiscal 1996**.** ***I am very pleased that for the fourth straight year the SBA has achieved an unqualified opinion on its financial statements from its independent auditor. This accomplishment is unmatched by any other Federal credit agency. Additionally, I am especially proud that with the support of SBA management, improvements have been made, so that for fiscal 1999 our auditor has reported that the SBA's financial management activities have only two material weakness, down from three last year.***

The Office of the Chief Financial Officer's staff has worked with other Agency managers during fiscal 1999 to proactively improve the SBA's financial management. We aggressively implemented the provisions of the Debt Collection Improvement Act of 1996, including extending our use of electronic commerce to the SBA's credit program partners, in addition to our major suppliers, improved our lockbox operation, established local deposit and electronic update for collections and supported a new guaranteed fee billing system. We dramatically improved our internal planning, budget and evaluation processes, including an enhanced modeling of our compensation and benefits – the single largest cost in our operating budget. The SBA undertook the first Federal Government effort to implement the internal control framework recommended by COSO, and we will expand our audit for fiscal 2000 to include an evaluation of the COSO internal controls. Supported by SBA top management, we worked aggressively with other SBA offices to finalize a number of the outstanding audit recommendations made by our Inspector General and the General Accounting Office. We made visible progress in the modernizing our systems through the completion of Business Process Re-engineering and benchmarking studies for our credit programs. We are now finishing the planning efforts in financial management areas and we are prepared to begin systems development and implementation of the complete overhaul of SBA's financial and program systems. We were successful in transitioning to 2000 with no Y2K problems, and assisted the small business community in this transition through our nationwide outreach and education efforts. The SBA led the Joint Financial Management Improvement update of Federal guaranteed loan system requirements. Finally, we executed a very successful first asset sale in SBA's program to sell its $8.5 billion loan portfolio.

The 21st century presents many challenges for Federal financial management, and at SBA we are strategically poised to meet these challenges. One of the SBA's principal goals is to be a leading edge 21st century institution. With our progress to date as discussed here, and our planned activities, we will lead the Federal Government in financial management. Our financial systems will be modernized; our business processes will be re-engineered; our financial information will be timely, accurate and useful; and our staff will represent the highest degree of professionalism and expertise possible. We pledge first-class financial management to support the SBA's programs that provide assistance to the country's 24 million small businesses, helping them start, grow and succeed in supporting our Nation's economy.

Joseph P. Loddo
Chief Financial Officer

MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

The SBA is proud to present its first Accountability Report. Prior to FY 1999 and since FY 1991, the SBA presented its status and financial report in its CFO report. This Accountability Report includes additional information on the SBA's internal controls and reports required under the Financial Manager's Financial Integrity Act. Information on SBA's performance results under the Government Performance and Results Act are included in SBA's performance report that will be issued by March 31, 2000. The report also includes the results of SBA's credit and business assistance programs for small businesses and disaster victims as well as the Agency's financial statements and audit report. The SBA's financial statements were developed under the financial requirements issued by the Office of Management and Budget. This is the second year that the SBA has provided the additional financial reports required under OMB Bulletin 97-01, including the status of budget and financing activities and the consolidated statement of net cost.

Mission

The SBA helps maintain and strengthen the Nation's economy by counseling, assisting, and protecting the interests of small businesses and by helping businesses and families recover from disasters.

The SBA helps create opportunities for small business success through its credit and business assistance programs. The critical success factor for SBA is a more vibrant and healthy small business sector. The responsibility for achieving this outcome is not only the SBA's, but is shared by many programs, often by several levels of government, and by the Agency's small business customers themselves. SBA's measures of success are directly related to those small businesses that are started, expanded, and maintained using the Agency's products and services.

Strategic Goals/Planning

To accomplish its mission, the SBA has adopted the following strategic goals to guide its management and program decisions over the period: FY 1998 – FY 2002.

1. Increase opportunities for small business success.
2. Transform SBA into a 21st century leading edge institution.
3. Help businesses and families recover from disasters.
4. Lead small business participation in welfare-to-work.
5. Serve as a voice for America's small businesses.

The Agency has implemented a strategic planning process as part of its implementation of the Government Performance and Results Act. This planning process is linked to the performance management process for all employees and managers. This process translates the Administrator's goals and objectives into workable plans. The Agency's goals are supported by strategic objectives and performance goals having measurable targets. The strategic objectives for the SBA goals are as follows:

Goal 1. Increase opportunities for small business success, includes strategic objectives to 1) increase access to capital and credit, 2) expand small business procurement opportunities, and 3) enhance entrepreneurial development assistance.

Goal 2. Transform SBA into a 21st century leading edge financial institution is supported by strategic objectives to 1) expand and strengthen the SBA's internal controls, and to 2) establish an integrated risk management system to identify and measure risk and to allocate resources to manage risks that are identified.

Goal 3. Help businesses and families recover from disasters has strategic objectives to 1) establish a field presence within three days of a disaster declaration in 98 percent of disasters, 2) process 90 percent of loans within seven-21 days, 3) make loan disbursements with three days of receiving closing documents for 90 percent of loans, and to 4) substantially reduce errors in loan processing by improving the quality of disaster loan underwriting.

Goal 4. Lead small business participation in welfare-to-work through setting a performance goal to help small businesses hire 200,000 work-ready former welfare recipients and to assist those former recipients who wish to become self-employed or start their own businesses.

<u>Goal 5</u>. Serve as a voice for America's small business has a strategic objective to 1) develop an analytical capacity to assess and measure the economic effects of regulatory, legislative, and other policy changes, and to 2) show material improvements for small business from these changes.

The SBA's strategic goals are achieved through an annual performance plan. The annual goals in the performance plan are evaluated against performance indicators.

The SBA's five year strategic plan included performance goals to:

- Increase the aggregate number of general business loans; Certified Development Company equity capital, export working capital and surety bond guarantees.

- Increase the number and percentage of underserved small businesses and entrepreneurs receiving direct SBA assistance or help through our business partners.

- Increase the number, dollar volume, and percentage of Federal contracts awarded to small businesses, women-owned businesses, and small and disadvantaged businesses.

- Increase the number and percentage of start-up businesses receiving SBA assistance.

- Expand the number of partners and tailor their programs to the needs of special populations, as well as new entrepreneurs and those expanding their businesses.

- Improve coordination among SBA partners and other community resources, and among SBA resources with other Federal programs.

- Develop a comprehensive Agency wide internal control plan that is guided by COSO standards and assign responsibility for managing and implementing the plan.

- Educate the entire organization about internal controls and ensure that all managers are accountable for implementing and managing the internal control system.

- Establish protocol for lender oversight, establish loan program credit standards, service standards, and mission standards to measure lender performance.

- Maintain accurate current data on small businesses from the U.S. Bureau of the Census and other sources.

- Analyze and disseminate research to policy makers and small business stakeholders on small business characteristics that are relevant to the formulation of public policy.

- Ensure improved, across-the-board, Federal agency compliance with the Regulatory Flexibility Act; meaningful small business participation in the regulatory and the legislative process, and improve coordination between Federal and state regulatory agencies to reduce the burden on small businesses.

Background and Highlights

The SBA was established in 1953 as an independent Agency of the Federal Government. Since its inception, the SBA's assistance has been to small businesses that employee 54 percent of the private work force in the United States and are responsible for 51 percent of the private and domestic product. Currently, the SBA is involved in assisting small businesses gain their fair share of foreign exports.

The SBA is a decentralized organization with more than 100 locations nationwide, including field office locations in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam. A number of smaller branch offices and central office duty stations also supplement the larger geographic areas. The SBA has 10 regional offices, 70 district offices, and 15 branch offices. The Agency also has a number of centers that approve disaster or business loans, and provide servicing to its disaster or business loan portfolios. In FY 1999, the Agency employed 3,218 full-time equivalent (FTE) personnel and had an annual operating budget of $403 million, excluding disaster.

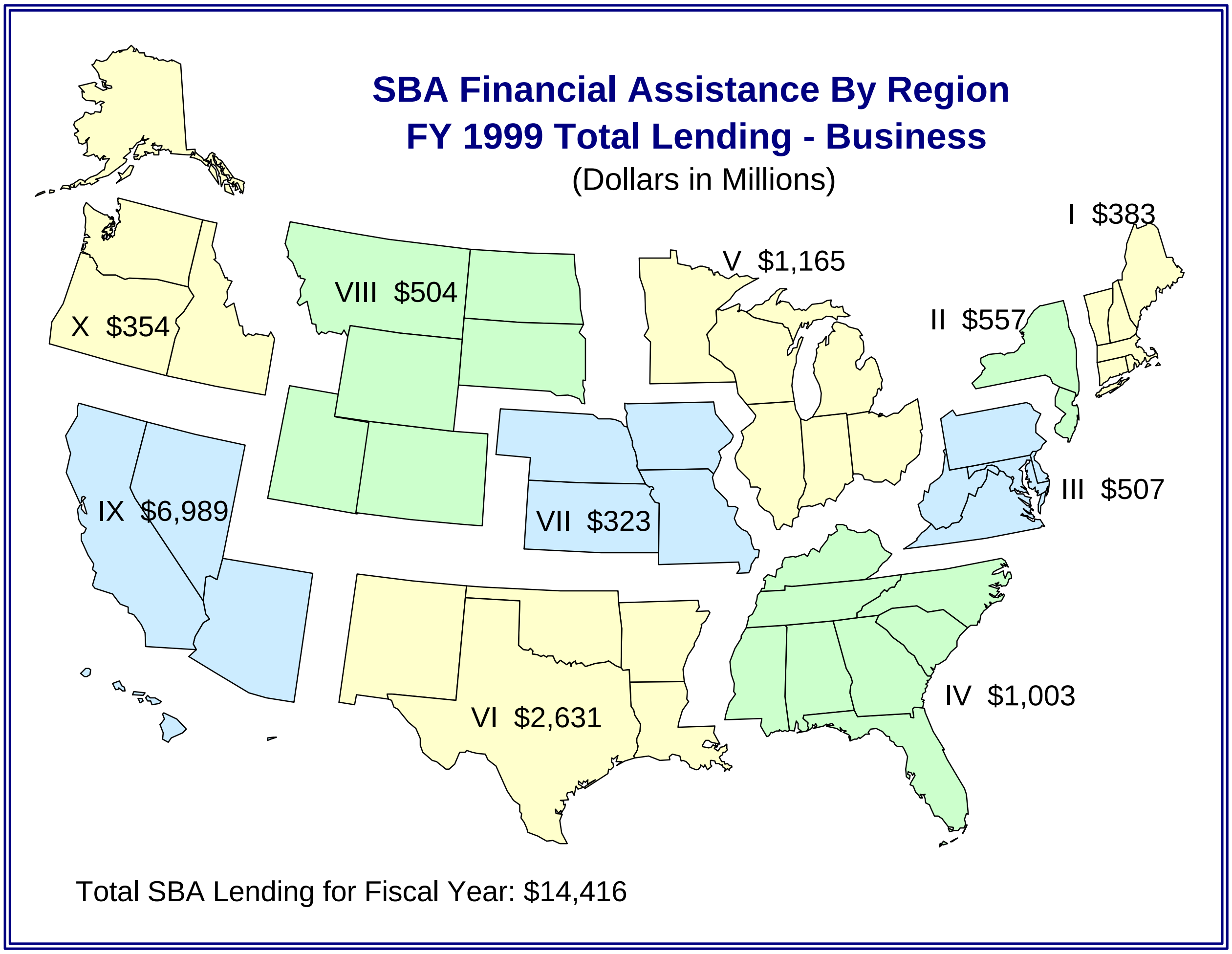
Agency Accomplishments

The SBA's FY 1999 accomplishments reflect the Agency's continued role in providing greater access to capital for the Nation's entrepreneurs who in turn are creating the jobs that are the heart of today's healthy economy.

As the table below shows, the SBA's lending has increased for America's small businesses since 1992.

	Number of Loans		%
	FY 92	FY 99	Increase
Total Lending	26,381	48,919	85%
Women	3,588	10,244	186%
African American	739	2,176	194%
Hispanic American	1,356	3,747	176%
Asian American	1,583	5,574	252%
Native American	129	535	315%
Veterans	3,720	5,477	47%

The geographic distribution of the SBA's business and development company loan guaranty programs is depicted on the following chart.



Agency Program Highlights

7(a) Loan Program In FY 1999, the SBA guaranteed a total of 40,470 7(a) loans providing $9.54 billion in financing to our Nation's small businesses. FY 1999 total dollar volume was the second largest in the history of the program. The program has more than doubled its number of loans during the last seven years.

504 Development Company Program SBA's 504 program grew from $894 million in debentures financed in FY 1992 to $2.45 billion in FY 1996. After a decrease in FY 1997 to $1.4 billion, the 504 program increased to $1.77 billion in FY 1998 and to $1.98 billion in FY 1999. Overall, the program has more than doubled during the last seven years.

Small Business Investment Company Program The SBIC program continues to attract record levels of private capital. In FY 1999, SBIC's made 3,096 investments to small businesses with a record dollar amount of $4.2 billion.

Government Contracting/Minority Enterprises Development These SBA programs provide Federal contracting opportunities and research and development assistance to small businesses. These programs are administered by SBA offices including Government Contracting, Minority Enterprise Development, Technology, Size Standards, HUBZone, and SDB Certification and Eligibility.

Disaster Assistance Program In FY 1999 SBA's Disaster Assistance program provided $936.6 million in loans to small businesses and individuals for rebuilding after disasters struck.

International Trade In FY 1999 the SBA sponsored trade missions to Ireland, Mexico, and Canada to promote exporting opportunities for U. S. small businesses and to foster improved cooperation and global business opportunities for U.S. small businesses in these markets.

Small Business Innovation and Research and Small Business Technology Transfer programs Small businesses participating in the SBA's SBIR and STTR programs support Federal research and development efforts contributing to America's national defense programs and safety and health projects. Under SBIR, 10 participating agencies have made more than 46,000 awards totaling more than $7.5 billion to small business concerns.

Women's Business Ownership The Office of Women's Business Ownership provides assistance to women business owners. The Women's Business Center program serves the Nation's nearly 9.1 million women-owned businesses through technical, financial and management information, training and counseling. In FY 1999, the WBO provided managerial, marketing and procurement assistance to more than 30,000 women through its 59 physical funded sites. In FY 1999, $1.6 billion SBA loans were made to women.

Counseling and Training. An estimated 1.18 million small business entrepreneurs received management training and counseling from SBA's national network of business education and assistance programs. This network includes the Service Corps of Retired Executives, and more than 1,000 Small Business Development Centers, and Business Information Centers sites, including one in every state, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, American Samoa, and Guam.

Internet Access. The SBA's home page, SBA OnLine, received more than 2 million hits per week by fiscal year end, and continues to grow. This service benefits the Agency's customers by making useful information readily available. The SBA also has an in-house intranet available to its employees.

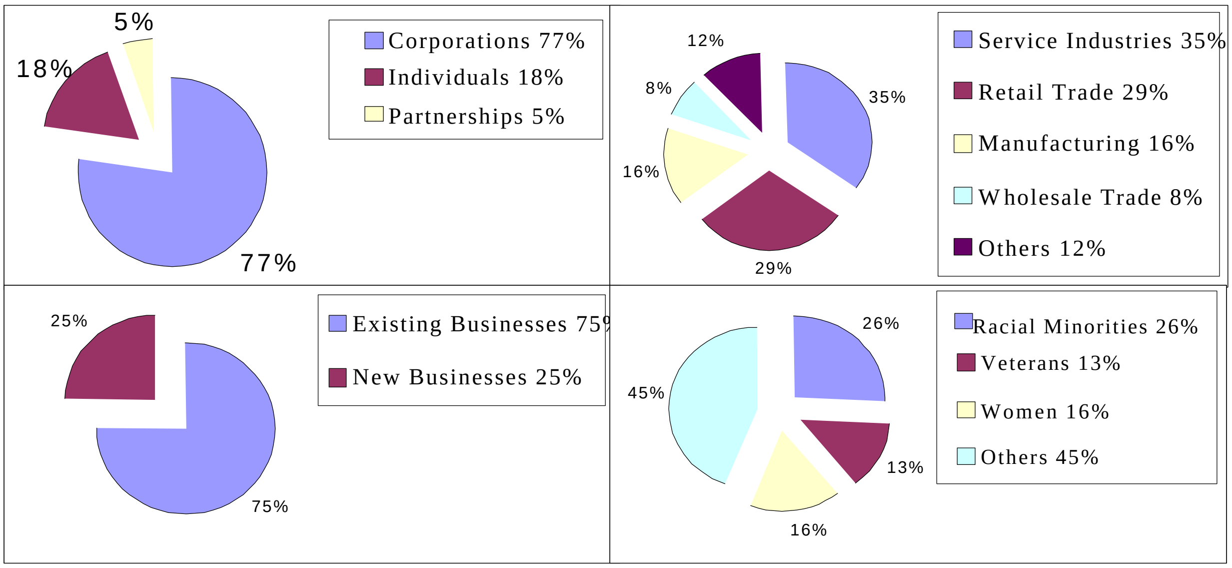
One Stop Capital Shop. The One Stop Capital Shop is the SBA's Empowerment Zone/Enterprise Community signature contribution. It is an alternative delivery mechanism for the Agency's products to areas that have been underserved by SBA. OSCSs are cost effective, customer friendly and represent a working model of the public/private partnership.

Veterans' Affairs. The Office of Veterans Affairs oversees the Agency's assistance to veterans and works with SBA program offices to provide special consideration to veterans. The OVA coordinates national veterans' programs such as the Veterans Business Training, Outreach and the Transition Assistance Program for military personnel. In FY 2000, SBA will implement requirements of The Veterans Entrepreneurship and Small Business Development Act (Public Law 106-50).

Welfare to Work. The SBA has played a leadership role in the President's welfare to work initiative over the last 3 years. In each SBA district office across the country, the SBA has used its network of field offices and partners to connect and educate thousands of small business owners who planned to hire new employees with local training programs. In FY 1999, the SBA received more than 101,000 commitments from small businesses to hire welfare recipients. In FY 2000, the SBA will continue to be a resource on welfare to work issues to small employers across the country.

Performance Results and Indicators

The SBA's report of performance results has been issued as a separate report and is not included in this Accountability Report. We plan to include GPRA performance results in future editions of the Accountability Report.



Note: Percentages based on dollar value of loans approved in FY 1999**.**

Agency Fees And Charges

In accordance with the CFO Act, 31 U.S.C.§902(a)(8), the SBA biennially assesses its level of user fees and other charges. As an integral part of the President's budget process, the SBA annually assesses and calculates the current and future costs of programs and activities. The SBA evaluates the level of current revenues in terms of their sources and amounts, increasing or decreasing these revenues through adjustments to the level of user fees charged interest rates charged, or other means. As part of the President's budget, the SBA proposed the following adjustments to current revenue sources:

1. For 2001, SBA is proposing simplification of its fee structure for the 7(a) program so that the guaranty fee will be 2 percent on loans up to $150,000 and 3 percent on loans more than that amount. A similar proposal was made for FY 2000, but was not enacted by the Congress. The largest loans ($500,000 or more) would also pay a funding fee to allow the subsidy cost of the program to remain the same. The proposed fee is $925.00.

2. As part of the development of the Small Disadvantaged Business program proposed in FY 1998, businesses seeking SDB certification would pay a fee to have their ownership and control attested by private-sector businesses under contract with the SBA. The fees would be set to cover the costs of these contracts.

3. For the FY 1999 and FY 2000 President's budgets, the fees for the 504 Certified Development Company debenture program are set to equal a 0 percent subsidy rate. Therefore, for FY 1999, the fee to the loan borrowers was reduced from 0.775 percent to 0.729 percent. For FY 2000, this fee was further reduced to 0.60 percent. For FY 2001 SBA has proposed this fee be reduced to 0.472 percent.

4. In order to increase credit and capital into the Administrator's "new markets" areas, fees and costs in most of SBA's credit and capital programs were reviewed to determine any necessary changes needed to give incentive to participants. In some cases, regulatory changes were proposed in lieu of fee changes.

5. SBA proposed in FY 2000 and again proposed for FY 2001 that the SBDCs develop a plan to assess a copayment fee for counseling service. They already charge a fee for training services.

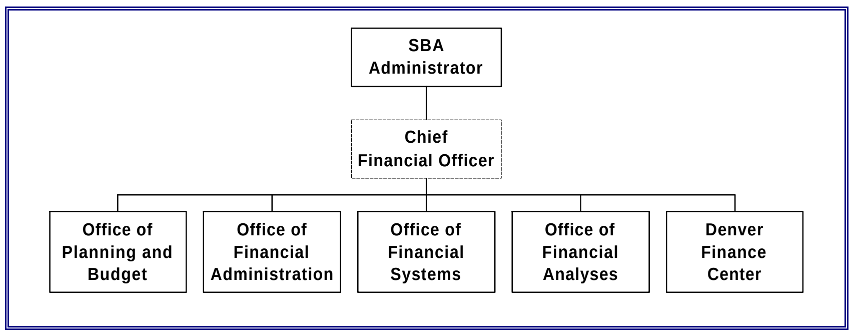
Office Of The Chief Financial Officer

Mission Statement. We will influence the future of the Agency financial management through ethical and effective leadership; serve as a catalyst for constructive change to ensure the integrity of financial information needed for decision making; and measure program and financial performance to achieve desirable results.

Vision Statement. We will work to shape an environment in which SBA officials use high quality financial and performance information to make and implement effective policy, management, stewardship, and program decisions.

Organization Chart

The Chief Financial Officer reports directly to the Office of the Administrator. The office includes the essential financial management functions shown in the following chart.



Accomplishments

Recent financial management improvements made by the Office of the Chief Financial Officer follow.

- **Subsidy Rates –** Working with the Federal Credit Policy Working Group, we formed a new interagency group specializing in subsidy rate issues and best practices. We were recognized by the General Accounting Office and the Association of Government Accountants for best practices in our field for subsidy rate preparation and analysis.

- **CFO Report –** The SBA received an unqualified opinion on its FY 1999 financial statements from the independent auditors. The SBA has received an unqualified opinion for the past four years and is the only major Federal credit agency with this accomplishment.

- **Electronic Commerce –** Established lockbox addresses for east and west coasts, converted paper to electronic payments, converted participant payments process to electronic commerce and implemented various automated reconciling systems.

- **SBA Internal Controls** – One of the Administrator's initiatives is to transform SBA into a leading edge Agency for the 21st century. This includes focusing on stronger internal controls by implementing a system developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). We have implemented the COSO internal control system and begun the management assessment process as part of the Agency's COSO program.

- **Contracting Out of Servicing –** Supported the outsourcing of 30 percent of disaster home loan servicing.

- **Guarantee Fee Receivables –** This project was initiated to analyze and correct weaknesses in the Agency's collection of about $45 million of delinquent guarantee fees. Assisted in the development of a new guaranty fee billing system.

- **Asset Sales** – Supported the Agency's first asset sale. Implemented a model to produce predicted government hold values.

- **Systems Development** – Established a local depository for Federal Reserve Bank deposits to improve operational efficiency, converting paper processing to electronic. Implemented a new model for forecasting compensation and benefits. This provides the Agency better control of employee expenditures and forecasting budget requirements.

- **Y2K –** Successfully met all Y2K deadlines as established by the Office of the Chief Information Officer. Improved the information technology environment and implemented a Web application environment for the OCFO.

Impact Of Federal Credit Reform

The passage of the Federal Credit Reform Act has significantly affected budgeting and accounting for the Agency's credit programs since FY 1992. The FCRA provides an estimate of the costs of the Agency's financial assistance programs.

Under the FCRA, the SBA is required to calculate a subsidy rate for each loan program. This rate estimates the net present value of all cash outflows and inflows. The rate calculation takes into consideration such factors as the expected repayments on the loans and the interest rate differential between the rate charged the borrower on SBA held loans and the rate at which funds are borrowed by the Treasury. The final product is a rate that reflects the percentage of each dollar approved which is subsidized by the Federal Government. This subsidy rate is the cost of assistance efforts to the taxpayer, excluding administrative costs. A summary table of SBA loan programs showing subsidy rates and other information follows:

LOAN PROGRAM SUMMARY - FY 1999 BUDGET

Dollars in Thousands

	Program Level 1/	**Subsidy Rate** 2/	**Subsidy Budget Authority**	**Subsidy Cost Per Loan Made** 3/	**Average Loan Amount** 4/
Business Direct Loans:					
Microloans	14,351	9.54	1,369	$40	$422
Business (Gty)					
7(a) Business	9,471,094	1.39	131,648	$3.3	**$235**
7(a) Delta	36,641	2.08	762	$15	**$718**
Microloans Gty.	1,157	7.97	92	$46	**$579**
Development Company (Gty)					
504 Dev. Co.	1,979,136	0.00	0.00	0.00	**$384**
504 Delta	3,350	1.29	43	$9	**$670**
Investment Company (Gty)					
SBIC Debentures	352,030	1.38	4,858	$113	**$8,186**
SBIC Participating Securities	1,015,190	2.19	22,233	$353	**$16,114**
Disaster Assistance (Dir.)	762,198	22.36%	170,428	$4.7	**$21**

Note: SBA performance indicators are shaded.

1/ Net of increases/decreases, cancellations and reinstallation.

2/ This subsidy rate is determined in the SBA budget process to be the cost of loans and guarantees expressed as a percentage of the gross approval amount.

3/ This figure is calculated by multiplying the subsidy rate and the average loan amount.

4/ This figure is calculated by dividing the dollar value of loans made for each program by the total number of loans made in FY 1999.

Credit Management

The SBA has been actively improving its credit management and debt collection practices to collect all delinquent debt in a cost-effective manner. The debt collection tools utilized include: the use of SBA attorneys appointed as Special Assistant United States Attorneys to augment the Department of Justice collection efforts, the IRS tax refund offset, On-line Payment and Collection / Treasury Offset Programs, and Federal salary offset. For FY 1999, these four tools were responsible for the collection of a total of $14.9 million in delinquent Federal debt as summarized by the following chart:

Dollars Collected in FY 1999 By Debt Collection Tool*	
Department of Justice / SAUSA Collections	$13,908,615
IRS Tax Refund Offset	$40,795
Treasury Offset (TOP)	$925,263
Federal Salary Offset	$16,369

*SBA performance indicator, business loans.

Budget Summary/ Human Resources

Agency Funds

The SBA's programs and operations are financed through the following appropriation accounts: Salaries and Expenses; Office of Inspector General; Business Loans Program Account; Disaster Loans Program Account and Surety Bond Guarantees Revolving Fund. For budget reporting purposes, SBA funds are maintained in the following accounts:

- Business Loans Program Account
- Business Direct Loan Financing Account
- Business Guaranteed Loan Financing Account
- Business Loan Fund Liquidating Account
- Disaster Loans Program Account
- Disaster Direct Loan Financing Account
- Disaster Loan Fund Liquidating Account
- Surety Bond Guarantees Revolving Fund
- Business Assistance Trust Fund
- Salaries and Expenses Account
- Office of Inspector General Salaries and Expenses Account

The two Salaries and Expense Accounts generally receive annual appropriations. The other SBA accounts generally utilize annual appropriations, multi-year and no-year appropriations, and indefinite appropriations. Since FY 1992, the credit program activities of the SBA have been subject to the FCRA. New program and financing accounts were established in FY 1992 under FCRA to finance all credit activities occurring after September 30, 1991.

The program accounts receive appropriations to the extent of anticipated credit program levels. The financing accounts include payments from credit program accounts and other cash flows resulting from direct loan obligations or loan guarantee commitments.

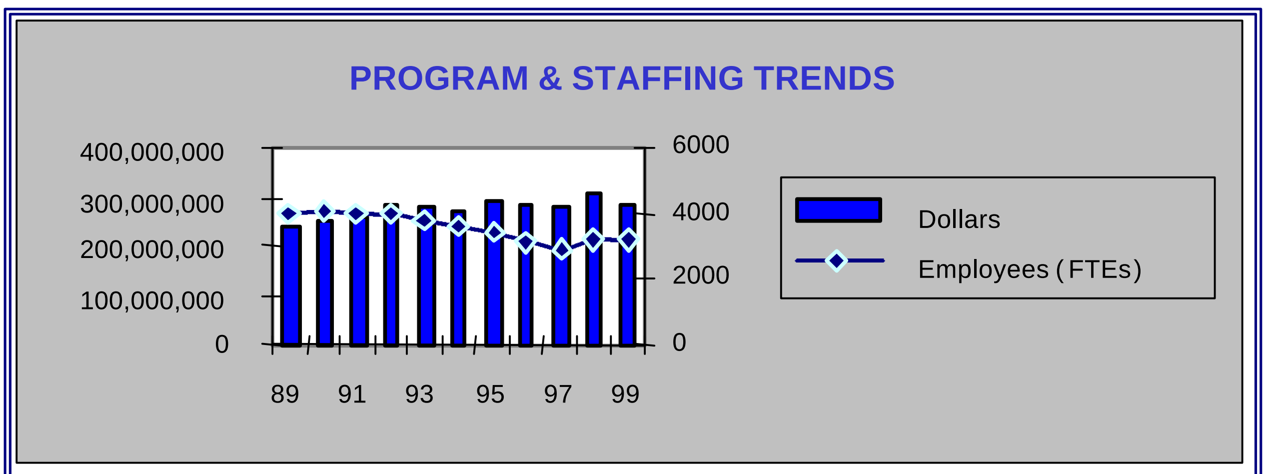
The Business Assistance Trust Fund is a "gift authority" account and does not receive any appropriated funds.

Agency Financial Position

The financial position of the Agency at FY 99 year-end is summarized as follows:

- Total assets $16.2 billion
- Total liabilities $15.7 billion
- Total loan portfolio $48.1 billion
- Total reserves for losses $3.0 billion

The following chart illustrates SBA's operational costs over the past 10 years in both constant (using 1987 as a benchmark) and nominal dollars (actual expenditure).



1. Excludes Disaster Program.

New Programs

Pre Disaster Mitigation Loans

A five year pilot program of loans to small businesses in Project Impact areas (to be designated by the Federal Emergency Management Agency) to finance mitigation measures before disaster strikes.

Military Reserve Economic Injury Loans

Working capital loans to small businesses that suffer substantial economic injury as a result of the military call up of an essential employee.

Y2K Loans

The Y2K Action Loan Program provides funding for small firms to replace or repair non-Y2K compliant computers and/or software and to recover from economic injury caused by Year 2000 computer-related problems.

Capital Access

The programs under the Office of Capital Access provide a comprehensive array of financial assistance to small businesses, from the smallest start-up businesses to those businesses that have difficulty getting credit elsewhere, including those that have been in business for a number of years and need new capital to expand. The SBA's programs are designed to complement the private sector in providing loans, guarantees, bonding, and other forms of financial assistance to this critical sector of our economy.

Capital Access includes the following five program areas:
1. Business Loan Program
2. Development Company Assistance
3. Investment Company Assistance
4. Surety Bond Assistance
5. International Trade

Business Loan Program

Program Description

The business loan program, authorized by Section 7(a) of the Small Business Act, is SBA's largest financial assistance program. Banks and certain non-bank lenders make loans, which are guaranteed at percentages, varying from 50 percent to 90 percent.

The SBA is authorized to make direct and guaranteed loans under several specific loan programs. In FY 1996, direct loans under the general business loan program were eliminated, except for Microloan direct lending. Under the general business loan program, business loans are guaranteed by the SBA for varying amounts (up to 90 percent of the total loan amount or a maximum of $750,000). An initial guarantee fee ranging from 2 percent to 3 7/8 percent is charged, depending on the size of the loan.

The SBA has three types of programs through which private lenders may make SBA-guaranteed business loans: the regular program, the certified lenders program and the preferred lenders program. Under the regular program, the private lender accepts the loan application; the SBA performs the credit analysis and retains final loan-approval authority. The CLP operates like the regular program except that the SBA promises a decision within three days. Under PLP, the lender performs the credit analysis and makes the credit decision. The CLP and PLP are of great benefit to lenders and loan applicants, as well as the SBA, which is able to leverage its resources more effectively to allow for quicker assistance to more small businesses.

In response to the President's effort to make government more efficient, the SBA has taken great strides to streamline several of its lending programs. Implementation of the LowDoc program, which simplifies the application process for guaranty assistance on loans of $150,000 or less, has significantly reduced the amount of time and resources required. In FY 1995, the SBA centralized the processing of PLP loans. Loan packages are now given a 24-hour turnaround to the participating lender. This has reduced the number of SBA personnel necessary to process PLP loans and has resulted in a more uniform program. In FY 1995, the SBA began a pilot program called FA$TRAK with 18 lenders. Under this streamlined and expedited loan program, lenders use mostly their own forms and procedures to process smaller SBA guaranteed loans. In exchange for the increased authority and flexibility, lenders accept a 50 percent guarantee. In FY 1998, the SBA renamed this program SBA*Express,* increased the maximum loan amount under this program to $150,000, and opened the program to additional lenders. In FY 1999, we partnered with the National Community Investment Coalition to initiate the Community Express loan program to make loans to businesses in New Market areas using procedures similar to our *SBA Express* program.

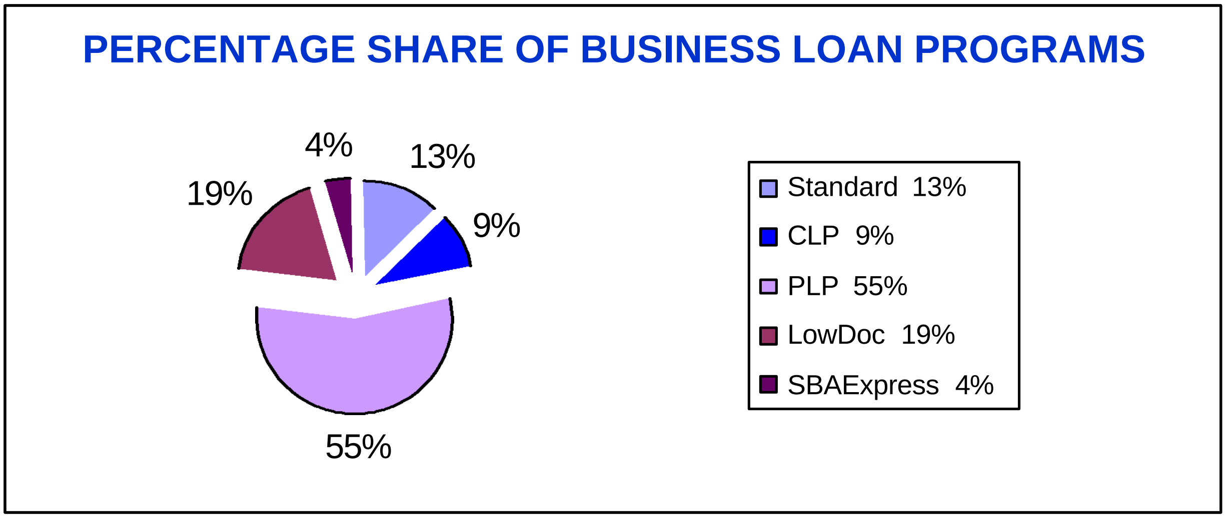
In addition to these guaranteed loans, the SBA Microloan program provides small scale financing ($25,000 maximum) on a short term basis for equipment, inventory, supplies and working capital through Microloan intermediaries. The SBA makes direct loans, and on a pilot basis, provides loan guarantees to intermediaries who in turn make direct loans to small businesses.

Program Performance

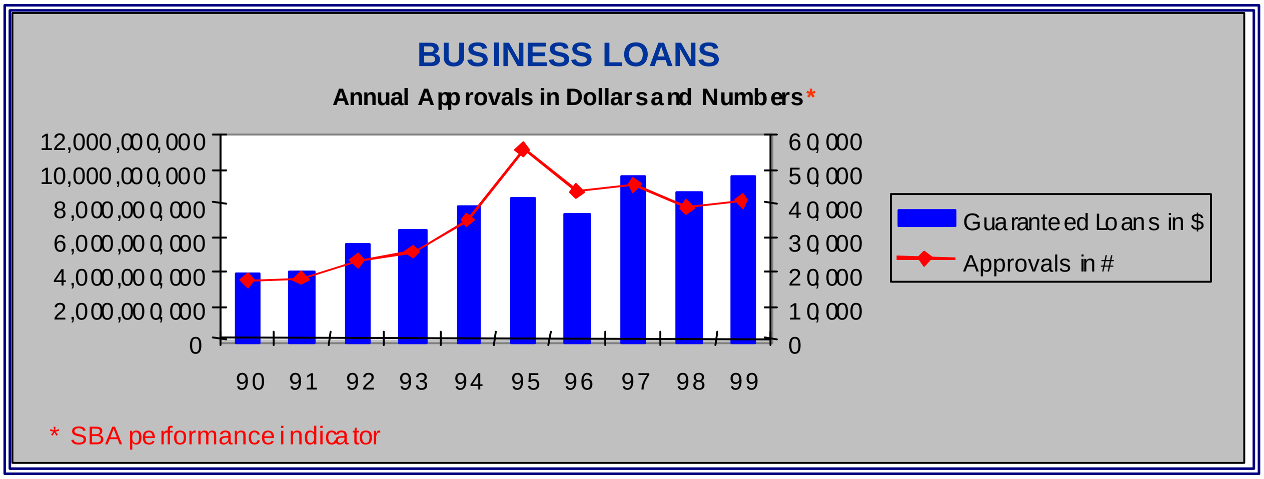
The following highlights significant developments for the business loan program:

- The number of loan approvals grew steadily from FY 1986 to FY 1995 with a prominent rise from FY 1991 through FY 1995, when it peaked at 58,000 loans. Approvals declined in FY 1996 to around 45,000 loans and have been at the 40,000 level for FY 1998 and FY 1999.
- Purchases increased slightly in the 7(a) program for FY 1999.
- Charge-offs also increased in the 7(a) program for FY 1999.

The PLP, CLP and SBA*Express* programs that rely heavily on lender credit analysis have been growing steadily in the past several years. LowDoc loans represented 26 percent of the number of loan approvals and 19 percent of gross dollar amount of approvals in FY 1999. The following chart depicts each program's share as a percentage of total amount of loans made in FY 1999.



During FY 1999, SBA guaranteed 40,470 loans for $9.54 billion, (net of decreases and cancellations). Historical loan approval information is summarized in the following graph.

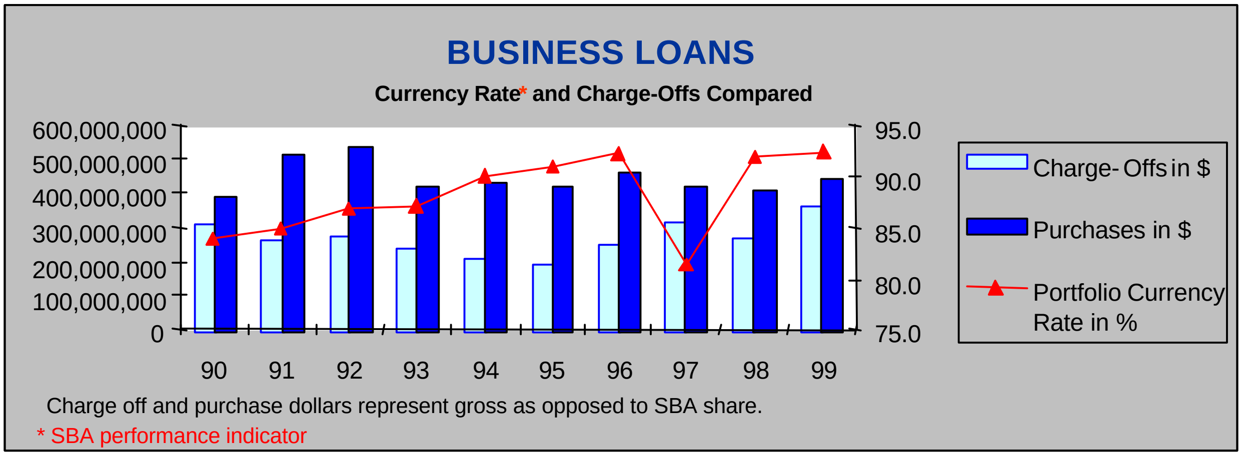


The following table shows an increase in loan approvals in both number and dollar volume from FY 1998 to FY 1999. The data shows that the portfolio currency rate increased to 92.2 percent in FY 1999 from 91.8 percent in FY 1998. We believe the primary reason for this change is the increased accuracy and timeliness in reporting by lenders.

BUSINESS LOANS	FY 1998	FY 1999	CHANGE	% CHANGE
Net Approvals ($)	8.6B	9.54B	0.94B	10.9%
Net Approvals (#)	38,974	40,470	1,496	3.8%
Portfolio Current (%)	91.8%	92.2%	0.4%	0.04%
Portfolio Past-Due/Delinquent(%)	3.9%	3.5%	(0.4%)	(10.2%)
Portfolio in Liquidation (%)	4.3%	4.3%	0.00	0.00
Purchases ($)	409.7M	438.8M	29.1	7.1%
Purchases (#)	4,526	4,910	384	8.5%
Charge-Offs ($)	264.9M	357M	92.1	34.8%
Charge-Offs (#)	4,018	5,253	1235	30.7%
Charge-offs as a % of Disbursements	7.52%	7.4%	(0.12%)	(1.6%)
Charge-offs as a % of Outstanding Portfolio	1.16%	1.57%	0.41%	35.4%

Note: SBA performance indicators are shaded in the table.

During FY 1999, 4,910 loans for a total of $438.8 million were purchased from the lenders and 5,253 loans representing $357 million were charged off. This is an increase over FY 1998 due to the growth in the business program since FY 1992. The portfolio currency rate has improved from 84 percent to 92 percent over the 90's (1997 is a data aberration from a new reporting system). Historical loan purchases and charge-off information as well as the portfolio currency rate is summarized in the following graph.



Certified Development Company Assistance (Section 504)

Program Description

The SBA's Development Company program was created to give small business owners the means to expand, modernize and compete in the economy by providing long-term, fixed asset financing.

The program, also known as the Section 504 program, permits loans to be made to small businesses by Certified Development Companies. CDCs are generally non-profit organizations sponsored by private interests, or by state or local governments. CDCs are certified by the SBA and are focused on economic development in their community or region.

Each loan package must be approved by the SBA and the CDC certifies that the assistance will have a significant economic impact on the community in which the project is located, primarily through job creation or retention. Each package includes at least a 10 percent equity injection by the small firm, generally a 50 percent bank loan and a 40% CDC loan. The bank and the CDC obtain a lien in the fixed asset purchased with the 504 financing. The bank's lien is ahead of the CDC's lien. The CDC obtains the money to make the CDC loan by selling a debenture that is 100%

guaranteed by the SBA. To receive SBA's guaranty, the CDC must agree to assign the loan documents to SBA at closing. The average SBA exposure was $384 thousand per debenture in FY 1999.

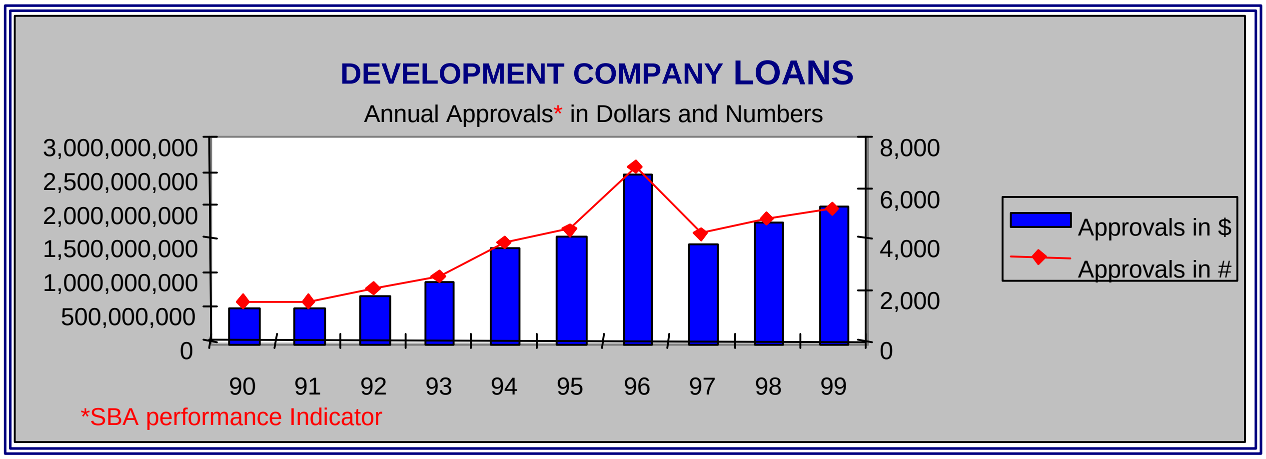
Program Performance

The following highlights significant developments for the Section 504 program:

- Lending increased steadily from FY 1990 to FY 1996. However, there was a decline in FY 1997 due to decreased demand, possibly resulting from increased fees imposed that year that resulted in a zero subsidy rate. In FY 1998, volume rebounded somewhat, exceeding FY 1997 possibly due to decrease in the fees. The trend continued in FY 1999, the dollar amount and the number of approvals increased in FY 1999. Fees were again reduced for borrowers in FY 1998 and FY 1999.
- Purchases, both in dollars and numbers, decreased in FY 1999 over FY 1998.
- Charge-offs, both in dollars and numbers, increased in FY 1999 over FY 1998.

CDCs have provided more than $14 billion in 504 financing to assist more than 40,000 small businesses in total projects of about $32 billion, including equity and bank financing. Based on criteria used to estimate job creations, CDCs have reported that approximately 890,000 jobs have been created or retained as a result of projects funded by the 504 program.

During FY 1999, 5,159 loans were approved through the 504 program for a total gross dollar amount of $1.98 billion. The following graph illustrates that, after steadily increasing since FY 1990, there was a drop in the number and dollar volume of development company approvals in FY 1997. The FY 1999 numbers show an increase in the number and dollar volume of loan approvals over FY 1998.

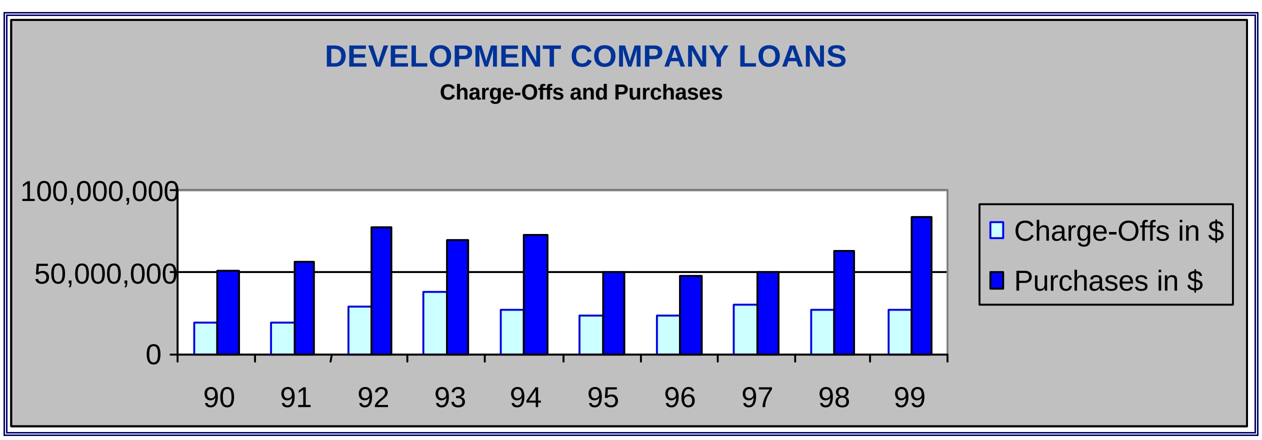


The following table shows the increase in volume and dollar amount of Section 504 loan approvals in FY 1999 over FY 1998. The table also shows that the purchases and charge-offs increased in FY 1999.

DEVELOPMENT COMPANY LOANS	FY 1998	FY 1999	CHANGE	% CHANGE
Net Approvals ($)	1,769M	1,982M	213	12%
Net Approvals (#)	4,847	5,159	312	6.4%
Purchases ($)	62.2M	83.1M	20.9M	33.6%
Purchases (#)	233	220	(13)	(5.6%)
Charge-Offs ($)	27.7M	37.7M	10M	36.1%
Charge-Offs (#)	127	192	65	51.18%
Charge-offs as a % of Disbursement	3.13%	3.06%	(0.07%)	(2.24%)
Charge-offs as a % of Outstanding Portfolio	0.39%	0.47%	0.08%	20.51%

Note: SBA performance indicators are shaded in the table.

The following graph shows that SBA's development company purchase and charge-off dollars increased in FY 1999 compared to FY 1998 as a result of recent years' program increases.



Small Business Investment Company Program

Program Description

The Small Business Investment Company program was established to address the need for venture capital by small emerging enterprises and to improve their opportunities for growth, modernization, and expansion. The program provides financing through SBICs, which use their own capital, along with funds obtained through the sale of SBA-guaranteed debentures and participating securities.

SBICs provide equity capital, long-term loans, debt-equity investments and management assistance to qualifying small businesses. The SBICs share in the success of the small businesses as they grow and prosper.

As of September 1999, the SBA portfolio of active companies was composed of 289 SBICs with committed capital resources of $11.8 billion and 65 Specialized SBICs with capital resources of $274 million.

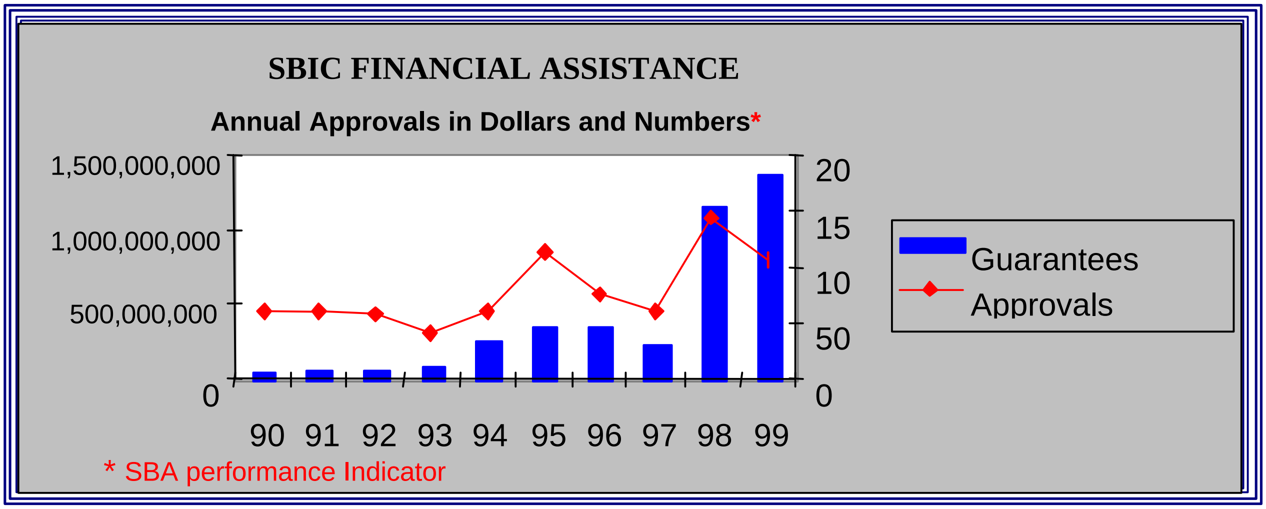
Program Performance

The following highlights significant trends or developments for this program:

- SBIC leverage approvals continued to increase as interest in the participating securities program remained high.
- Licensing activity also remained high, especially among potential participating securities issuers.
- The amount of leverage in liquidation as a percentage of total outstanding program leverage has continued to decline from 39 percent in FY 1994 to 9.7 percent in FY 1998 and to 6.2 percent in FY 1999.
- A new interim funding process, just-in-time funding, provides SBICs with the flexibility to time their takedowns of leverage based on expected financing of small businesses.
- The terms of the SBA's leverage commitments to SBICs were extended so that the funds can be drawn down over a 5 year period, similar to the investment cycle of the SBICs.

During FY 1999, SBICs made 3,096 investments in small businesses for a total of approximately $4.2 billion.

The following graph displays the financing activity for the SBIC program over the past 10 years. This financing is in the form of debentures, preferred stock and participating securities. The participating securities program, initially authorized in FY 1992 and implemented in FY 1994, defers the SBIC's obligation for interest payments and allows SBA to participate in the earnings of the SBIC's portfolio attributable to the participating securities financings. As of September 1999, the SBA received more than $42 million in profit participation from SBICs. The number of SBIC licenses granted remained high in FY 1999 with 53 new licenses.



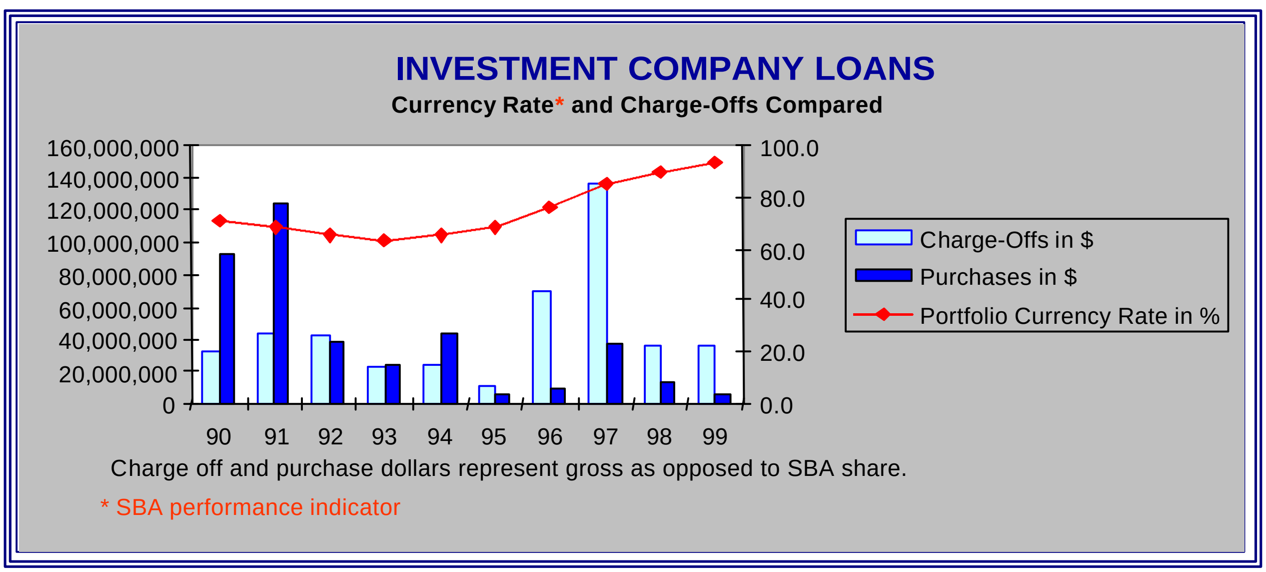
The total private capital of SBICs licensed in FY 1999 was $747 million. Of the $1.367 billion in SBIC funding approvals (obligations) in FY 1999, the participating security program accounted for $1.015 billion (74.25 percent) and the debenture program accounted for $352.0 million (25.75 percent). The SBA no longer makes preferred stock purchases under this program. SBICs used private funding along with SBA guarantees to provide a total of $4.2 billion of investments in small businesses.

The following table shows improved performance of the portfolio during FY 1999, as evidenced by an improvement in the portfolio currency rate, a reduction in the number and size of purchases, and an improvement in the portfolio liquidation percentage and in charge-offs of completed liquidation cases.

INVESTMENT COMPANY LEVERAGE	FY 1998	FY 1999	CHANGE	% CHANGE
Approvals ($)	1,161.6M	1,367M	205.4	17.7%
Approvals (#)	144	106	(38)	(26.4%)
Portfolio Current ($)	90.3%	93.6%	3.3%	3.6%
Portfolio Past-Due/Delinquent (%)	0.0%	0.2%	0.2%	--
Portfolio Liquidation ($)	9.7%	6.2%	(3.5%)	(36.1%)
Purchases ($)	12.6M	6.1M	(6.5M)	(106.56%)
Purchases (#)	16	4	(12)	(75%)
Charge-Offs ($)	36.4M	35.8M	(0.6M)	(1.65%)
Charge-Offs (#)	48	32	(16)	(33.33%)
Charge-offs as a % of Disbursement	8.62%	8.18%	(0.44%)	(5.1%)
Charge-offs as a % of Outstanding Portfolio	1.86%	1.57%	(0.29%)	(15.59%)

Note: SBA performance indicators are shaded in the table.

The following graph indicates investment company trends over the past 10 years. In FY 1997, charge-offs rose significantly as prior-year losses resulting from the legislatively mandated preferred stock buyback and liquidation charge-offs were recognized. The portfolio currency rate includes the SBA's purchased and guaranteed loans. This rate increased from 90.3 percent in FY 1998 to 93.6 percent in FY 1999.



Surety Bond Assistance

Program Description

The Surety Bond Guarantee program assists certain small business contractors in obtaining the required bid, performance, and payment bonds for construction, service, and supply contracts. A surety bond is a three-way agreement between the surety company, the contractor and the project owner. It binds the contractor to comply with the terms of the contract. If the contractor is unable to do so, the surety assumes the responsibility and ensures that the project is completed. The SBA guarantees surety companies against a percentage of losses sustained as a result of a contractor's default on a guaranteed bid, payment or performance bond. Both the surety company and the contractor pay a fee for an SBA surety bond guaranty.

The SBG program is not considered a credit program under the guidelines of the Federal Credit Reform Act because there is no guarantee of principal and/or interest payments. Therefore, no subsidy calculations are made for this program.

Program Performance

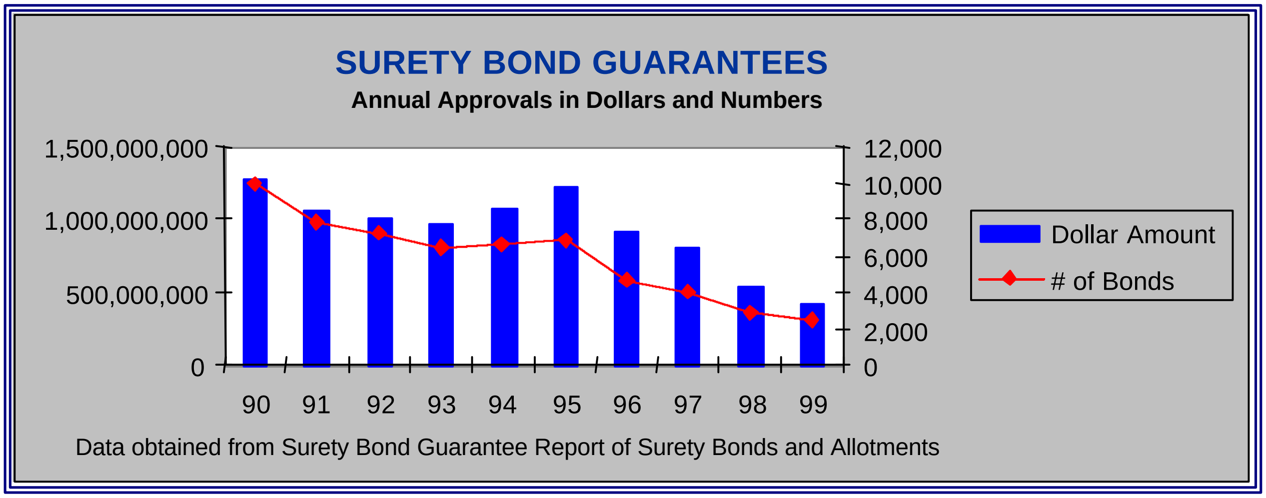
The following highlights trends or developments for the SBG program:

- Approvals have fluctuated over a 10 year period with a decrease in the last 5 years. FY 1999 continued this trend and showed a decrease over the previous year.
- In FY 1999, 2,399 final bonds were guaranteed for $426 million in contract amount.

$12.4 million in claims were paid, and $3.7 million was recovered in FY 1999.

In FY 1999, SBA approved 7,000 bid bond applications representing potential contracts worth nearly $1.6 billion. The Agency guaranteed 2,399 final bonds amounting to $426 million in contract value of which SBA's share was $328 million.

The following chart shows SBA's dollar volume of surety bond approvals over the last 10 years. The SBG volume usually tracks with the construction industry.



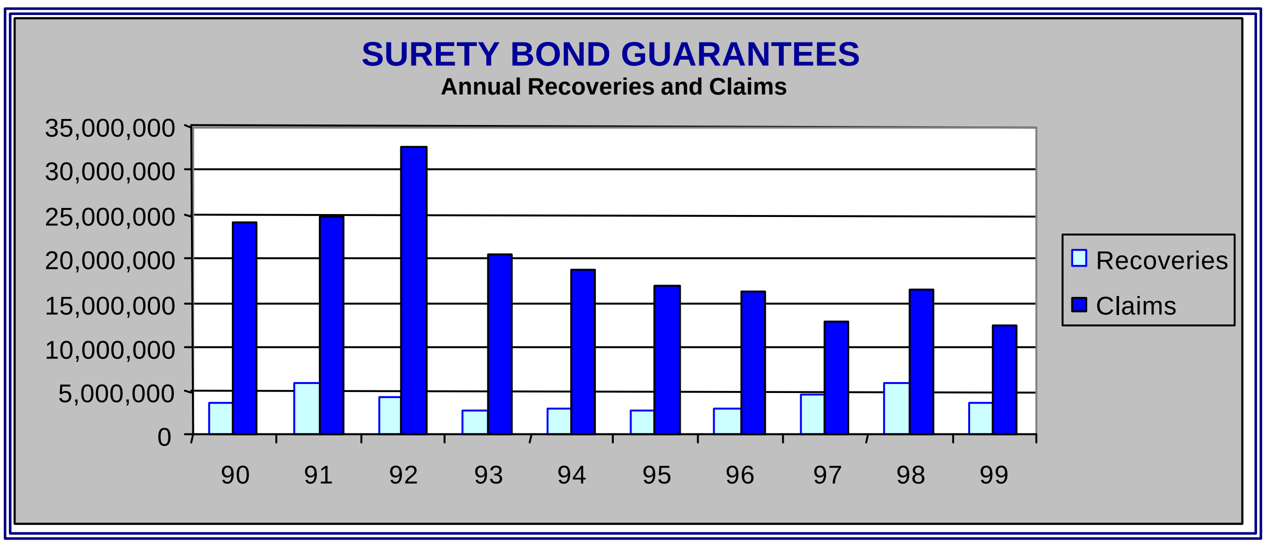
The average contract amount of final bond approvals decreased from $185,492 in FY 1998 to $177,602 in FY 1999 indicating that SBA assistance is going to smaller contractors.

The following table compares FY 1999 program volume and claims with FY 1998 results.

SURETY BOND GUARANTEE	FY 1998	FY 1999	$ CHANGE	% CHANGE
Approvals $	531M	426M	(105M)	(19.8%)
Approvals #	2,860	2,399	(461)	(16.1%)
Claims $	16.6M	12.4M	(4.2M)	(25.3%)
Recoveries $	5.9M	3.7M	(2.2M)	(37.3%)

Note: Reflects gross approvals.

As the following graph shows, recoveries decreased in FY 1999 over the two previous fiscal years resulting from intensified recovery efforts.



International Trade

Program Description

The Office of International Trade oversees the Agency's programs designed to help U.S. small businesses export their products. The Agency delivers both business development and financial assistance programs.

The SBA initiated partnership agreements with its counterparts in Mexico and Argentina to foster improved cooperation and business opportunities for small businesses in these markets in FY 1999. The SBA remains a member of the Gore-Chernomyrdin Commission and is actively working with the banking and small business communities to encourage American small businesses to explore exporting opportunities in the Russian Federation. The SBA is also working with Egypt to assist its effort to develop small businesses through the Gore-Mubarak Commission. During FY 1999, the SBA sponsored trade missions to Ireland, Mexico, and Canada to promote increased exporting opportunities for U.S. small business.

With more than 202,000 small businesses nationwide holding a 31 percent market share of export sales and accounting for 97 percent of exporters, small businesses are making a major contribution to the economic health of the global community by contributing to the stabilization and growth of our own communities here at home.

Recent statistics on small businesses and exporting show that in the last 10 years, the number of SME exporters has tripled; in the last five years, the dollar value of SME exports grew by 300 percent; and of all the SME exporters, the most dynamic growth was seen by companies that employed fewer than 20 people. These small businesses represented two thirds of U.S. exporting companies, showed a 40 percent growth in export value in the last 10 years and their average export dollars represented $650,000 per company.

Delivering the appropriate assistance to U.S. small businesses helps them increase their export potential. The SBA calls this assistance their ***SBA Export Continuum*** consisting of educational initiatives and tools, technical assistance programs and services, risk management and trade finance products.

The SBA Export Continuum

SBA has developed products and services that coincide with the growth stages of small businesses as they enter the international marketplace. These stages of growth and expansion form the international trade continuum: beginning with an educational training component; moving on to technical assistance ranging from business and marketing plan assistance to product and market adaptation help; and progressing to risk management and financial assistance for production of the product or financing of foreign accounts receivable once a transaction is obtained.

Educational Products

Trade Finance Training - Trade finance training for lenders.

Export Training – A basic course on exporting available for trainers or for courses in exporting.

Marketing Training – A basic marketing course for U.S. Export Assistance Center (USEAC) personnel as well as other SBA partners.

Overseas Marketing & Business Plan – Training materials and formatted templates for use in designing customized overseas marketing and business plans.

Publications & Books – "Breaking Into the Trade Game" and "Bankable Deals."

TradeNet – An interactive, international trade "tool kit" (one-stop-shop or "virtual USEAC") on the Internet.

Technical Assistance Products

E-TAP (Export Technical Assistance Program). - A formal training program for potential small business exporters, usually co-sponsored with public and private-sector providers of education and training for the exporter. These are offered at U.S. Export Assistance Centers nationwide.

E-LAN (Export Legal Assistance Network). - Initial, free legal advice for existing and potential exporters offered in partnership with the Federal Bar Association.

Risk Management Products:

EXport Risk Analysis Online (EXR-Online) is a new tool that utilizes interactive Internet technology to allow lenders to quickly determine whether or not an export transaction is eligible for funding under the Export Working Capital Program.

Finance Products

The SBA is consistently working to make its export finance assistance programs more user-friendly and relevant to the small business community by making them more accessible and making it more profitable for lenders to participate in its guaranty programs. This has been accomplished through a reduction in paperwork and streamlining the application and review process for small business export loans.

EWCP (Export Working Capital Program)

Finances short-term export working capital needs of small businesses. SBA can guarantee up to 90 percent of a secured loan, up to $750,000.

International Trade Loan

Provides short-term and long-term financing for small businesses involved in exporting. Guarantee can be up to $1.25 million for a combination of fixed-asset financing and working capital.

U.S. Export Assistance Centers (USEACs)

Working with the Department of Commerce and the Export-Import Bank, the SBA is a fully committed partner and has representatives in the network of 19 U.S. Export Assistance Centers across the country to provide in a single location, hands-on export marketing and trade finance counseling. The SBA uses the U.S. Export Assistance Centers (USEACs) network as its primary vehicle for the delivery of all of its programs to small business exporters.

Disaster Assistance

Program Description

The SBA assists victims of physical disasters such as earthquakes, floods and hurricanes by extending direct loans to individuals and businesses. Loans are made at favorable terms and conditions for uninsured losses of real and personal property, and economic injury caused by a disaster. The Disaster Loan program is the primary form of Federal assistance for non-farm, private sector losses and is the only form of SBA financial assistance not limited to small businesses.

Three major types of disaster assistance are:

Home Disaster Loans - Loans to homeowners or renters to repair or replace damage to homes or personal property owned by the applicant. Renters are eligible only for personal property loans.

Business Physical Disaster Loans - Loans to businesses of all sizes to repair property owned by the businesses, including damaged inventory and supplies.

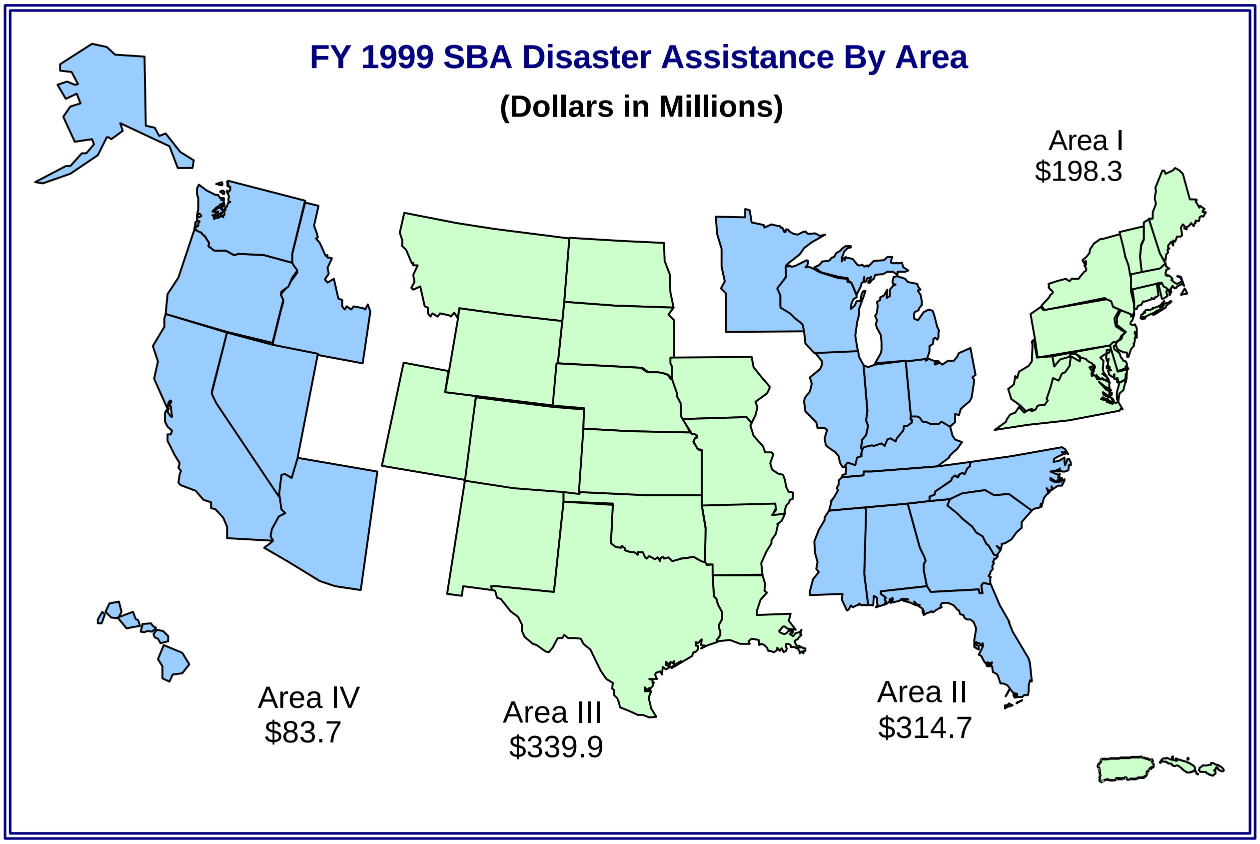
Economic Injury Disaster Loans - Working capital loans to small businesses and small agricultural cooperatives to assist them through recovery from the disaster.

In FY 1999, Congress mandated the following disaster loan programs. Both programs will be implemented in FY 2000.

Pre Disaster Mitigation Loans – A 5 year pilot program of loans to small businesses in project impact areas (to be designated by the Federal Emergency Management Agency) to finance mitigation measures before disaster strikes.

Military Reserve Economic Injury Loans – Working capital loans to small businesses that suffer substantial economic injury as a result of the military call up of an essential employee.

The program is administered through four area offices. These areas and their share of disaster assistance are depicted on the chart below.



Note: The above dollar amounts represent "net loan approvals" (after increases, decreases and cancellations).

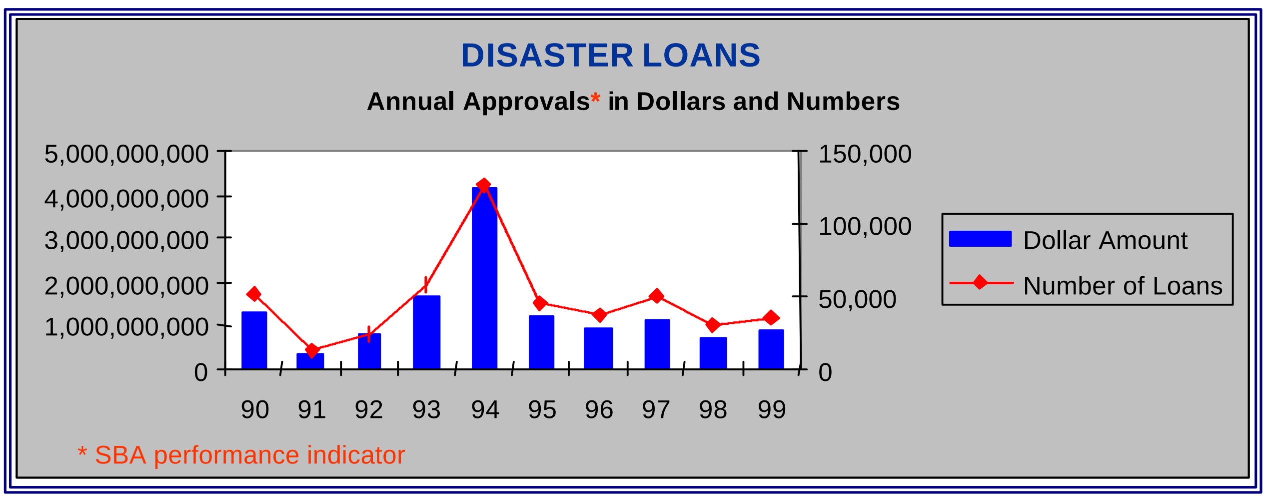
Program Performance

The following highlights significant trends or developments for the Disaster Assistance program.

- Loan approvals have fluctuated significantly from year to year, due to the nature of the program. For FY 1999, 36,176 loans were approved for $936.6 million.

- Portfolio currency rate increased to 88.7 percent from 87.9 percent in FY 1998.
- Charge-offs increased for FY 1999 reflecting past increases in program activity.

The following graph shows that SBA's dollar volume of disaster loan approvals fluctuates from year to year. From FY 1991 through FY 1993, approvals significantly increased in response to Hurricane Hugo, Hurricane Andrew, Hurricane Iniki, Typhoon Omar, the Los Angeles riots, the great Midwest floods and severe coastal storms on the east coast. During FY 1994, in the aftermath of the Northridge earthquake, the SBA approved more than 125,000 loan applications at a value of more than $4.1 billion. The continuing activity from Northridge, together with floods and hurricanes, caused the high activity in FY 1995. Floods and hurricanes in FY 1996, FY 1997, FY 1998, and FY 1999 kept the level of activity at just around $1 billion for those years.

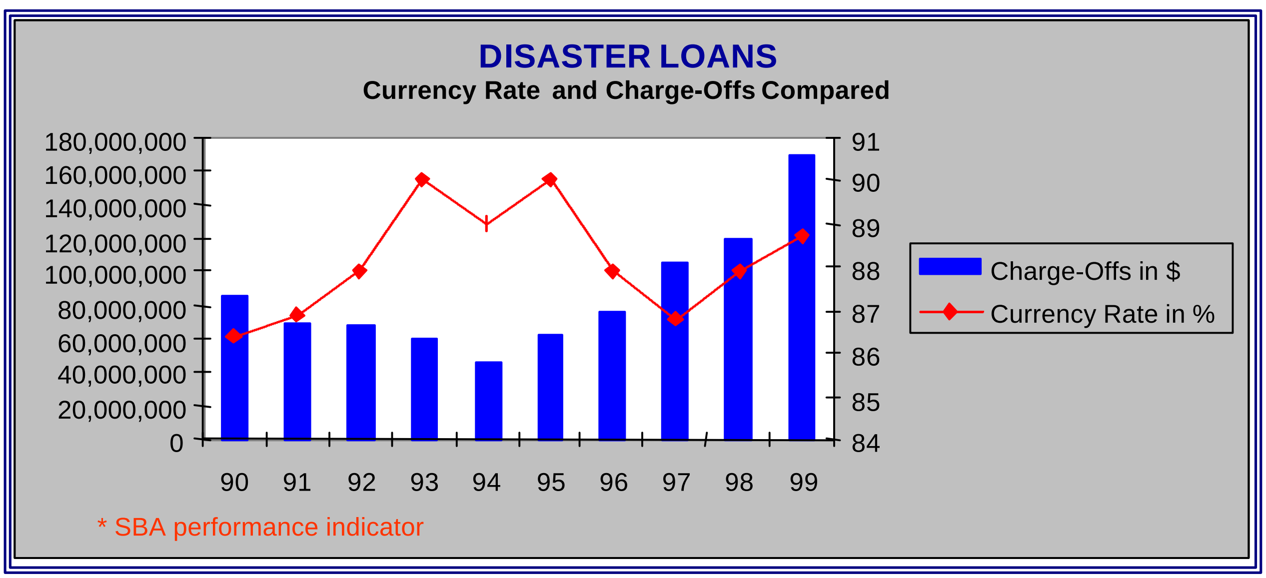


Since the inception of the program in 1953, the Agency has approved 1,452,340 disaster loans for more than $27 billion. As can be seen from the following table, SBA approved 36,167 disaster loans for $936.6 million in FY 1999. SBA continued to streamline the disaster loan process, achieving unprecedented response times.

DISASTER ASSISTANCE	FY 1998	FY 1999	CHANGE	% CHANGE
Approvals ($)	728.1M	936.6M	208.5M	28.64%
Approvals (#)	30,154	36,176	6,022	19.97%
Portfolio Current ($)	87.9%	88.7%	0.8%	0.91%
Portfolio Past-Due/Delinquent ($)	4.5%	4.3%	(0.2%)	(4.44%)
Portfolio Liquidation ($)	7.7%	6.9%	0.8%	10.39%
Charge-Offs ($)	119.7M	169.9M	50.2M	41.94%
Charge-Offs (#)	7,493	7199	(294)	(3.92%)
Charge-offs as a % of Disbursement	8.55%	8.98%	0.43%	5.03%
Charge-offs as a % of Outstanding Portfolio	1.70%	2.48%	0.78%	45.88%

Note: SBA performance indicators are shaded in the table.

The following graph shows that the SBA's disaster portfolio currency rate remained relatively constant over most of the 10 year period. Charge-offs declined in the early 1990s and increased in the second half of the 1990s. Aggressive charge-off policies were implemented in FY 1989 and these efforts have resulted in a relatively high currency rate during the 1990's. Significant increases in the number of new loans starting in FY 1990 increased charge-off activity in the years since 1994.



The SBA has been actively improving its credit management and debt collection practices. Five successful debt collection tools are used for outstanding disaster loans including use of SBA attorneys appointed as Special Assistant United States Attorneys to augment the Department of Justice collection efforts, the IRS offset, OPAC/TOPS offset, referrals to Treasury for the use of private collection agencies and Federal salary offset. The following chart shows the disaster dollars collected by each debt collection tool for FY 1999.

Disaster Dollars Collected Per Debt Collection Tool*	
Department of Justice / SAUSA Collections	$2,308,499
Internal Revenue Service Offset	$859,872
Treasury Offset (TOP)	$3,113,334
Federal Salary Offset	$240,930

*SBA performance indicator.

Entrepreneurial Development

The SBA provides management assistance in the form of training and counseling programs. The program offices overseeing SBA's primary management assistance programs are:

- Business Initiatives
- Veterans' Affairs
- Women's Business Ownership
- Small Business Development Centers
- Welfare to Work Initiative
- One Stop Capital Shop
- Native American Affairs

Business Initiatives

Business Initiatives encompasses a diverse mix of business information, training and counseling resources offered to the public. The BI program oversees the operation of 62 Business Information Centers and the Service Corps of Retired Executives counseling and training program. BI also provides business information to small businesses through cosponsorships with private sector entities.

BICs are often established through partnerships between the SBA and for-profit entities, other Federal agencies, and non-profit organizations. BICs offer clients the latest computer technology, hardware and software, an extensive small business library of hard copy books and publications and management videotapes to help entrepreneurs plan their business, expand an existing business or venture into new business areas. In addition to premier business management tools, all BICs feature on-site counseling by SCORE counselors.

SCORE counsels and trains the largest number of start-up business owners each year. Through one-on-one counseling and workshops, SCORE makes approximately 384,000 contacts with business owners annually. With some 390 chapters and 11,400 volunteers, the services of a SCORE volunteer are readily available within a few hours drive of most businesses. All counseling is provided free of charge to the client. SCORE also counsels small businesspersons via e-mail through SCORE Online.

Veterans' Affairs

The Office of Veterans' Affairs oversees the Agency's assistance to veterans and works with other SBA program offices to provide special consideration to veterans. The office designs procurement and management training programs specifically for veterans and coordinates veterans' training and counseling with other agencies or departments.

The OVA coordinates national veterans' programs such as the Veterans Business Outreach and the Transition Assistance program for military personnel. The OVA promotes entrepreneurship and assists small businesses affected by base closings and military downsizing.

The SBA is establishing an outreach program to provide enhanced business development assistance to eligible veterans in accordance with SBA's Reauthorization Act of 1997. In FY 1999, the SBA awarded legislatively mandated outreach grants to assist eligible veterans with entrepreneurial training and developed a comprehensive guide to assist veterans in the start-up and expansion of their businesses. In FY 2000, SBA will implement requirements of The Veterans Entrepreneurship and Small Business Development Act of 1999 (Public Law 106-50).

Women's Business Ownership

The Office of Women's Business Ownership provides assistance to the increasing number of women business owners and acts as their advocate in the public and private sectors. It serves the Nation's nearly 9.1 million women-owned businesses through technical, financial and management information, training, and counseling.

OWBO manages the Women's Business Center Program, a public-private partnership which supports a network of 80 women's business centers in 47 states, the District of Columbia, Virgin Islands, and Puerto Rico. Of these centers, 59 are currently funded physical sites. For FY 1999, the 59 funded sites provided financial, managerial, marketing and procurement assistance to more than 30,000 women.

The on-line Women's Business Center, found on the Internet at http://www.onlinewbc.org, is an interactive business skills web site that brings together the public and private sectors to the further empowerment of women entrepreneurs. Launched in January 1998, this free Web site offers business counseling, training, mentoring and live chats in English and Spanish and is accessible in Russian. It also details the wide range of programs and services offered by the SBA to women entrepreneurs. It receives more than 1 million hits per month from more than 100 countries.

All WBCs are linked electronically through an intranet, OWBOZONE, to provide a free flow of information. The OWBO has also established a Women's home page on the SBA Web site, http://www.sba.gov/womeninbusiness .

The Women's Network for Entrepreneurial Training is a mentoring program for women business owners. The WNET program links seasoned entrepreneurs with women whose businesses are poised for growth. Links are made at 150 roundtables held nationwide throughout the year. This program has shown a 30 percent increase since FY 1998.

The Women's Prequalification Pilot Loan program is a nationwide program that enables women to prequalify for an SBA loan guaranty before going to the bank. Since June 1995, more than $116 million in loans have been made to women under this program.

Small Business Development Centers

The Small Business Development Center program plays a major role in delivering management and technical assistance, economic development and management training to existing and prospective small businesses. This is accomplished through cooperative agreements with lead SBDC centers working with universities, colleges and state agencies to conduct small business counseling and training.

The SBDC network includes about 1,000 sites, including one in every state (four in Texas), the District of Columbia, Puerto Rico, the U.S. Virgin Islands American Samoa and Guam. In FY 1999, SBDCs reported that they counseled 331,464 individuals and provided 22,450 training sessions.

Welfare to Work Initiative

The SBA has played a leadership role in the President's welfare to work initiative. In each city and state across the country, the SBA has used its extensive network of field offices and resource partners to connect thousands of small business owners planning to hire employees, with local service providers who train welfare recipients. In FY 1999, the SBA received more than 101,000 commitments from small businesses to hire welfare recipients.

One Stop Capital Shop

The One Stop Capital Shop is SBA's contribution to the Empowerment Zone (EZ)/Enterprise Community. It is an alternative delivery mechanism for the Agency's products to areas that have been underserved by the SBA. OSCS are cost effective, customer friendly and serve as a working model of public/private partnership.

The OSCS brings the SBA's business development and capital resources together in one location with other Federal, state, local and private sector resources to leverage and complement those resources and provide customer convenience. The OSCS provides the economic tools for sustained economic development and growth.

Local communities are required to be stakeholders in the process to determine goals, mission, partners and day to day operations. The SBA's presence does not duplicate, rather it complements and leverages other available financial and technical assistance resources. The SBA provides the equipment and reference materials for a Business Information Center and up to two SBA full-time employees. In general, the communities house and maintain the BIC as well as the OSCS and bring together the other partners.

There are a total of 18 One Stop Capital Shops in operation. The first EZ/EC OSCS opened Nov. 6, 1995, in Boston. During FY 1999, the OSCSs served more than 53,000 clients; OSCS referrals resulted in 531 loans for more than $92 million, created more than 1,300 new jobs and retained more than 2,600 existing jobs within Empowerment Zone/Enterprise communities.

Native American Affairs

The SBA's Office of Native American Affairs is the only office in the Federal Government that solely assists American Indians, Native Alaskans, and Native Hawaiian small business clients, tribally owned small businesses and small businesses located in Native American communities. The primary focus of ONAA is economic development and job creation through small business ownership and education.

The ONAA formulates policy and develops legislative and program initiatives to ensure Native American individuals have access to business development resources, training and services. SBA coordinates the delivery of services to Native Americans with other SBA program offices, SBA resource partners (SBDC & SCORE), Federal and state agencies, tribal governments, National Native American organizations, and tribal colleges to educate, develop and expand Native-American owned businesses.

SBA's accomplishments in the Native American community:

- Provided operational funding for 17 Tribal Business Information Centers in Arizona, California, North Carolina, Minnesota, North Dakota, South Dakota and Montana.
- In FY 1999, reservation-based TBICs served 3,951 clients, provided 8,433 hours of business counseling, held 291 workshops, and assisted in the completion of 196 business plans and 136 loan packages, and were instrumental in the startup of 212 new businesses.
- At the end of FY 1999 there were 405 Native American owned and 29 Native Hawaiian business concerns participating in the 8(a) Business Development program.
- The SBA made 534 loans totaling $82.8 million to Native American-owned businesses in FY 1999.
- Hosted a conference "Doing Business in Indian Country." The purpose of the conference was to cultivate support from Federal Government and private sector. The goal was to sharpen and enhance the skills and knowledge of SBA's program offices by the TBIC facilitators. The ultimate result of this type of training is providing more effective services to Native-American clientele.

Program Budget and Performance

Program information on Entrepreneurial Development programs is shown in the table below.

ENTREPRENEURIAL DEVELOPMENT	FY 1998	FY 1999	CHANGE	% CHANGE
SCORE:				
Training Events (#)	5,079	5,921	842	16.58%
Training Attendees (#)	107,532	118,806	11,274	10.48%
New Counseling Cases (#)	169,696	187,237	17,541	10.34%
Counseling Hours (#)	393,434	424,554	31,120	7.91%
BIC Clients Served	108,918	123,264	14,346	13.17%
Veterans:				
Guarantee Loans (#)	5,913	5,477	(236)	(4.13%)
Guarantee Loans ($)	1,371M	1,380M	9.0	0.66%
Exporting:				
Guarantee Loans (#)	961	1,097	136	14.15%
Guarantee Loans ($)	312M	390M	78M	25.00%
SBDC:				
Training Events (#)	19,634	22,450	2,816	14.34%
Training Attendees (#)	309,382	331,284	21,902	7.08%
Counseling Cases(#)	237,655	263,824	26,169	11.01%
Counseling Hours(#)	1,271,412	1,446,996	175,584	13.81%

Government Contracting & Minority Enterprise Development

These offices administer SBA's programs to provide Federal contracting opportunities and research and development assistance to small businesses. These offices include:

- Government Contracting
- Minority Enterprise Development
- Technology
- Size Standards
- HUBZone
- SDB Certification and Eligibility

Government Contracting

The Office of Government Contracting ensures that small businesses receive a fair share of Government contracts and subcontracts. This objective is carried out through various component programs, including the Prime Contracts, Subcontracting Assistance, Natural Resources Sales Assistance, Certificate of Competency, Procurement Policy and Liaison, PRO-*Net*, Women-Owned Small Business Procurement, and the Small Business Procurement Preference Goaling Programs.

The Prime Contracts program is carried out primarily by Procurement Center Representatives. PCRs monitor Federal buying offices and promote small business participation at major nationwide Federal procurement activities. Breakout Program PCRs review sole source requirements to breakout components and other items for competition. This provides new opportunities for small business participation in Federal procurements.

Through the Subcontracting Assistance Program, the SBA ensures that small businesses receive maximum practicable opportunity to participate as subcontractors on Federal contracts. The SBA's Commercial Market Representatives perform compliance reviews to ensure that prime contractors adhere to contract requirements to provide applicable subcontracting opportunities to small businesses. Also, CMRs conduct needs assessments to identify products and services sought by prime contractors and refer specific small businesses to the prime contractors to satisfy those needs. These activities are reflected in the chart below under "Needs Assessments" and "Specific Referrals."

The Natural Resources Sales Assistance program aids and assists small businesses in obtaining their fair share of Federal property offered for sale or disposal in accordance with public law. Efforts have been concentrated on the sale of Federal timber, royalty oil, coal leases and other mineral leases.

The SBA also maintains an online, interactive, electronic gateway of procurement information, for and about small businesses called the Procurement and Access Network. PRO-*Net* is a virtual one-stop procurement shop for government contracting officials to find small businesses interested in providing products and services to the Federal Government. Small business profiles in PRO-*Net* can be accessed by Federal, state and local government contracting officers, as well as private-sector businesses looking for contractors, subcontractors, teaming arrangements or partnerships. The electronic profile of each registered small business includes the identification of the business, organization or ownership, products, services and performance history. The system provides an electronic gateway to the Commerce Business Daily, Agency home-pages and other sources of procurement opportunities. PRO-*Net* also serves as a central on-line register that identifies firms officially certified as 8(a) program participants, HUBZone small business, small disadvantaged businesses as well as other designated classifications such as women-owned small business, veteran, and Native-American Programs.

The Certificate of Competency program authorizes the SBA to certify a small company's "capability, competency, credit, integrity, perseverance and tenacity" to perform a specific government contract. This certification provides contracting opportunities to small businesses.

The Small Business Procurement Preference Goaling program requires the SBA to coordinate annually with each of the major Federal agencies to ensure that the small business goals established by the President and Congress are obtained. The SBA requests each agency to establish, prior to the beginning of the fiscal year, proposed prime contract and subcontract goals for small business, small disadvantaged business, women-owned small businesses, and HUBZone small business concerns. SBA also requests agencies to establish prime contract goals for awards to 8(a) firms under the 8(a) Business Development Program. The SBA negotiates the proposed goals with the Agency and establishes final goals for each goaling category. At the end of the fiscal year, each agency submits its goal achievements to the SBA.

Program Budget and Performance

Information for this program is shown in the table below:

GOVERNMENT CONTRACTING	FY 1998	FY 1999	CHANGE	% CHANGE
Subcontracting Compliance Reviews (#)	1,436	1337	(99)	(6.9%)
Needs Assessments (#)	250	301	51	20.4%
Specific Referrals (#)	1,841	1135	(706)	(38.8%)
Firms Counseled (#)	14,000	13,000	(1,000)	(7.1%)
PRO-Net - Firms Registered (#)	178,056	184,000	5,944	3.3%
PRO-Net - Demonstrations (#)	55	250	195	355%
Small Business Set-Asides	11.5B	$10.5B	($1.0B)	(8.7%)
Savings through BPCR & COC programs	52.5M	$70.0M	17.5M	33.3%

Minority Enterprise Development

Program Description

The Office of Minority Enterprise Development assists small disadvantaged businesses because of their demonstrated potential for success through certification for participation in the Section 8(a) program. Once in the program, MED provides them with marketing support and other assistance through the provision of business development, and management and technical assistance.

MED provides business development support to program participants through: (1) annual reviews and development of business plans that establish targets for sustainable growth; (2) identification of procurement opportunities and marketing assistance; and (3) assistance in negotiating provisions and awards of sole source and limited competitive Federal contracts, pursuant to Section 8(a) of the Small Business Act. Through these tools, MED provides a logical, systematic approach to market access and enterprise growth to small businesses owned and controlled by socially and economically disadvantaged individuals. Section 8(a) firms participate in this program over a maximum 9 year period, during which their progress is planned and monitored.

Under Section 7(j) of the Small Business Act, MED provides specialized training, professional consultant assistance and high-level executive development to 8(a) program participants, other small disadvantaged businesses and small businesses in labor-surplus areas.

Technology

The SBA's Small Business Innovation and Research program was created in 1982 to meet the research and development needs of the Federal Government while providing small innovative companies with opportunities to compete for research and development awards and to commercialize the resulting new technology. The program was reauthorized by Congress in 1992 and also included approval for the Small Business Technology Transfer program. The STTR program encourages small businesses and research institutions to cooperatively propose innovative solutions to Agency high tech initiatives.

Ten Federal agencies presently participate in the SBIR program and five Federal agencies participate in the STTR program. Since 1982, these agencies have made more than 46,000 awards through the SBIR program, totaling more than $7.5 billion to small business concerns. The STTR program, in its first four years of operation, made 1,133 awards worth $126.3 million.

Size Standards

Small business status is required for a business to be eligible for any of the SBA assistance programs (except physical disaster loans), for a business to receive small business set-aside contracts from Federal agencies, and for a small disadvantaged business to receive certain preference on Federal contracts. Size standards define what businesses are eligible for SBA assistance. They are usually stated in terms of number of employees or average annual receipts, with small business status eligibility limited to those firms at or below one applicable size standard. The SBA's size standards are also used by other Federal agencies and state and local governments for various small business programs. There is a separate size standard for each industry in the economy as defined under the Standard Industrial Classification system. For several programs, a separate size standard has been established, such as the Surety Bond Guarantee Program and the Small Business Innovation and Research Program.

HUBZone

The HUBZone Empowerment Contracting Program (HUBZone Program) was launched March 22, 1999. This program provides Federal contracting assistance for qualified small business concerns located in historically underutilized business zones in an effort to increase employment opportunities, investment and economic development in these areas. The program provides for set-asides, sole source awards, and price evaluation preferences for HUBZone small business concerns and establishes goals for awards to these businesses. To qualify for the program, a small business must meet all of the following:

- The company's principal office must be located within a "HUBZone" which includes lands on federally recognized Native-American reservations;
- The company must be owned and controlled by one or more U.S. citizens; and
- At least 35percent of the firm's employees must be HUBZone residents.

Special computer mapping software is available on the HUBZone website to allow firms to determine if they are located in a HUBZone. To apply, companies may use the electronic application on the website or download a paper version of the application and submit it to the HUBZone program office. Once approved, eligible firms are listed on PRO-*Net*. As of the close of FY 1999, there were 327 approved HUBZone firms.

Small Disadvantaged Business Certification And Eligibility

The Office of Small Disadvantaged Business Certification and Eligibility assists small disadvantaged businesses by certifying them as an SDB eligible firm. In response to the Supreme Court's Adarand decision, which now calls for strict judicial scrutiny, any Federal procurement program that considers race in its contract decision making must narrowly tailor its efforts to serve a compelling Government interest. The Adarand decision gave rise to major procurement reforms in Federal procurement programs that assist SDBs in order to remedy the effects of past and ongoing discrimination. The procurement reforms provide for price credits to SDBs bidding on prime contracts and evaluation credits to non-SDB prime contractors that use SDBs in contract performance.

A key component of the procurement reforms was the establishment of a formal certification process to ensure that only eligible SDBs benefit from these procurement mechanisms. SBA certifies small business concerns that meet specific social, economic, ownership and control eligibility criteria as SDBs. To be certified as an SDB, a small business must be at least 51 percent owned and controlled by one or more individual(s) determined to be socially and economically disadvantaged. In addition, the SDB Certification and Eligibility Program office conducts training, marketing and outreach and oversees the private certifiers that assist with ownership and control determinations. Once SDBs are certified, they are listed in PRO-*Net*. As of FY 1999, there were more than 6,500 certified SDBs.

Small Business Advocacy

Program Description

Established by Public .Law. 94-305 of 1976, the general mission of the Office of Advocacy is to research the role of small business in the economy and report on its contribution to competition; evaluate financial markets and craft solutions to barriers that are limiting credit and equity investment in small business; measure the costs and effects of Government regulatory proposals on small business and suggest alternatives that are equally effective in achieving public policy objectives; develop programs/services that address market imperfections and recommend public policy initiatives that promote the development and growth of small business. The OA has three offices and regional advocates in each regional office.

The Office of Interagency Affairs monitors the Regulatory activity of all Federal regulatory agencies, including independent agencies, to ensure compliance with the Regulatory Flexibility Act, as amended by the Small Business Regulatory Enforcement Fairness Act. The office comments on agency analyses of regulatory impacts on small business entities and of regulatory alternatives considered and rejected by agencies. The regulatory issues reviewed range from environment to taxes to health and safety to securities to telecommunications to banking, etc. The Chief Counsel, supported by OA staff, is a statutory member of OSHA's and EPA's Small Business Advocacy Review Panels mandated by SBREFA to review regulatory proposals having significant impacts on small business entities. Staff maintains a continuous dialogue with small business trade associations and small entities throughout the country on public policy issues. Staff also responds to congressional requests for information and comments from a small business perspective on legislative proposals.

The Office of Economic Research has sole statutory responsibility to generate and publish studies and reports on small business characteristics and trends in the economy. These studies provide information invaluable to congressional and administrative policy makers. The office also contracts with independent researchers for studies on emerging issues, bank lending trends and jog generation by small business. In addition, it analyzes the economic impact of specific regulation on small business; as part of the office's responsibilities under Regulatory Flexibility Act.

Unique small business data, by firm size, is obtained by OA under a contract with the Bureau of Census, which is updated annually. The data is the only such data in the Federal Government and is made available through OA's home page to the public. In addition, a new database has been developed – Business Information Tracking Series – that tracks the growth of individual firms and also allows OA to publish irrefutable data on job generation by small firms. Such data is not otherwise available in the marketplace and is producing invaluable information on the dynamics of small business in the economy.

The Office of Information publishes OA's research and information, disseminating it to key decision-makers who can use it to address and craft solutions to the concerns of the Nation's small businesses. Two primary publications are the monthly <u>Small Business Advocate</u> and the annual <u>State of Small Business: A Report of the President</u>.

Regional Advocates are located in each of SBA's regional offices. They work closely with Headquarters staff to identify small entities in their respective regions, which should participate in public policy deliberations such as OSHA's and EPA's Small Business Advocacy Review Panels (which can be done by phone). They work closely with community business leaders to identify emerging problems and to affect changes in state policies that will promote the growth of small business. They also maintain close liaison with elected officials to keep them informed of OA's research.

MANAGEMENT INTEGRITY AND ACCOUNTA-BILITY

This section includes the "Federal Manager's Financial Integrity Act Report", Management's Final Action Report, Best Practices, BPRS, QSRS, COSO initiatives, and the "Administrator's Assurance Letter." The Administrator's assurance letter is based on the management activities included in this section. Input from regional administrators, district directors and program managers served as the primary basis for the Administrator's assurance on management controls within the Agency. The Agency's use of the internal control framework developed by the Committee of Sponsoring Organizations of the Treadway Commission provided various tools for SBA manger's use including checklists, risk assessment models, Management Assessment Process workshops and assessment by program managers. Additional assistance was provided to mangers by GAO and Inspector General reviews and audits.

The SBA continues to approach internal control system by building appropriate emphasis on the "control environment" under the COSO framework because it provides the most useful information to decision makers to integrate controls with other management improvement initiatives. The SBA uses improvements in its operations and technology in order to provide quality assistance to small businesses in an era of reduced Federal resources.

FMFIA

The Financial Managers Financial Integrity Act of 1982 requires that Federal agencies provide annually 1) an assurance statement from agency heads on the status of internal controls 2) a report on internal controls and the status of management's actions to correct these weaknesses and 3) an annual statement on whether the Agency's financial management systems confirm with government wide requirements. The SBA Administrator's assurance letter is provided below in this section of our accountability report. This section on FMFIA discusses the SBA's internal control weaknesses and management's action on these reported weaknesses.

The SBA has emphasized the importance of addressing improvements needed in its management that have been identified in its previous reports required by FMFIA. The following is the Small Business Administration's report on actions in FY 1999.

FMFIA Summary of Material Weaknesses
FY 1999

#	Carryover	New	Corrected	Balance
90-15	1		1	0
90-19	1			1
90-25	1		1	0
94-01	1			1
94-03	1			1
97-01	1		1	0
98-02	1		1	0
99-01		1	1	0
99-02*		1		1
99-03*		1		1
Total	**7**	**3**	**5**	**5**

*SBA closed 99-02 and 99-03 by December 1999

The SBA has made great strides and closed five of the material weaknesses and continues to work on the remaining five.

90-15 - Revision of the Surety Bond Guarantee Program Standard Operating Procedures and related regulations.
The Office of Surety Guarantees resolved weaknesses in its system of management control, program SOPs and regulations. Policy and operational changes in program areas and the pilot Preferred Surety Bond Program have now been incorporated into SOPs. SBA's internal policies and procedures are now consistent with the program regulations contained in CFR 115.

90-19 - Need procedures and regulations to implement the provision of Public Law 100-656 which authorizes the loan of Federal surplus equipment to 8(a) firms.
New regulations for the 8(a) program became effective in July 1998. These regulations revised and updated various aspects of the 8(a) Business Development program. Procedures for implementing the Federal Surplus Property program for eligible 8(a) portfolio firms are contained in Section 124.405, which precludes specific procedural guidance for implementation of this program. The results of these new regulations are still being validated, therefore this weakness remains open.

90-25 - Small Business Development Centers lack internal controls and accounting methods to track receipt and disposition of program income.

Due to a lack of examiners, there was a delay in completing validation of the corrective actions. A new examiner was hired, training completed and a normal program of examinations was resumed. This weakness was resolved during FY 99.

94-01 - SBA does not have a single integrated accounting system.

The Agency is progressing toward standard general ledger (SGL) and credit reform compliance. An interim solution was devised to use the Federal Financial System (FFS) administrative accounting system as the primary accounting system. The Surety Bond Guarantee system, other off-line and loan program systems have been converted to SGL using crosswalks and the initial development of an interface from the loan accounting system to the primary accounting system was completed. Various processes have been reengineered and automated to facilitate development of new program systems and the migration to a new Core Accounting System. The SBA is working to develop the requirements for a new Core Accounting system. System implementation is scheduled for FY 01-02. This weakness remains open.

94-03 - Concentration of contract awards to a limited number of program participants.

New regulations for the 8(a) program became effective in July 1998. We are still assessing the corrective action based on quarterly reviews of contract awards. This weakness remains open.

97-01 - Fund balance with Treasury reconciliation.

Current cash reconciliation reports show that the reconciliation of fund balances with Treasury balances is maintained and the Statement of Difference items are at an all time low. The reconciliation of FFS-G/L was accomplished at the transaction level for the first time. This weakness was resolved during FY 99.

98-02 - Develop and implement a comprehensive plan for financial reporting.

A financial reporting plan was prepared and implemented. Technical training of the Denver staff responsible for financial reporting was completed. This weakness was resolved during FY 99.

99-01 - Develop and implement a comprehensive plan for financial reporting.
This is a repeat of a finding in the FY 98 audit of the Agency's financial statements. A financial reporting plan was prepared and implemented. Technical training of the Denver staff responsible for financial reporting was completed. This weakness was resolved during FY 99.

99-02 - Develop better internal controls over the credit subsidy and re-estimate processes.
We continue to refine the quality assurance process to ensure that peer and supervisory reviewers have the experience, training and time to perform reviews commensurate with the inherent risk associated with the SBA existing credit subsidy and re-estimate processes. The Agency conducts an in-house review and requires an independent review of the subsidy models to ensure they produce reliable and reasonable re-estimates prior to submitting the re-estimates for audit. This weakness remained open at the end of FY 1999, however, these recommendations were implemented for the FY 1999 re-estimates.

99-03 - Information System Controls.
The Administrator funded an Agency wide information systems security program and also included the improvement of the information systems controls as one of her strategic goals. A senior management group responsible for developing and implementing an ongoing, agency wide information systems security program was established. This group will develop, fund and execute an annual budget for an ongoing, Agency wide information systems security program. This weakness remained open at the end of FY 99.

For the last two years Congressmen Dick Armey and Dan Burton has asked the Offices of Inspector General (OIG) to identify and give a current assessment of the 10 most serious management challenges facing each agency. The following challenges were identified by the SBA OIG:

1. District Offices do not consistently apply guarantee purchase requirements.
2. SBA needs to improve loan monitoring.
3. SBA needs an effective oversight process for Small Business Lending Companies.
4. More participating companies need to obtain contracting opportunities in the Section 8(a) program.

5. Participants who become wealthy are allowed to remain in the Section 8(a) program and be considered economically disadvantaged.
6. SBA does not enforce its rules to limit pass-through procurement activity to non-Section 8(a) participants.
7. SBA needs to develop and implement a program-based cost accounting system.
8. Information system controls need improvement.
9. Preventing loan agent fraud requires greater emphasis.
10. Borrowers in SBA's business loan program need to have criminal history background checks.

The SBA agrees these are all important issues. These issues have all been identified by the OIG in the audit reports. Several actions have been completed and actions addressing the open issues are addressed above in the write-ups for each recommendation. The SBA will ensure each challenge identified by the OIG continues to receive close management scrutiny.

Inspector General Audits – Management's Final Action Report

Throughout the year, the Office of the Inspector General conducts audits of the Small Business Administration's management and programs, and makes recommendations for improvement. SBA management has the option to agree or disagree with the OIG's recommendations. Agreement places responsibility on the manager to implement those recommendations, which is referred to as "final action." The Office of the Chief Financial Officer is responsible for monitoring the implementation of audit recommendations and reporting on the status of audit recommendations including final actions. The following table summarizes final actions taken during FY 1999.

FINAL ACTIONS ON AUDIT RECOMMENDATIONS October 1, 1998 – September 30, 1999 (Dollars Rounded to Thousands)							
	Disallowed Costs		**Funds Put To Better Use**		**Non-Monetary**	**Total**	
	Recs	**Dollars**	**Recs**	**Dollars**	**Recs**	**Recs**	**Dollars**
Beginning Balance	3	$208	1	$96	17	21	$304
New	35	2,318	16	8,930	84	135	11,248
Total	38	2,526	17	9,026	101	156	11,552
Final Action	23	1,525	15	8,543	70	108	10,068
Ending Balance	15	$1,001	2	$483	31	48	$1,484

There were 21 recommendations at the beginning of the fiscal year requiring action, with potential benefits of $304,000. The OIG issued 135 new recommendations with an associated dollar amount of $11.2 million. Final action was taken on 108 recommendations during the period with an associated dollar amount of $10.1 million, leaving an ending balance of 48 recommendations and an associated dollar amount of $1.5 million still requiring resolution.

The April 1, 1999 – September 30, 1999 report is located in Appendix A. Beginning in the 2000 Accountability report the SBA will includ an “Annual Management Final Action Report” in lieu of providing semiannual reporting.

Best Practices, BPRs, QSRs

Best Practices

As part of the SBA’s management accountability and integrity program, it identifies “best practices” that can be used to improve Agency operations to better serve the small business community. The SBA identifies a "best practice" as a practice developed by a functional unit that has been proven to produce superior results in another unit or the agency as a whole. The SBA recognizes there is no single best practice for any given activity. Every activity is different in some way—different missions, cultures, environments, and/or technologies. What is best for one office may not be best for others. However, a true best practice can be adapted to fit any organization. Some of the best practices developed by SBA offices are:

Employee Manual

The SBA's Office of Disaster Assistance responds to disasters, and ODA personnel must be ready to travel on very short notice. Many of their employees are new and unfamiliar with their jobs and Government travel regulations. The ODA provides each new employee with an employee manual having more than 100 pages and containing information designed to answer most new employee questions on employment and travel. There are chapters in on pay, leave, benefits, performance, different types of appointments, information on filling out forms, and separation from employment. The manual is updated yearly.

Employee Video

When a disaster strikes, the SBA's ODA must hire temporary staff in a hurry. It is critical to get new employees on board and ready to work in a matter of days. Because there are different regulations governing the employment of temporary staff, ODA put together a 15-minute video for newly hired staff. The video describes the SBA's role in disasters, explains about temporary employment, and outlines some of the different types of temporary positions.

Employees – Morale Builders

To ensure that all employees are treated fairly and *know* they are treated fairly, the SBA's ODA annually distributes a memorandum outlining the guidelines for issuing performance awards. Attached to the memorandum is a table showing exactly how much the award will be for each grade level at each of the three highest performance levels, provided no extraordinary circumstances, such as unresolved conduct issues, exist. ODA employees work all over the country. By publishing the award guidelines, ODA ensures that employees in each of the area offices are treated equally.

Working with Customers

The primary goal of the Office of Surety Guarantees program assists those contractors who are considered to be too risky to bond without the guarantee and who could not otherwise compete in the contracting industry. The SBA's OSG routinely trains its partners as an effective means of strengthening their business relationships. The OSG administers the Surety Bond Guarantee program through private-public partnerships with surety companies that issue bonds for construction, service and supply contracts. OSG conducts an orientation and training program that is available to all new business partners (surety companies) and to current partners, as needed. OSG provides hands on training and instructs their partners on every aspect of the guarantee program. This training strengthens the business relationship, builds rapport, and provides the Surety Companies with a better understanding of the day-to-day operations of the program. The training also helps clearly define each partner's expectations for the business relationship.

Risk Management – Control Activities

The "rule of two" is a great check and balance for the OSG. OSG uses the "rule of two" in approving guarantee applications and in processing claims. SBG personnel can approve or decline surety bond guarantee applications and claims for reimbursements within their delegated monetary authority using this rule. The system ensures that each applicant or business partner receives fair and equitable treatment and that the SBA processes each request accurately.

Business Process Re-engineering (BPRs)

The SBA is constantly seeking better ways to take advantage of the latest technological advances available. The SBA management recognized the critical need to improve its business process as part of its systems modernization initiative. To accomplish this, they adopted the Business Process Re-engineering concept. The BPR concept is a fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in SBA's operations.

The BPR focuses on why business processes are done rather than on the details of how they are done. It has challenged our organizational structure, rules, work flows, job descriptions, management procedures, controls, and organizational values and culture. It includes completely reshaping organizational work practices and information flows to take advantage of technological advancements. The two factors that enable a BPR to work are technology and human potential. SBA fully supports reviews of its key functional areas.

SBA benefits from a BPR in three ways: cost savings, time savings, and reductions in defects. A BPR can result in business processes and regulations being streamlined, providing faster, more user-friendly services to the public at a reduced cost to the Government; and the knowledge and expertise of SBA specialists

SBA benefits from a BPR in three ways: cost savings, time savings, and reductions in defects. A BPR can result in business processes and regulations being streamlined, providing faster, more user-friendly services to the public at a reduced cost to the Government; and the knowledge and expertise of SBA specialists can also be captured and made available to others. One BPR in the Office of Disaster Assistance improved its loan application approval process to such an extent that now applications are processed requiring less documentation and fewer staff and the process provides more timely service to the disaster victims.

Quality Service Reviews (QSRs)

The SBA began Quality Service Reviews in 1998. The QSR is a management review of field office activities; and the SBA has used this new management tool as a systematic, cost-effective and proactive review of the field offices. It is much broader than a compliance review because of its design.

A QSR is designed to ensure:

- critical program risk areas are reviewed;
- employees are motivated, informed, and treated fairly;
- customers are satisfied with the delivery of programs; and
- relationships with our partners are healthy.

QSR informs SBA program offices of any problems, identifies "Best Practices" of an office and shares those with the other offices resulting in a more efficient and effective work environment.

The SBA Office of Field Operations manages the QSR program and establishes the teams of reviewers. The team leader selects specific team members from a list of reviewers chosen from district offices because of expertise in their respective program areas. Each team consists of seven or eight field employees (QSRs are peer reviews).

This review gathers as much information as possible about the review areas, including program goals, EEO issues, audits, lender surveys, business plans, OCIO reports, rejected processing documents, etc. through on-site observations, employee interviews and reviewing of specific loan files and other documentation.

To ensure consistency, each team uses the QSR Review Guide to conduct reviews and collect the required information. The team leader compiles a narrative QSR report, summarizing the findings, best practices and recommendations. Each recommendation requires follow-up corrective action. Some findings do not warrant recommendations because they are the result of a specific review requested by the office for its own program improvement.

The team leader provides the final QSR Report to FO after the conclusion of the on-site review. These reports have proven to be excellent management tools identifying system weaknesses that have resulted in corrective action. But, the important accomplishment of this program has been the identification of best practices that have been implemented throughout regions and often throughout the Agency. SBA conducts five-10 of these reviews annually.

COSO Internal Controls

SBA's No.1 goal is to "Help Small Businesses Succeed" through the Agency's programs. To support this goal the SBA updated its second goal for FY 2001 to "Modernize the SBA" through its work force, electronic tools, information systems and its oversight program. Part of a modern SBA is the increased emphasis on strong internal controls with a standardized approach within the Agency. The SBA is a leader in the Federal Government in the implementation of the integrated framework for internal controls that was developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission that is a governmentwide standard supported by the General Accounting Office. The GAO standards incorporate the COSO concepts and establish standards for the Federal Government. The SBA's COSO implementation was facilitated by coordination between the offices of the CFO and the IG.

Strong internal controls have historically been emphasized by the SBA to overcome the risks associated with attaining Agency goals. The SBA's adoption of the COSO framework enhances the standardization of its internal controls, improves internal control procedures and the documentation of our internal controls, and maintains a heightened awareness of internal controls in the Agency.

The SBA began a strong **awareness campaign** in 1999 through the use of:

- the SBA intranet "YES" home page;
- production of a monthly in-house newsletter;
- posters;
- brochures;
- a bulletin board; and
- creation of an icon "Charlie COSO" (we have shared Charlie while networking with the Department of Defense (DOD), Department of the Interior (DOI), Federal Reserve Bank (FRB) and Federal Deposit Insurance Corporation (FDIC)).

The SBA provided **internal control training** classes, materials and tools during 1999:

- management/supervisor training classes (more than 200 individuals trained);
- a reference and hand guide;
- a training video containing open captioning for the hearing impaired;
- a computer-based training package on the SBA "Yes" home page; and
- Tele-conferences;

And the SBA developed its **internal control tools** during 1999 including:

- a Management Assessment Process using a facilitated workshop for a specific control environment (functional or organizational). The workshops assist managers to identify or clarify objectives, risks and controls and to document them through the use of a tallying device called OptionFinder and a word processing package Four MAPs were held in 1999 and five were scheduled for the first 5 weeks in 2000.
- a "Tone at the Top" survey to evaluate the control culture in the Agency. It provided a scorecard for senior management and established risk control agendas (results were above the "mean" on satisfaction, confidence and competency);
- checklists completed by all directorate-level managers to evaluate internal controls;
- risk assessment models completed for information technology;
- databases for audit status (OIG, GAO and MAP for recommendation tracking);
- enhanced follow-up of audit recommendations (reducing old open audit recommendations reported to Congress from 100 to 50, including closing 18 recommendations that had been open for 3 years);
- updated the internal control SOP; and
- enhanced the assertion letter process for directorate-level managers.

The SBA strives to deliver efficient, effective programs with integrity. Many accomplishments have been achieved to modernize the SBA. The SBA is cognizant of the many related efforts within a sound internal control system including:

- the Federal Managers Financial Integrity Act (FMFIA) requirements;
- the Chief Financial Officers (CFO) Act of 1990, OMB Circulars A-50, A-76, A-123, A-127 and A-130;
- the responsibility to support results-oriented management as defined in the GPRA;
- the establishment of a risk management process;
- program reviews; and
- effective management processes including credit subsidy rate, credit risk management, lender monitoring, program oversight, and reviews by the SBA's IG.

The SBA will continue to aggressively create an internal control system that fits the COSO integrated framed work resulting in COSO auditable financial statements by the year 2000.

Assurance Statement

As result of the activities described above on the SBA's management integrity and accountability programs, the SBA Administrator has issued the following statement on the status of the Agency's management controls.

The President
The White House
Washington, DC 20500
Dear Mr. President:

The Federal Managers' Financial Integrity Act (Public Law 97-255) requires each Federal agency to submit an annual report to the President and the Congress on the state of its internal controls over financial and administrative activities. Enclosed is the Small Business Administration's (SBA) report for fiscal 1999.

In my efforts to transform the SBA into a 21st century, leading edge institution I have ensured state-of-the-art internal controls. SBA has taken the lead in the Federal Government through the implementation of the integrated framework for internal controls that was developed by the Committee of Sponsoring Organizations of the Treadway Commission that is a government wide standard supported by the General Accounting Office. Internal control is an important part of my responsibility that depends on SBA management and other personnel, and is designed to provide reasonable assurance regarding the effectiveness and efficiency of operations, compliance with applicable laws and regulations, and reliability of financial reporting. The COSO system is the highest standard to which financial institutions now aspire. Under COSO, the risks and controls for the SBA's program activities are documented in a standardized manner that can be reviewed by outside auditors. The SBA's financial statements have received unqualified opinion from fiscal 1996 through fiscal 1999 from the independent auditor. Three material findings were identified in the FY 1999 audit and the SBA is working diligently to correct these weaknesses.

The SBA also has taken other initiatives to identify weaknesses and strengthen internal controls and operations including: Quality Service Reviews that are in-house reviews of operations conducted by experts in the area being reviewed and Business Process Reengineering that are studies to evaluate and improve internal controls and operations. As strengths are identified, the processes are evaluated for adoption in other areas of operation as best practices.

I have initiated new areas of operation to improve the financial status of the Agency and to improve SBA's assistance to small businesses. The SBA conducted its first asset sale in August 1999 as part of its program to sell its $8.5 billion loan portfolio. The SBA has centralized the processing of over 75 percent of the loans in two locations to improve credit management and consistency, as well as to improve turn-around times for loan decisions.

The Federal Financial Management Improvement Act requires Federal agencies financial system comply with the requirements under the Joint Financial Management Improvement Program and Agency accounting to comply with the Standard General Ledger accounting structure. The SBA is working to develop a plan to improve its core accounting system and to include the Standard General Ledger at the detailed transaction level. Finally, the SBA has embarked on a multi-year systems modernization program that will provide better data collection and analysis, lead to Federal Financial Manager's Integrity Act compliance, and improve the timeliness and accuracy of financial reports.

During fiscal 1999 we made tremendous progress in resolving audit findings of the Agency's Inspector General. At the beginning of the fiscal year there were 21 unresolved findings. During the year 135 new findings were added. As of Sep. 30, 1999, there were only 48 unresolved audit findings. I am particularly proud that of the 48 findings outstanding at the end of fiscal 1999, only 12 are over a year old. During fiscal 1999, we made a concerted effort to clear older recommendations still outstanding and as a result, 108 recommendations were closed.

As a result of the aforementioned actions, I have reasonable assurance that the SBA has met its stated internal control objectives for our operations. I will ensure that all weaknesses not corrected at the time of this report are monitored and corrected in a timely manner. The SBA has established internal accounting and administrative controls that reasonably ensure that: obligations and costs comply with applicable laws; all assets are safeguarded against waste, loss, unauthorized use and misappropriation; and revenues and expenditures applicable to Agency operations are recorded and accounted for properly so reliable financial and statistical reports may be prepared and accountability of the assets be maintained. I provide this statement of assurance, qualified only by the exceptions explicitly identified in this section of the fiscal 1999 Accountability Report.

In the year 2000, we will expand our annual financial audit to enhance the opinion incorporating the SBA's internal control structure under the COSO standards for financial reporting. This plan includes, by the year 2002, correction of all material weaknesses in the SBA's internal control structure for financial reporting. The SBA is continually striving to strengthen its internal controls and improve operations.

Aida Alvarez

Aida Alvarez
Administrator

ACRONYMS

APIC – America's Private Investment Corporation
BIC – Business Information Centers
CBD – Commerce Business Daily
CDC – Certified Development Company
CDSI – Computer Data Systems Incorporated
CFO – Chief Financial Officer
CLP – Certified Lender Program
CMR – Commercial Market Representatives
COC – Certificate of Competency
CODS – Central Office Duty Station
COSO – Committee of Sponsoring Organizations of the Treadway Commission
D&A – Description and Analysis
DFC – Denver Finance Center
EC – Enterprise Community
EFT – Electronic Funds Transfer
EIDL – Economic Injury Disaster Loan
EWCP – Export Working Capital Program
EZ – Empowerment Zone
FCRA – Federal Credit Reform Act
FFS – Federal Financial System
FMFIA – Federal Managers Financial Integrity Act
FTE – Full Time Equivalent
GAO – General Accounting Office
GC – Government Contracting
GL - General Ledger
GPRA – Government Performance and Results Act
HUBZone - HUBZone Empowerment Contracting Program
IG – Inspector General
MAP – Management's Assessment Process
MARS - Management and Administrative Reports System
MED – Minority Enterprise Development
OA – Office of Advocacy
ODA – Office of Disaster Assistance
OIG – Office of the Inspector General
OIT – Office of International Trade
OMB – Office of Management and Budget
ONAA – Office of Native American Affairs
OPAC – On-line Payment and Collection
OSCS – One Stop Capital Shop
OVA – Office of Veterans Affairs
OWBO – Office of Women's Business Ownership
PCR – Procurement Center Representative
PLP – Preferred Lender Program
QSR – Quality Service Review
RFA – Regulatory Flexibility Act
S&E – Salaries and Expenses
SBA – Small Business Administration
SBDC – Small Business Development Center
SBG – Surety Bond Guarantee
SBIC – Small Business Investment Company
SBIR – Small Business Innovation and Research
SBREFA – Small Business Regulatory Enforcement Fairness Act
SCORE – Service Corps of Retired Executives
SDB – Small Disadvantaged Business
SSBIC – Specialized Small Business Investment Company
STTR – Small Business Technology Transfer Program
TBIC – Tribal Business Information Center
TOPs – Treasury Offset Programs
USEAC – U.S. Export Assistance Center
WBC – Women's Business Center Program
WNET – Women's Network for Entrepreneurial Training

FINANCIAL STATEMENTS AND RELATED NOTES

Financial Statement Analysis

Introduction

These financial statements for the SBA have been prepared to report the financial position and results of operations pursuant to the CFO Act of 1990. This is the second year that these financial statements have been in full compliance with the requirements of OMB Bulletin 97-01 including the additional requirements for reports on the status of budget and financing and including a consolidated statement of net cost.

The SBA's assets and liabilities are mostly the result of its credit program activities. As further explained in footnote 1 to the financial statements, SBA's loans and guarantees are financed by a combination of two sources: one for the long-term cost of the loan and another for the remaining, non-subsidized portion. Congress provides appropriations, to cover the estimated long-term costs of SBA loans that are defined as the net present value of the estimated cash outflows associated with the loans less the estimated cash inflows. The remaining portion of each loan or guarantee that does not represent long-term cost is financed under permanent indefinite authority to borrow funds from the U.S. Department of the Treasury.

While the financial statements have been prepared from the books and records of the Agency, they are different from the financial reports used to monitor and control budget execution.

The responsibility for the accuracy and propriety of the information contained in the principal financial statements and the quality of internal controls rests with management.

Liabilities not covered by budgetary resources cannot be liquidated without an enactment of an appropriation by Congress. This subject is further described in footnote 9.

Financial Statements

The Balance Sheet has a number of significant items in SBA's assets and liabilities and the following is a discussion of these items.

The SBA's **fund balances with Treasury** are further explained under footnotes 1 and 2. The SBA does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Department of the Treasury. Fund balances with Treasury are obtained from appropriations and borrowings from the Treasury and from receipts on the SBA's program and administrative activities. They are used to make disbursements of direct loans, purchase defaulted loan guarantees, for the SBA's expense of servicing and liquidating loan receivables and the administration of credit and business assistance programs.

Credit program receivables for the SBA are comprised of the following loan and guarantee programs:

(1) Business, Direct
(2) Business, Guarantee
(3) Disaster, Direct
(4) Pollution Control, Guarantee
(5) Surety Bond, Guarantee

As discussed further in footnotes 1 and 7, loans are accounted for as credit program receivables at the time funds have been disbursed. For loans obligated prior to Oct. 1, 1991, loans receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on historical experience, present market conditions, and an analysis of outstanding balances. For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans. This allowance is re-estimated on an annual basis.

Accounts Payable under Intragovernmental Liabilities is primarily interest owed on Treasury debt that is payable currently.

Debt owed to Treasury is the largest intra-governmental liability on the SBA's financial statement, and detail on this item is provided in footnote 9. The unsubsidized portion of the SBA's disaster loans and its other direct loans are financed by Treasury borrowings. For example, a disaster loan of $100 with a subsidy cost of $20 (subsidy rate of 20 percent), is financed by $80 of Treasury borrowings.

Other liabilities (intra-governmental) consist primarily of the net assets of business and disaster liquidating fund receivables. These balances on loans made prior to FY 1992 are payable to Treasury and are returned to Treasury when they are collected.

Liabilities on loan guaranty represent the amount estimated to be payable to the holders of defaulted guaranteed loans in the future. Further details on this item are provided in footnote 7.

The Consolidated Statement of Net Cost was prepared first for FY 1998 results and is shown again for FY 1999. A study of FY 99 administrative costs in SBA's field and Headquarters' offices was conducted. The direct and indirect costs for SBA's operations were assigned to the SBA's major program activities.

- Business loans and guarantees
- Development company guarantees
- Disaster loans
- Investment company guarantees
- Surety bond guarantees
- Government contracting
- Minority enterprise development
- Entrepreneurial development

Administrative costs are included with the program costs for the above major program activities in the Consolidated Statement of Net Cost that is presented in this Accountability Report.

U.S. Small Business Administration
Balance Sheet
as of September 30, 1999
(Rounded to the Thousands)

ASSETS	
Intragovernmental Assets:	
Fund Balances with Treasury (Note 2)	$8,223,656
Accounts Receivable, Net (Note 5)	343,894
Advances (Note 6)	3,629
Governmental Assets:	
Investments (Note 4)	350,586
Accounts Receivable, Net (Note 5)	27,860
Credit Program Receivables and Related Foreclosed Property, Net (Note 7)	7,086,451
Cash (Note 3)	2,677
General Property and Equipment, Net (Note 8)	740
Advances (Note 6)	129,218
Total Entity Assets	**$16,168,711**
Total Non-Entity Assets	**$0**
Total Assets	**$16,168,711**
LIABILITIES	
Liabilities Covered by Budgetary Resources:	
Intragovernmental Liabilities:	
Accounts Payable (Note 10)	$1,532,415
Debt (Note 9)	10,019,644
Other (Note 10)	2,326,987
Governmental Liabilities:	
Accounts Payable (Note 10)	52,322
Liabilities for Loan Guarantees (Note 7)	1,404,688
Other (Note 10)	400,254
Total Liabilities Covered by Budgetary Resources	**$15,736,309**
Liabilities Not Covered by Budgetary Resources:	
Intragovernmental Liabilities:	
Debt (Note 9)	$0
Other (Note 10)	16,585
Governmental Liabilities:	
Other (Note 10)	27,498
Total Liabilities Not Covered by Budgetary Resources	**$44,083**
Total Liabilities	**$15,780,392**
NET POSITION	
Unexpended Appropriations (Note 11)	$671,527
Cumulative Results of Operations	(283,208)
Total Net Position	**$388,319**
Total Liabilities and Net Position	**$16,168,711**

The accompanying notes are an integral part of this statement.

U.S. Small Business Administration

Consolidated Statement of Changes in Net Position

for the period ended September 30, 1999
(Rounded to the Thousands)

Net Cost of Operations	**$514,946**
Financing Sources:	
Appropriations Used	1,213,781
Changes to Resources Payable to Treasury	(64,027)
Donations	131
Imputed Financing	17,328
Transfers-out	(637,102)
Net Results of Operations	**$15,165**
Prior Period Adjustments	0
Net Change in Cumulative Results of Operations	**$15,165**
Increase (Decrease) in Unexpended Appropriation	348,741
Change in Net Position	**$363,906**
Net Position - Beginning of the Period	24,413
Net Position - End of Period	**$388,319**

The accompanying notes are an integral part of this statement.

U.S. Small Business Administration
Combined Statement of Budgetary Resources (Note 13)
for the period ended September 30, 1999
(Rounded to the Thousands)

BUDGETARY RESOURCES	
Budget Authority:	
Appropriations	$1,207,872
Borrowing Authority	915,742
Net Transfers, Current Year Authority	(20,905)
Unobligated Balance:	
Brought Forward October 1	6,699,756
Spending Authority from Offsetting Collections:	
Earned	
Collected	3,457,975
Receivable from Federal Sources	(161,624)
Adjustments:	
Recoveries of Prior Year Obligations	189,359
Permanently Not Available	
Cancellations of Expired and No Year Accounts	(10,699)
Enacted Rescissions of Prior Year Balances	(6,000)
Capital Transfers and Redemption of Debt	(1,006,976)
Total Budgetary Resources	**$11,264,500**
STATUS OF BUDGETARY RESOURCES	
Obligations Incurred:	
Category A, Direct	$648,346
Category B, Direct	3,332,559
Direct, Not Subject to Apportionment	240,750
Reimbursable	1,642
Unobligated Balances Available:	
Apportioned	21,341
Other	16,708
Unobligated Balances Not Yet Available:	
Apportioned for Subsequent Periods	500
Other	7,002,654
Total, Status of Budgetary Resources	**$11,264,500**

The accompanying notes are an integral part of this statement.

U.S. Small Business Administration
Combined Statement of Budgetary Resources (Note 13)
for the period ended September 30, 1999
(Rounded to the Thousands)

OUTLAYS

Obligations Incurred:	
Category A, Direct	$648,345
Category B, Direct	3,332,559
Direct, Not Subject to Apportionment	240,750
Reimbursable	1,643
Less: Spending Authority from Offsetting Collections and Adjustments:	
Earned	
Collected	3,457,974
Receivable from Federal Sources	(161,624)
Actual Recoveries of Prior Year Obligations	189,359
Obligated Balance, Net – Beginning of the Period:	1,492,712
Less: Obligated Balance, Net - End of Period:	
Accounts Receivable	(1,294,656)
Undelivered Orders	881,405
Accounts Payable	1,730,763
Total Outlays	**$912,788**
Disbursements	$4,370,762
Collections	($3,457,974)

The accompanying notes are an integral part of this statement.

U.S. Small Business Administration

Combined Statement of Financing

for the period ended September 30, 1999
(Rounded to the Thousands)

Resources Used to Finance Activities:	
Budgetary	
Budgetary resources obligated for orders and services to be received or benefits to be provided to others	$4,221,655
Less: Offsetting collections, recoveries of prior-year authority	
Earned reimbursements	
Collected	3,457,974
Receivable from Federal sources	(161,624)
Transfers from Trust Funds	(1,643)
Recoveries of prior-year obligations	189,359
Net budgetary resources used to finance activities	**$737,589**
Non-Budgetary	
Costs incurred by others for the entity without reimbursement	$17,328
Net non-budgetary resources used to finance activities	**$17,328**
Total resources used to finance activities	**$754,917**
Relationship of total resources to net cost of operations:	
Deduct resources used to fund items not part of the net cost of operations	
Increase in budgetary resources obligated to order goods and services not yet received or benefits not yet provided	177,471
Budgetary offsetting collections that do not increase exchange revenue or decrease expenses	
Collections that decrease assets unrelated to exchange revenue	1,338,376
Credit program collections that increase liabilities for loan guarantees or allowances for subsidy	473,051
Other	343,320
Adjustments other than collections made to compute net budgetary resources that do not affect net cost of operations	
Recoveries of prior-year authority	28,890
Resources that fund expenses recognized in prior periods	14,020
Resources that finance the acquisition of assets or liquidation of liabilities	
General property, plant and equipment	196
Loans Receivable	1,143,178
Collateral Acquired	(4,974)
Other resources used to fund items not part of the net cost of operations	(518,049)
Total resources used to fund items not part of the net cost of operations	**($1,371,795)**
Resources used to finance the net cost of operations	**$2,126,712**

The accompanying notes are an integral part of this statement.

U.S. Small Business Administration

Combined Statement of Financing

for the period ended September 30, 1999
(Rounded to the Thousands)

Components of net cost of operations that do not require or generate resources during the reporting period	
Expenses or exchange revenue related to the disposition of assets or liabilities, or allocation of their costs over time:	
Expenses related to the use of assets	$413
Gains or (losses) from revaluation of assets and liabilities	(7,167)
Decrease in exchange revenue receivable from the public	(46,806)
Interest revenue from amortization of credit program allowance for subsidy	(206,416)
Other	(847,665)
Subtotal	**($1,107,641)**
Expenses that will be financed with budgetary resources recognized in future periods	
Other	($1,556)
Subtotal	**($1,556)**
Other net cost components that do not require or generate resources during the reporting period	(502,568)
Total components of net cost of operations that do not require or generate resources during the reporting period	**($1,611,765)**
Net cost of operations	**$514,946**

The accompanying notes are an integral part of this statement.

U.S. Small Business Administration

Consolidated Statement of Net Cost

for the period ended September 30, 1999
(Rounded to the Thousands)

PROGRAMS	
Business Loans	$154,685
Development Company	(84,242)
Disaster Loans	194,996
Small Business Investment Company	4,918
Surety Bond Guarantees	9,470
Minority Enterprise Development	71,485
Government Contracting	19,685
Entrepreneurial Development	144,311
Total Program Costs	**$515,308**
Cost not assigned to programs	12,351
Less: Earned revenue not attributed to programs	(12,713)
Net Cost of Operations (Note 12)	**$514,946**

The accompanying notes are an integral part of this statement.

NOTE 1. Significant Accounting Policies

A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Small Business Administration (SBA) as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of SBA in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin No. 97-01, and SBA's accounting policies which are summarized in this note. These statements are therefore different from the financial reports, also prepared by SBA pursuant to OMB directives, which are used to monitor and control SBA's use of budgetary resources.

B. Reporting Entity

SBA was created by the Small Business Act of 1953. Its mission is to aid, counsel, assist, and protect, insofar as is possible, the interests of small business concerns to preserve free competitive enterprise, and to help businesses and families recover from disasters.

The accompanying consolidated financial statements of SBA include the accounts of all funds under SBA control:

Fund Title	Fund Number
Salaries and Expenses (S&E)	0100
Office of Inspector General (OIG)	0200
Disaster Loans Program Account	1152
Business Loans Program Account	1154
Pollution Control Equipment Fund Liquidating Account (PCECGRF)	4147
Business Direct Loan Financing Account	4148
Business Guaranteed Loan Financing Account	4149
Disaster Direct Loan Financing Account	4150
Disaster Loan Liquidating Account (DLF)	4153
Business Loan Liquidating Account (BLIF)	4154
Surety Bond Guarantees Revolving Fund (SBGRF)	4156
Business Assistance Trust Fund (BATF)	8466

C. Budgets and Budgetary Accounting

Each SBA loan disbursement is financed by a combination of two sources: one for the long-term cost of the loan and another for the remaining non-subsidized portion of the loan. Congress provides one year, multi year, and no year appropriations, to cover the estimated long-term costs of SBA loans. The long term costs are defined as the net present value of the estimated cash outflows associated with the loans less the estimated cash inflows. The portion of each loan disbursement that does not represent long-term cost is financed under a permanent indefinite borrowing authority to borrow funds from the U.S. Department of the Treasury. Congress also annually adopts an appropriation bill limitation limiting the dollar amount of obligations that can be made for direct loans.

A permanent indefinite appropriation is available to finance the costs of re-estimates that occur after the year in which the loan is disbursed. A modification requires that budget authority for the additional cost is appropriated, or is available out of existing appropriations or from other budgetary resources.

D. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

E. Revenues and Other Financing Sources

The SBA receives the majority of the funding needed to support the accounts and funds through appropriations. The Agency receives one year, multi-year, and no year appropriations that may be used, within statutory limits, for operating expenditures. Additional amounts are obtained from fees for guarantees provided. Also, SBA receives gifts from donors and interest on fund balances with Treasury.

Appropriations are recognized as used at the time the related program or administrative expenses are incurred. Appropriations expended for property and equipment are recognized as used when the asset is consumed in operations. Revenues are recognized when earned, i.e., goods have been delivered or services rendered.

F. Fund Balances with Treasury and Cash

The SBA does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Department of the Treasury. Fund Balances with Treasury and Cash are comprised primarily of appropriated, revolving, and trust funds, which are available to pay current liabilities and finance authorized purchase commitments. Cash balances held outside the U.S. Treasury are not significant.

G. Loans Receivable and Related Interest Receivable

Loans are accounted for as credit program receivables at the time funds have been disbursed. For loans obligated prior to October 1, 1991, loans receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on historical experience, present market conditions, and an analysis of outstanding balances. For loans obligated on or after October 1, 1991, the loans receivable are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

Interest receivable is comprised of accrued interest on accounts and loans receivable and purchased interest on loan guarantee purchases. Interest income is accrued at the contractual rate on the outstanding principal amount and is reduced by the amount of interest income accrued to non-performing loans (those in excess of 90 days delinquent). Purchased interest is carried at cost. A 100% allowance is established for all purchased interest on non-performing loans.

H. General Property and Equipment

The buildings in which SBA operates are provided by the General Services Administration, which charges SBA rent that approximates the commercial rental rates for similar properties. Equipment is capitalized at cost if the initial unit acquisition cost is $5,000 or more and service life is five years. Equipment with an acquisition cost of less than $5,000 or less than five years of life is expensed when purchased. Equipment is depreciated using the straight-line method over five years. Computer related equipment and software (ADP) is capitalized at cost if the initial unit acquisition cost is $5,000 or more and has a service life of three years. ADP with an acquisition cost of less than $5,000 or less than three years of life is expensed when purchased. ADP is depreciated using the straight-line method over three years.

I. Asset Sales

During fiscal year 1999, the SBA initiated a pilot program to sell pools of loans from its loan portfolio rather than servicing such loan itself. It is expected that if the program results in additional funds received by the Agency over the amounts expected to be received if such loans were serviced by the SBA and held to maturity, the loan sale program will continue.

Gains and losses loan-by-loan were recognized as cost of operations for the pre-1992 loans in the sale.

This year, calculation of the budget request for loan subsidy allowance for FY 2001 7(a) and direct loans, did not reflect any cash flows or gains and losses from this pilot sale. OMB granted the SBA permission to calculate its expected cash flows from loans using only the first 3 quarters of the fiscal year, for timeliness concerns, rather than a full year. The loan sale occurred in the 4th quarter, and any cash flow changes requiring additional subsidy or reducing future subsidy, which would be reflected in the subsidy expense for the year, were not determinable at year-end. Showing this completely neutral effect upon future cash receipts and disbursements is a more conservative approach than speculation about positive future sale results based upon one pilot sale.

J. Advances

Advances are made to cover principal and interest due for debentures in SBA's Section 503, Section 504, and SBIC programs, to subcontractors for goods to be delivered as part of SBA's 8(a) program, and for travel expenses.

K. Governmental Investments

The 7(a) secondary market program is administered by an agent of the Small Business Administration. The agent receives collections from banks on 7(a) loans guaranteed by the SBA, and makes payments to secondary holders who have investments in pools of 7(a) guaranteed loans. This accumulated interest is the property of the SBA, but future payments, required to the holders of 7(a) secondary market securities, could exceed the principal amount of the trust fund. The interest, as well as the principal in the trust fund, is invested in short term Treasury securities. The SBA's policy is to carry the value of the interest in the 7(a) trust fund as "securities" on its financial statements, offset by an equal amount of "deferred credits." This accounting treatment recognizes the nature of the investment, and the existence of a possible future claim on interest invested in the securities.

L. Borrowings Payable to the Treasury

Borrowings payable to the Treasury result from loans from the Treasury to fund the credit reform financing accounts. These funds are required to make periodic principal payments to Treasury based on the collections of loans receivable.

M. Liability for Loan Guarantees

There are two components to the Agency's liability for guaranteed loans: liabilities for losses on pre-1992 loans, and liabilities on post-1991 loans made under the Federal Credit Reform legislation. For pre-1992 guarantees, the amount is an estimate of losses on guarantees outstanding based on historical experience. For post-1991 loans, the liability is based on the present value of future cashflows on the loans.

N. Contingencies

The SBA is a party in various administrative proceedings, legal actions, environmental suits, and claims brought by or against it. In the opinion of SBA management and legal counsel, the ultimate resolution of these proceedings, actions, suits and claims will not materially affect the financial position or results of SBA operations.

O. Annual, Sick and Other Leave

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave is adjusted to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

Sick leave and other types of non-vested leave are expensed as taken.

P. Federal Employees' Compensation Act

The future workers' compensation estimates are generated from an application of actuarial procedures developed to estimate the liability for Federal Employees' Compensation Act (FECA) benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using the paid losses extrapolation method calculated over the next 23 year period. This method utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. These annual benefit payments have been discounted to present value.

Q. Retirement Plan

The SBA's employees participate in one of two retirement systems, the Civil Service Retirement System (CSRS), or the Federal Employees Retirement System (FERS). On January 1, 1987, the FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to SBA employees which automatically contributes 1% of pay, matches any employee contributions dollar for dollar for the first 3% of basic pay, and for each dollar of the next 2% of pay contributions are matched 50 cents on the dollar.

For most employees hired since December 31, 1983, SBA also contributes the employer's matching share for Social Security. The SBA does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amo

R. Combined Statements

SBA's Statement of Budgetary Resources and Statement of Financing were prepared as combined statements. As such, intra-entity transactions have not been eliminated.

NOTE 2. Fund Balances with Treasury:

Fund Balances:

	Entity Assets	Non-Entity Assets	Total
(1) Trust Funds	$285,839	$0	$285,839
(2) Revolving Funds	1,045,090,165	0	1,045,090,165
(3) Appropriated Funds	7,178,280,569	0	7,178,280,569
Total	**$8,223,656,573**	**$0**	**$8,223,656,573**

NOTE 3. Cash:

The cash balance held outside the U.S. Treasury was $2,676,639. This balance was composed primarily of cash on hand.

NOTE 4. Investments:

Investments are comprised of marketable federal securities held by an agent of the U. S. Small Business Administration. These securities are valued on a cost basis and maintain a balance of $350,586,269 as of September 30, 1999. Cost basis and market value are the same.

NOTE 5. Accounts Receivable:

Entity Assets	**Account Balance Intragovernmental**	**Account Balance Governmental**
Business Loan and Investment Fund	$40,368,19	$25,696,974
Disaster Loan Fund	297,983,048	(21,324)
Pollution Control	0	0
Surety Bond Guaranty Program	0	1,733,210
Business Assistance Trust Fund	0	0
Salaries and Expenses	5,169,587	450,529
Office of Inspector General	373,066	1,145
Total	**$343,893,893**	**$27,860,534**

Other Information:

Accounts Receivable - Intragovernmental represents reimbursements from other agencies and funds. The amounts shown for the Business Loan and Investment Fund and the Disaster Loan Fund are comprised entirely of interest due from Treasury on cash held by Treasury.

Accounts Receivable – Governmental primarily represents amounts due from participating financial institutions for guarantee fees. The balances in the Salaries and Expenses and the Office of Inspector General funds represent receivables due from Agency employees or vendors.

Based upon historical experience, a collection policy and the ability to offset against the participant's share of loan collections, no allowance for unrecoverable accounts is provided. No allowance for unrecoverable accounts for administrative activity is necessary because employee accounts may be recovered through an offset process and vendor receivables are generally offset against disbursements made to the vendor.

NOTE 6. Advances:

Entity Assets	Account Balance Intragovernmental	Account Balance Governmental
Sec. 503 Debentures	$3,628,752	$0
Sec. 504 Debentures	0	5,140,226
SBIC	0	116,915,463
8(a) Program Subcontractors	0	7,145,236
Travel Advances	0	16,919
Total	**$3,628,752**	**$129,217,844**

NOTE 7. Loans and Loan Guarantees, Non-Federal Borrowers:

A. SBA operates the following loan and/or loan guarantee programs:
(1) Business, Direct
(2) Business, Guarantee
(3) Disaster, Direct
(4) Pollution Control, Guarantee

Direct loan obligations or loan guarantee commitments made prior to FY 1992, and the resulting direct loans or loan guarantees, are reported net of an allowance for estimated uncollectible loans or estimated losses. Loss allowances represent estimates of what SBA does not expect to recover on its loans receivable obligated prior to FY 1992. These allowances are based upon historical experience, current market conditions and an analysis of individual assets. They are non-funded and merely attempt to reflect the anticipated unrecoverable loans receivable.

Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loans or loan guarantees, are governed by the Federal Credit Reform Act. The Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, estimated delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the loan or loan guarantee is made.

An analysis of loans receivable, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the loans and loan guarantees is provided in the following sections.

An analysis of loans receivable, loan guarantees, liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the loans and loan guarantees is provided in the following sections.

B. Direct Loans Obligated Prior to FY 1992:

Liquidating Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Direct Loans
(1) Business	$332,501,401	$1,870,879	($62,863,703)	$10,313,436	$281,822,013
(2) Disaster	1,116,446,128	17,687,237	(80,000,757)	589,035	1,054,721,644
Total	**$1,448,947,529**	**$19,558,116**	**($142,864,460)**	**$10,902,471**	**$1,336,543,657**

C. Direct Loans Obligated After FY 1991:

Credit Reform Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Net Present Value of Assets Related to Direct Loans
(1) Business	$118,453,746	$2,356,534	$250,654	($31,160,445)	$89,900,489
(2) Disaster	5,658,607,878	38,808,366	1,032,638	(929,356,794)	4,769,092,088
Total	**$5,777,061,623**	**$41,164,900**	**$1,283,292**	**($960,517,239)**	**$4,858,992,577**

D. Defaults on Pre-1992 Guaranteed Loans:

Liquidating Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Defaulted Guaranteed Loans Receivable, Net
(1) Business	$671,897,499	$44,056,753	($323,599,891)	$11,180,537	$403,534,898
(2) Pollution	47,405,266	342,935	(32,016,345)	0	15,731,856
Total	**$719,302,766**	**$44,399,687**	**($355,616,236)**	**$11,180,537**	**$419,266,754**

E. Defaults on Post-1991 Guaranteed Loans:

Credit Reform Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Net Present Value of Assets Related to Defaulted Guarantee Loans Receivable
Business	$592,349,812	$20,774,168	$19,159,378	($160,635,766)	$471,647,592

F. Guaranteed Loans Outstanding:

Loan Programs	Outstanding Principal, Guaranteed Loans Receivable, Gross	Amount of Outstanding Principal Guaranteed
(1) Business	$39,551,704,489	$31,924,382,912
(2) Pollution	0	45,140,146
Total	**$39,352,382,622**	**$31,969,523,058**

G. Liability for Loan Guarantees:

Loan Programs	Liabilities for Losses on Pre-1992 Guarantees Liquidating	Liabilities for Loan Guarantees for Post-1991 Guarantees (Present Value)	Total Liabilities for Loan Guarantees
(1) Business	$17,621,222	$1,380,126,392	$1,397,747,614
(2) Pollution	6,940,886	0	$6,940,886
Total	**$24,562,108**	**$1,380,126,392**	**$1,404,688,501**

H. Subsidy Expense for Post-1991 Loans:

1. Current Year's Direct Loans

Loan Programs	Interest Differential	Defaults	Fees	Other	Total
(1) Business	$1,128,798	($55,694)	$1,326	($21,371)	$1,053,060
(2) Disaster	94,900,742	64,337,989	(66,591)	(7,981,489)	151,190,651
Total	**$96,029,541**	**$64,282,296**	**($65,265)**	**($8,002,860)**	**$152,243,712**

2. Direct Loan Modification and Re-estimates

Loan Programs	Modifications	Re-estimates	Total
(1) Business	$0	$0	$0
(2) Disaster	0	(152,690,680)	(152,690,680)
Total	**$0**	**($152,690,680)**	**($152,690,680)**

3. Total Direct Loan Subsidy Expenses

Loan Program	Total
(1) Business	$1,053,060
(2) Disaster	(1,500,029)
Total	**($446,969)**

I. Subsidy Expense for Post-1991 Loans Guarantees:

1. Current Year's Loan Guarantees

Loan Program	Interest Supplement	Defaults	Fees	Other	Total
Business	$0	$455,956,442	($292,584,272)	($36,129,792)	$127,242,379

2. Loan Guarantee Modifications and Re-estimates

Loan Program	Modifications	Re-estimates	Total
Business	$0	($206,909,581)	($206,909,581)

3. Total Loan Guarantee Subsidy Expenses

Loan Program	Total
Business	($79,667,202)

J. Administrative Expense:

Direct Loans Loan Programs	Total
(1) Business	$18,800,000
(2) Disaster	146,750,000
Total	**$165,550,000**

Loan Guarantees Loan Program	Total
Business	$96,966,563

K. Other Information:

The liability in Part G of this note, for pre-1992 business loans, relates to outstanding gross amounts guaranteed of $2,585,509,735. Of this amount, the Agency's share is $2,262,737,540. For Pollution Control Equipment Contract Guarantees, the outstanding guarantees total $45,140,146. This amount is both gross and Agency share. For post-1991 loans, the gross amount guaranteed for business loans is $36,966,194,754. The Agency's share is $29,661,645,372.

The Foreclosed Property referred to in Parts B through E is comprised of $38,574,920 of Real Estate outstanding on 261 loans and $3,950,758 of Other Property outstanding on 50 loans.

The majority of loans sold in FY 1999 were from the 7(a) program. Under this program, the SBA guarantees a percentage of business loans which are actually made and disbursed by participating banks. Loans with unpaid principal balances totaling $332 million were sold to two successful bidders for $195 million before costs. Since SBA expected to net less than $195 million by holding and servicing the loans itself, the sale was deemed successful. Book value of the loans after consideration of various subsidy allowances and allowances for doubtful accounts totaled $270 million.

For FY 2000, additional sales have been planned. About $1.5 billion of SBA's loan portfolio, to include disaster loans, is expected to be sold in each of the future anticipated sales. The effect of the smaller pilot loan sale in FY 1999, and the effects of the two larger sales planned, will be factored into the calculations of the subsidy expense and allowance next year. At that point, we will determine what the impact may be from future asset sales. If there is no future positive impact to the agency, loan sales will not continue. However, based upon the positive impact of the first sale, we expect to sell the bulk of the SBA's loan portfolio within the next three or four years.

NOTE 8. General Property, Plant and Equipment, Net:

Classes of Fixed Assets	(1) Depreciation Method	(2) Service Life	(3) Acquisition Value	(4) Accumulated Depreciation	(5) Net Book Value
A. ADP Software	S/L	3 years	$367,168	$229,814	$137,354
B. Equipment	S/L	5 years	1,776,895	1,174,135	602,760
Total			**$2,144,063**	**$1,403,949**	**$740,114**

NOTE 9. Debt:

Liabilities Covered by Budgetary Resources:

	Beginning Balance	New Borrowings	Repayments	Ending Balance
A. Intragovernmental Debt:				
(1) Borrowing from the Treasury	$9,035,041,014	$790,740,255	$0	$9,825,781,269
(2) Borrowing from Federal Financing Bank	233,437,352	0	(39,574,390)	193,862,962
Total Intragovernmental Debt	**$9,268,478,366**	**$790,740,255**	**($39,574,390**	**$10,019,644,231**

NOTE 10. Other Liabilities:

A. Other Liabilities Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total Liabilities
1. Intragovernmental			
(1) Business Loan and Investment Fund	$1,087,921,170	$0	$1,087,921,170
(2) Disaster Loan Fund	1,228,471,847		1,228,471,847
(3) Salaries and Expenses	0	(12,782)	(12,782)
(4) Pollution Control Guarantee Fund	10,594,059	0	10,594,059
Total	**$2,326,987,076**	**$0**	**$2,326,987,076**
2. Governmental			
(1) Business Loan & Investment Fund	$350,459,321	($21,536,377)	$328,922,944
(2) Disaster Loan Fund	0	22,018,990	22,018,990
(3) Salaries and Expenses	0	14,638,136	14,638,136
(4) Office of Inspector General	0	482,010	482,010
(5) Surety Bond Guarantee Fund	34,956,328	(764,832)	34,191,495
Total	**$385,415,649**	**($14,837,927)**	**$400,253,576**

B. Other Information Related to 10.A.:

Amounts shown as Intragovernmental under "Non-Current Liabilities" consists primarily of the net assets of liquidating funds due to Treasury in the amounts of $1,083,636,823 for BLIF, $1,251,932,605 for DLF, and $10,594,059 for the Pollution Control Guarantee Fund. A lesser amount of the BLIF balance consists of amounts due FFB.

The amount shown as Governmental under "Non-Current Liabilities" consists of contingent liabilities for the Surety Bond Guarantee Fund, and primarily deferred credits for BLIF.

C. Other Liabilities not Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total Liabilities
1. Intragovernmental			
(1) FECA – Workers Compensation Liability	$0	$16,585,000	$16,585,000
2. Governmental			
(1) Accrued Unfunded Annual Leave	$0	$24,506,919	$24,506,919
(2) Prior Liens – Real Estate	0	2,990,996	2,990,996
Total Governmental	**$0**	**$27,497,915**	**$27,497,915**

D. Accounts Payable Covered by Budgetary Resources:

Liabilities	Account Balance Intragovernmental	Account Balance Governmental
Business Loan and Investment Fund	$372,069,564	$43,436,757
Disaster Loan Fund	1,155,027,057	329,687
Surety Bond Guaranty Program	0	2,729,518
Business Assistance Trust Fund	0	4,512
Salaries and Expenses	5,190,330	5,790,254
Office of Inspector General	127,602	30,901
Total	**$1,532,414.553**	**$52,321,629**

E. Other Information Related to 10.D.:

The amounts shown as Intragovernmental consist primarily of interest payable to Treasury in the amount of $74,768,068 for BLIF and $630,382,094 for DLF, and a payable to the Special Receipt Fund per downward subsidy re-estimates in the amount of $279,395,271 for BLIF and $509,266,321 for DLF.

The amount shown as Governmental for BLIF consists primarily of payables in the amount of $38,753,604 due to participating banks.

NOTE 11. Unexpended Appropriations:

	Revolving Funds	Trust Funds	Appropriated Funds	Total
A. Unexpended Appropriations:				
(1) Unobligated:				
a. Available	$278,202,392	$110,468	$197,437,125	$475,749,985
b. Unavailable	0	0	0	0
(2) Undelivered Orders	0	20,300	197,757,048	195,777,348
Total	**$278,202,392**	**$130,768**	**$393,194,173**	**$671,527,333**

NOTE 12. Gross Cost and Earned Revenue by Budget Functional Classification:

Functional Classification	Gross Cost	Earned Revenue	Net Cost
Commerce and Housing Credit	$478,472,183	($176,773,834)	$301,698,350
Community and Regional Development	957,875,950	(744,628,667)	213,247,283
Total	**$1,436,348,133**	**($921,402,501)**	**$514,945,633**

NOTE 13. Footnote Disclosures Related to the Statement of Budgetary Resources:

SBA had no available borrowing or contract authority at the end of the FY 1999 reporting period. Repayments of borrowings are made annually from collections received through SBA's credit reform portfolio. Borrowing repayments are calculated using the guidance provided by OMB. SBA has access to permanent indefinite appropriations for the purpose of funding liquidating fund obligations and upward subsidy re-estimates.

Legend:	
BLIF	Business Loan and Investment Fund
DLF	Disaster Loan Fund
SBGRF	Surety Bond Guarantees Revolving Fund
PCECGRF	Pollution Control Equipment Contract Guarantees Revolving Fund
S&E	Salaries and Expenses
OIG	Office of Inspector General
BATF	Business Assistance Trust Fund

U.S. Small Business Administration

Balance Sheet

as of September 30, 1999

ASSETS	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Intragovernmental Assets:								
Fund Balances with Treasury (Note 2)	$2,143,487,943	$5,789,772,048	$40,658,336	$1,803,089	$245,428,930	$2,220,388	$285,839	$8,223,656,573
Investments (Note 4)	0	0	0	0	0	0	0	0
Accounts Receivable, Net Note 5)	40,368,193	297,983,048	0	0	5,169,587	373,066	0	343,893,893
Advances (Note 6)	3,628,752	0	0	0	0	0	0	3,628,752
Governmental Assets:								
Investments (Note 4)	350,586,269	0	0	0	0	0	0	350,586,269
Accounts Receivable, Net (Note 5)	25,696,974	(21,324)	1,733,210	0	450,529	1,145	0	27,860,534
Credit Program Receivables and Related Foreclosed Property, Net (Note 7)	1,246,904,992	5,823,813,732	0	15,731,856	0	0	0	7,086,450,580
Cash and Other Monetary Assets (Note 3)	2,605,682	0	0	0	70,957	0	0	2,676,639
General Property and Equipment, Net (Note 8)	0	0	0	0	713,761		26,353	740,114
Advances (Note 6)	129,200,925	0	0	0	16,919	0	0	129,217,844
Total Entity Assets	**$3,942,479,730**	**$11,911,547,504**	**$42,391,546**	**$17,534,945**	**$251,850,682**	**$2,594,599**	**$312,192**	**$16,168,711,197**
Total Non-Entity Assets	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Total Assets	**$3,942,479,730**	**$11,911,547,504**	**$42,391,546**	**$17,534,945**	**$251,850,682**	**$2,594,599**	**$312,192**	**$16,168,711,197**

The accompanying notes are an integral part of this schedule. Details may not add to totals due to rounding.

U.S. Small Business Administration

Balance Sheet

as of September 30, 1999

LIABILITIES	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Liabilities Covered by Budgetary Resources:								
Intragovernmental Liabilities:								
Accounts Payable	$372,069,564	$1,155,027,057	$0	$0	$5,190,330	$127,602	$0	$1,532,414,553
Debt (Note 9)	615,224,097	9,404,420,135						10,019,644,231
Other (Notes 10)	1,087,921,170	1,228,471,847		10,594,059				2,326,987,076
Governmental Liabilities:								
Accounts Payable	43,436,757	329,687	2,729,518		5,790,254	30,901	4,512	52,321,629
Liabilities for Loan Guarantees (Note 7)	1,397,747,614			6,940,886	0	0		1,404,688,501
Other (Note 10)	328,922,944	22,018,990	34,191,495		14,638,136	482,010		400,253,576
Total Liabilities Covered by Budgetary Resources	**$3,845,322,146**	**$11,810,267,716**	**$36,921,013**	**$17,534,945**	**$25,618,720**	**$640,513**	**$4,512**	**$15,736,309,566**
Liabilities Not Covered by Budgetary Resources:								
Intragovernmental Liabilities:								
Debt (Note 9)	$0	$0	$0	$0	$0	$0	$0	$0
Other (Note 10)					16,585,000			16,585,000
Governmental Liabilities:								
Other (Note 10)	2,715,229	275,767			23,824,675	682,244		27,497,915
Total Liabilities Not Covered by Budgetary Resources	**$2,715,229**	**$275,767**	**$0**	**$0**	**$40,409,675**	**$682,244**	**$0**	**$44,082,915**
Total Liabilities	**$3,848,037,375**	**$11,810,543,483**	**$36,921,013**	**$17,534,945**	**$66,028,395**	**$1,322,757**	**$4,512**	**$15,780,392,480**

The accompanying notes are an integral part of this schedule. Details may not add to totals due to rounding.

U.S. Small Business Administration

Balance Sheet

as of September 30, 1999

NET POSITION	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Unexpended Appropriations (Note 11)	$99,093,704	$101,004,021	$278,202,392		$191,577,127	$1,519,321	$130,768	$671,527,333
Cumulative Results of Operations	(4,651,349)	0	(272,731,860)		(5,754,840)	(247,479)	176,912	(283,208,616)
Total Net Position	**$94,442,355**	**$101,004,021**	**$5,470,532**	**$0**	**$185,822,287**	**$1,271,842**	**$307,680**	**$388,318,717**
Total Liabilities and Net Position	**$3,942,479,730**	**$11,911,547,504**	**$42,391,546**	**$17,534,945**	**$251,850,682**	**$2,594,599**	**$312,192**	**$16,168,711,197**

The accompanying notes are an integral part of this schedule. Details may not add to totals due to rounding.

U.S. Small Business Administration

Consolidated Statement of Changes in Net Position

for the period ended September 30, 1999

	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Net Cost of Operations	**$3,515,635**	**$213,247,284**	**$3,967,761**	**$1,359,397**	**$282,530,755**	**$10,173,242**	**$151,559**	**$514,945,633**
Financing Sources:								
Appropriations Used	279,629,137	634,970,059	8,094,492		280,294,547	10,641,030	151,667	1,213,780,932
Changes to Resources Payable to Treasury	(42,701,986)	(22,684,070)		(1,359,397)				(64,026,659)
Donations							130,768	130,768
Imputed Financing					17,327,517			17,327,517
Transfers-out	(238,062,865)	(399,038,705)						(637,101,570)
Net Results of Operations	**$4,651,349**	**$0**	**$4,126,731**	**$0**	**$15,091,309**	**$467,788**	**$130,876**	**$15,165,355**
Prior Period Adjustments	0	0	0	0	0	0	0	0
Net Change in Cumulative Results of Operations	**($4,651,349)**	**$0**	**$4,126,731**	**$0**	**$15,091,309**	**$467,788**	**$130,876**	**$15,165,355**
Increase (Decrease) in Unexpended Appropriation	16,343,771	331,535,566	(4,794,492)	0	6,367,704	(559,875)	(151,666)	348,741,008
Change in Net Position	**$11,692,421**	**$331,535,566**	**($667,761)**	**$0**	**$21,459,013**	**($92,087)**	**($20,790)**	**$363,906,363**
Net Position - Beginning of the Period	82,749,934	(230,531,546)	6,138,293	0	164,363,274	1,363,929	328,470	24,412,354
Net Position - End of Period	**$94,442,355**	**$101,004,021**	**$5,470,532**	**$0**	**$185,822,287**	**$1,271,842**	**$307,680**	**$388,318,717**

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. Small Business Administration

Combined Statement of Budgetary Resources (Note 13)

for the period ended September 30, 1999

RESOURCES	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Budget Authority:								
Appropriations	$266,397,735	$630,235,132	$3,300,000	$4,000,000	$293,139,604	$10,800,000	$0	$1,207,872,471
Borrowing Authority	36,894,633	878,847,400						915,742,033
Net Transfers, Current Year Authority	(39,574,390)	5,000,000			13,668,904			(20,905,486)
Unobligated Balance:								
Brought Forward October 1	2,345,149,702	4,246,762,340	41,171,857	14,044,901	51,227,762	1,161,884	237,990	6,699,756,435
Net Transfers Prior-Year Balance, Actual								
Spending Authority from Offsetting Collections:								
Earned								
Collected	1,376,392,360	1,807,267,584	4,192,875	590,036	268,900,041	500,794	130,768	3,457,974,459
Receivable from Federal Sources	(153,798,781)	(12,054,840)			3,856,674	373,066		(161,623,880)
Adjustments:								
Recoveries of Prior Year Obligations	37,320,322	104,498,855			47,324,220	215,193		189,358,590
Temporarily Not Available Pursuant to Public Law								
Permanently Not Available								
Cancellations of Expired and No Year Accounts	(6,470,965)				(4,121,331)	(106,554)		(10,698,850)
Enacted Rescissions of Prior Year Balances	(6,000,000)							(6,000,000)
Capital Transfers and Redemption of Debt	(287,571,755)	(705,359,302)		(14,044,901)				(1,006,975,958)
Total Budgetary Resources	**$3,568,738,862**	**$6,955,197,169**	**$48,664,732**	**$4,590,036**	**$673,995,874**	**$12,944,383**	**$368,758**	**$11,264,499,814**

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. Small Business Administration

Combined Statement of Budgetary Resources (Note 13)

for the period ended September 30, 1999

STATUS	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Obligations Incurred:								
Category A, Direct	$0	$0	$0	$0	$636,207,927	$12,029,905	$107,742	$648,345,574
Category B, Direct	1,909,172,474	1,411,653,647	8,946,179	2,786,947				3,332,559,248
Direct, Not Subject to Apportionment	94,000,000	146,750,000						240,750,000
Reimbursable	1,642,528							1,642,528
Unobligated Balances Available:								
Apportioned					21,080,403		261,016	21,341,419
Other					16,707,544			16,707,544
Unobligated Balances Not Yet Available:								
Apportioned for Subsequent Periods						499,536		499,536
Other	1,563,923,860	5,396,793,522	39,718,552	1,803,089		414,942		7,002,653,964
Total, Status of Budgetary Resources	**$3,568,738,862**	**$6,955,197,169**	**$48,664,732**	**$4,590,036**	**$673,995,874**	**$12,944,383**	**$368,758**	**$11,264,499,814**

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. Small Business Administration

Combined Statement of Budgetary Resources (Note 13)

for the period ended September 30, 1999

OUTLAYS	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Obligations Incurred:								
Category A, Direct	$0	$0	$0	$0	$636,207,927	$12,029,905	$107,742	$648,345,574
Category B, Direct	1,909,172,474	1,411,653,647	8,946,179	2,786,947				3,332,559,248
Direct, Not Subject to Apportionment	94,000,000	146,750,000						240,750,000
Reimbursable	1,642,528							1,642,528
Less: Spending Authority from Offsetting Collections and Adjustments:								
Earned								
Collected	1,376,392,360	1,807,267,584	4,192,875	590,036	268,900,041	500,794	130,768	3,457,974,459
Receivable from Federal Sources	(153,798,781)	(12,054,840)			3,856,674	373,066		(161,623,880)
Actual Recoveries of Prior Year Obligations	37,320,322	104,498,855			47,324,220	215,193		189,358,590
Obligated Balance, Net – Beginning of the Period:	214,198,879	1,114,922,409	1,187,813		161,890,339	448,510	64,225	1,492,712,175
Less: Obligated Balance, Net - End of Period:								
Accounts Receivable	(391,660,274)	(897,453,142)			(5,169,255)	(373,066)		(1,294,655,737)
Undelivered Orders	519,195,206	166,432,737			194,969,818	787,230	20,300	881,405,291
Accounts Payable	454,634,822	1,249,000,721	939,784		25,543,061	640,513	4,512	1,730,763,413
Total Outlays	**$376,930,224**	**$255,634,141**	**$5,001,334**	**$2,196,911**	**$262,673,708**	**$10,334,685**	**$16,387**	**$912,787,391**
Disbursements	$1,753,322,585	$2,062,901,725	$9,194,209	$2,786,947	$531,573,749	$10,835,479	$147,155	$4,370,761,849
Collections	($1,376,392,360)	($1,807,267,584)	($4,192,875)	($590,036)	($268,900,041)	($500,794)	($130,768)	($3,457,974,459)

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. Small Business Administration

Combined Statement of Financing

for the period ended September 30, 1999

	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Resources Used to Finance Activities:								
Budgetary								
Budgetary resources obligated for orders and services to be received or benefits to be provided to others	$2,003,172,474	$1,558,403,647	$8,946,179	$2,786,947	$636,207,927	$12,029,905	$107,742	$4,221,654,823
Less: Offsetting collections, recoveries of prior-year authority								
Earned reimbursements								
Collected	1,376,392,360	1,807,267,584	4,192,875	590,036	268,900,041	500,794	130,768	3,457,974,459
Receivable from Federal sources	(153,798,781)	(12,054,840)			3,856,674	373,066		(161,623,880)
Transfers from Trust Funds	(1,642,528)							(1,642,528)
Recoveries of prior-year obligations	37,320,322	104,498,855			47,324,220	215,193		189,358,590
Net budgetary resources used to finance activities	**$744,901,100**	**($341,307,952)**	**$4,753,305**	**$2,196,911**	**$316,126,992**	**$10,940,852**	**($23,026)**	**$737,588,182**

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. Small Business Administration

Combined Statement of Financing

for the period ended September 30, 1999

	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Non-Budgetary								
Costs incurred by others for the entity without reimbursement					17,327,517			17,327,517
Net non-budgetary resources used to finance activities	**$0**	**$0**	**$0**	**$0**	**$17,327,517**	**$0**	**$0**	**$17,327,517**
Total resources used to finance activities	**$744,901,100**	**($341,307,952)**	**$4,753,305**	**$2,196,911**	**$333,454,509**	**$10,940,852**	**($23,026)**	**$754,915,699**
Relationship of total resources to net cost of operations:								
Deduct resources used to fund items not part of the net cost of operations								
Increase in budgetary resources obligated to order goods and services not yet received or benefits not yet provided	64,107,829	15,025,068			96,452,524	1,929,024	(43,814)	177,470,631

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. Small Business Administration
Combined Statement of Financing
for the period ended September 30, 1999

	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Budgetary offsetting collections that do not increase exchange revenue or decrease expenses								
Collections that decrease assets unrelated to exchange revenue	$582,523,871	$755,324,691	$0	$527,192	$0	$0	$0	$1,338,375,754
Credit program collections that increase liabilities for loan guarantees or allowances for subsidy	(15,044,574)	488,095,301						473,050,726
Other	339,104,489	22,355	4,192,875					343,319,719
Adjustments other than collections made to compute net budgetary resources that do not affect net cost of operations								
Recoveries of prior-year authority	(9,010,443)	85,439,480			(47,324,220)	(215,193)		28,889,623
Resources that fund expenses recognized in prior periods	12,883,619		1,135,975					14,019,594

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. Small Business Administration

Combined Statement of Financing

for the period ended September 30, 1999

	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Resources that finance the acquisition of assets or liquidation of liabilities								
General property, plant and equipment	$0	$0	$0	$0	$195,698	$0	$0	$195,698
Loans Receivable	378,796,797	763,656,753	(350,431)	1,075,304				1,143,178,422
Collateral Acquired	(4,297,140)	(677,175)						(4,974,315)
Other resources used to fund items not part of the net cost of operations	(14,545,116)	(509,460,739)			5,274,172	682,244		(518,049,440)
Total resources used to fund items not part of the net cost of operations	**($460,627,354)**	**($1,060,337,919)**	**($3,407,331)**	**$548,112**	**$149,246,614**	**$2,826,461**	**($43,814)**	**($1,371,795,232)**
Resources used to finance the net cost of operations	**$1,205,528,455**	**$719,029,967**	**$8,160,636**	**$1,648,799**	**$184,207,895**	**$8,114,391**	**$20,788**	**$2,126,710,931**

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. Small Business Administration

Combined Statement of Financing

for the period ended September 30, 1999

	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Components of net cost of operations that do not require or generate resources during the reporting period								
Expenses or exchange revenue related to the disposition of assets or liabilities, or allocation of their costs over time:								
Expenses related to the use of assets	$0	$0	$0	$0	$413,297	$0	$0	$413,297
Gains or (losses) from revaluation of assets and liabilities	(6,445,960)	(721,385)						(7,167,344)
Decrease in exchange revenue receivable from the public	(295,054,943)	252,544,946	(4,192,875)	(103,532)				(46,806,403)
Interest revenue from amortization of credit program allowance for subsidy	(23,652,303)	(182,764,025)						(206,416,328)
Other	(294,777,147)	(552,888,203)			270			(847,665,080)
Subtotal	**($619,930,353)**	**($483,828,666)**	**($4,192,875)**	**($103,532)**	**$413,567**	**$0**	**$0**	**($1,107,641,859)**

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. Small Business Administration
Combined Statement of Financing
for the period ended September 30, 1999

	BLIF	DLF	SBGRF	PCECGRF	S&E	OIG	BATF	TOTAL
Expenses that will be financed with budgetary resources recognized in future periods								
Other	(26,950,014)	8,809,481			16,585,000			(1,555,533)
Subtotal	**($26,950,014)**	**$8,809,481**	**$0**	**$0**	**$16,585,000**	**$0**	**$0**	**($1,555,533)**
Other net cost components that do not require or generate resources during the reporting period	(555,132,452)	(30,763,498)		(185,870)	81,324,292	2,058,852	130,771	(502,567,905)
Total components of net cost of operations that do not require or generate resources during the reporting period	**($1,202,012,819)**	**($505,782,683)**	**($4,192,875)**	**($289,402)**	**$98,322,859**	**$2,058,852**	**$130,771**	**($1,611,765,297)**
Net cost of operations	**$3,515,635**	**$213,247,284**	**$3,967,761**	**$1,359,397**	**$282,530,754**	**$10,173,243**	**$151,559**	**$514,945,633**

The accompanying notes are an integral part of this statement for current year data. Details may not add to totals due to rounding.

U.S. Small Business Administration

Required Supplementary Stewardship Information

for the period ended September 30, 1999

Stewardship Investments in Human Capital	Cost for Fiscal Year
Office of Small Business Development Centers	$79,077,992
Office of Women’s Business Ownership	12,085,761
Service Corp of Retired Executives	9,236,519
Business Information Centers	7,832,769
Office of International Trade	5,769,800
One Stop Capital Shops	5,137,447
HubZones Program	4,872,103
Other Business Initiatives	4,255,922
Small Business Innovation and Research	3,597,365
Ombudsman	3,396,153
Welfare to Work	2,988,173
Office of Veteran Affairs	2,862,847
Office of Native American Affairs	2,504,968
Women's Business Council	693,518
Total	**$144,311,336**

A detailed description of the programs may be found in the SBA Program Description and Analysis portion of this document.

Intragovernmental Assets and Liabilities

	ASSETS			LIABILITIES		
Trading Partner	**Fund Balance With Treasury**	**Accounts Receivable**	**Advances**	**Accounts Payable**	**Debt/Borrowings from Other Agencies**	**Other**
Federal Financing Bank	$0	$0	$3,628,752	$10,274,378	$193,862,962	$0
Department of the Treasury	8,223,656,573	343,893,894		1,500,177,509	9,825,781,269	2,326,987,076
Office of Personnel Management				21,962,666		16,585,000
Total	**$8,223,656,573**	**$343,893,894**	**$3,628,752**	**$1,532,414,553**	**$10,019,644,231**	**$2,343,572,076**

U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416

AUDIT REPORT
Issue Date: February 29, 2000
Number: 0-06

To: Joseph P. Loddo, Chief Financial Officer

Robert G. Seabrooks

From: Robert G. Seabrooks, Assistant Inspector General for Auditing

Subject: Audit of SBA's FY 1999 Financial Statements

Pursuant to the Chief Financial Officers Act of 1990, attached is the Independent Auditors' Report issued by Cotton & Co., LLP. They concluded that the financial statements present fairly, in all material respects, the financial position of SBA as of September 30, 1999, and its net costs, changes in net position, budgetary resources, and financing for the year then ended in conformity with generally accepted accounting principles for the Federal government.

The section on SBA's internal control structure discusses problems related to (1) the financial reporting process and (2) information systems controls. The section on compliance with laws and regulations indicates SBA's financial management system was not in compliance with the requirements referred to in the Federal Financial Management Improvement Act of 1996. The report also includes a disclaimer on information in the agency's Accountability Report that was not subject to audit procedures. The auditors also noted other management and internal control issues that will be communicated in a separate management letter.

SBA management stated that it is committed to maintaining an unqualified opinion on its financial statements and to making the improvements needed to remove the internal control findings. **The findings in this report are based on the auditors' conclusions and the report recommendations are subject to review, management decision and action by your office, in accordance with existing Agency procedures for follow-up and resolution.** Please provide us your proposed management decision on SBA Form 1824, Recommendation Action Sheet, also attached, within 30 days.

Should you or your staff have any questions, please contact me or John McCreary, Audit Manager at (202) 205-7204.

Attachments

COTTON & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS
333 NORTH FAIRFAX STREET • SUITE 401 • ALEXANDRIA, VIRGINIA 22314

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CATHERINE L. NOCERA, CPA
COLETTE Y. WILSON, CPA

February 14, 2000

Inspector General
U.S. Small Business Administration

Independent Auditors' Report on Financial Statements

We have audited the Balance Sheet and Related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing of the U.S. Small Business Administration (SBA) as of and for the year ended September 30, 1999. These financial statements are the responsibility of SBA management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, Audit Requirements of Federal Financial Statements, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures relating to the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SBA as of September 30, 1999, and its net costs, changes in net position, budgetary resources, and financing for the year then ended in conformity with generally accepted accounting principles for the Federal government.

The Required Supplementary Stewardship Information is not a required part of the basic financial statements, but is supplementary information required by OMB Bulletin 97-01, Form and Content of Federal Agency Financial Statements, as amended. We applied certain limited procedures that consisted principally of inquiries of management regarding methods of measurement and presentation of supplementary information. We did not, however, audit the information and express no opinion on it.

The information in the Agency Overview and SBA Program Description and Analysis sections is also not a required part of the basic financial statements, but is supplementary information required by OMB Bulletin No. 97-01, as amended. We reviewed this information to determine if it is materially inconsistent with the financial statements. In our tests, we identified no inconsistencies. We did not, however, audit the Agency Overview and SBA Program Description and Analysis sections and, accordingly, express no opinion on them.

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In accordance with *Government Auditing Standards*, we have also issued reports dated February 14, 2000, on our consideration of SBA's internal control and on its compliance with certain provisions of laws and regulations.

COTTON & COMPANY LLP

By: ______________________
Matthew H. Johnson, CPA

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COLETTE Y. WILSON, CPA

February 14, 2000

Inspector General
United States Small Business Administration

Independent Auditors' Report on Internal Control

We have audited the Balance Sheet of the U.S. Small Business Administration (SBA) as of September 30, 1999, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources and Financing for the year ended September 30, 1999, and have issued our report thereon dated February 14, 2000. We conducted our audit in accordance with generally accepted auditing standards; standards applicable to financial audits contained in *Government Auditing Standards* (1999 revision), issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, Audit Requirements for Federal Financial Statements, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered SBA's internal control over financial reporting by obtaining an understanding of the agency's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 98-08, as amended. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal controls that, in our judgment, could adversely affect an agency's ability to record, process, summarize, and report financial data consistent with management assertions in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amount that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters discussed in the following paragraphs involving the internal control structure and its operation that we consider to be reportable conditions.

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1. FINANCIAL REPORTING PROCESS

SBA's financial reporting process did not ensure that its financial statements were free of material misstatements. As a result of our Fiscal Year (FY) 1998 audit, we reported that SBA's financial reporting process was a material weakness and made three recommendations:

- SBA develop a detailed comprehensive plan for preparing the FY 1999 financial statement report.
- SBA obtain the resources necessary to ensure accurate and timely preparation of FY 1999 financial statements including adequate resources to conduct a thorough quality control review of the financial statements prior to submission to the auditors.
- SBA obtain training for all staff assuming financial reporting responsibilities.

SBA took several steps to respond to our recommendations. We found, however, that overall the quality control process was not adequate, and staff and management required additional training on both accounting requirements and SBA's processes. Several other factors that contributed to this weakness are discussed below.

During FY 1999, SBA moved its primary financial reporting responsibilities to the Denver Finance Center. Thus, staff had little or no experience with SBA's financial reporting process. This change by itself created obvious challenges which were magnified by the overly complex manual financial reporting process. Specifically, the financial reporting for the agency's loan and loan guarantee programs is performed by its Loan Accounting System (LAS) and an array of "off-line" general ledgers. LAS maintains records and balances for both loan guarantees and direct loans, but it does not provide complete general ledger accounting records. For the general ledger accounting performed through LAS, LAS produces an "on-line" trial balance (MARS-317) report.

Because LAS does not fully meet the agency's general ledger requirements, SBA uses Excel spreadsheets to maintain off-line general ledgers. For FY 1999, SBA used 68 separate Excel spreadsheets (one spreadsheet for each fund, applicable cohort year, and appropriation) to maintain its off-line general ledgers. Transactions were entered on the off-line general ledgers through the use of journal vouchers (JVs). Fund Accountants, who were assigned responsibilities by loan fund, prepared the JVs, and an accounting technician entered the JV into the applicable Excel spreadsheet through the use of "T" accounts. During FY 1999, over 3,200 JVs were prepared and entered into the off-line general ledgers. At a minimum, each JV affects two account balances and frequently more than six. The "T" accounts are summarized and produce off-line trial balances.

The on-line trail balance and the off-line trial balance data were then manually entered onto another Excel spreadsheet to get a "combined" trial balance. This combining process was used for all of SBA's loan funds, except for its Program Funds. Because of the considerable number of separate off-line general ledgers in this fund, an additional iteration of spreadsheets is completed prior to the combined trial balance. The Program Fund for business loans, for example, required 22 separate off-line general ledgers.

Combined trial balances for each of the funds were consolidated through an automated process, to produce a "consolidated" trial balance. This consolidated trial balance was then used to prepare the agency's financial statements. The statements were not, however, prepared in an automated manner; the amounts were manually entered from the consolidated trial balance to the financial statements.

Inherent to any manual processes is the susceptibility for errors. As described above, SBA is heavily reliant upon manual processes. Although automating and minimizing manual processes is preferred, the current process, nevertheless, is manual and the risks inherent to this process must be mitigated through compensating controls. The typical compensating controls that should be present include:

- Documentation of processes and procedures for activities, such as preparing journal vouchers, calculating loss allowances, preparing and updating trial balances, and preparing financial statements and footnotes.

- Trained and knowledgeable management and staff.

- Management reviews of staff performance.

- Timely and complete quality review process.

In conducting our FY 1999 audit, we found that the above control activities were not in place for SBA's financial reporting process. Because they were not in place, errors occurred, some of which we highlight below.

- On the Statement of Financial Position and the Statement of Changes in Net Position, SBA had incorrectly classified $139 million as Unexpended Appropriation instead of Cumulative Results of Operations.

- In entering the adjustment for the FY 1999 subsidy re-estimate, SBA did not properly account for prior-year re-estimates. As a result, an adjustment of approximately $97 million was required.

- In determining year-end adjustments for its allowance accounts, we found that SBA adjusted its balances incorrectly by over $30 million.

- On the consolidated Statement of Changes in Net Position, SBA incorrectly reported $16.5 million as Other Financing Sources.

- SBA reported asset accounts (advances and accounts receivable) with over $25 million in credit balances. Asset accounts normally have debit balances, and SBA could not adequately explain why these accounts had credit balances.

- On numerous occasions, amounts entered onto the combined trial balance did not agree with the underlying on-line and off-line trial balances. We found, for example, instances in which amounts from an incorrect column on the off-line trial balance were entered on the combing trial balance. We also found instances where the underlying trial balances were known to contain errors. These errors were corrected on the Combined trial balances but not on the underlying records.

We recommend that the Chief Financial Officer (CFO):

- Ensure that adequate resources are provided to implement an effective internal control system over the financial reporting processes.

- Provide additional training to both staff and management responsible for the financial reporting process.

- Develop detailed procedures for activities, such as preparing journal vouchers, calculating loss allowances, preparing and updating trial balances, and preparing financial statements and footnotes.

- Require each fund accountant to process and maintain trial balances and reports in a consistent manner.

- Reduce the manual re-keying of data through automation. To the extent possible, automate the roll-up of data from the off-line and on-line trial balances to the combined and consolidated trial balances and the resulting financial statements.

2. INFORMATION SYSTEMS

SBA took significant and positive steps in FY 1999 toward improving general controls over its information systems. General controls are the policies and procedures that apply to all or a large segment of an entity's information systems and help ensure their proper operation. Even with FY 1999 improvements, significant general controls deficiencies continued to exist, resulting in a continuation of a material weakness, also reported as part of the FY 1998 audit. SBA's Office of Inspector General will issue a separate report titled Audit of SBA's Information Systems Controls, which will detail our findings and recommendations in this area. We recommend that SBA continue its efforts toward implementing an agency-wide information systems security program.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control structure over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We considered the above reportable conditions to be material weaknesses.

In addition, we considered SBA's internal controls over Required Supplementary Stewardship Information by obtaining an understanding of SBA's internal controls, determining whether those internal controls had been placed in operation, assessing control risk, and performing tests of controls as required by OMB Bulletin No. 98-08, as amended. Our procedures were not designed to provide assurance on these internal controls, and, accordingly, we do not express such an opinion.

Finally, with respect to internal controls related to performance measures reported in the sections titled Agency Overview and SBA Program Description and Analysis, we obtained an understanding of the design of significant internal controls related to existence and completeness assertions as required by OMB Bulletin No. 98-08, as amended. Our procedures were not designed to provide assurance on internal controls over reported performance measures, and, accordingly, we do not express such an opinion.

We also noted other matters involving internal controls over financial reporting and its operation that we consider nonreportable conditions. We will communicate these matters to management in a separate letter.

This report is intended solely for the information and use of SBA management, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties. We caution that misstatements, losses, and noncompliance may occur and not be detected by the testing performed and that such testing may not be sufficient for other purposes.

COTTON & COMPANY LLP

By: ______________________

Matthew H. Johnson, CPA

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February 14, 2000

Inspector General
United States Small Business Administration

Independent Auditors' Report on Compliance with Laws and Regulations

We have audited the Balance Sheet of the U.S. Small Business Administration (SBA) as of September 30, 1999, and the related Statements of Net Cost, Changes in Net Position, Budgetary Resources, and Financing for the year ended September 30, 1999, and have issued our report thereon dated February 14, 2000. We conducted our audit in accordance with generally accepted auditing standards; standards applicable to financial audits contained in *Government Auditing Standards* (1999 revision), issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 98-08, Audit Requirements for Federal Financial Statements, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

SBA management is responsible for complying with laws and regulations applicable to the agency. As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of SBA's compliance with certain provisions of laws and regulations. Noncompliance with these laws and regulations could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 98-08, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to SBA.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraph, exclusive of FFMIA, which are required to be reported under *Government Auditing Standards* or OMB Bulletin 98-08.

Under FFMIA, we are required to report whether the agency's financial management systems substantially comply with Federal financial management system requirements, Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin No. 98-08.

Test results disclosed instances, described below, in which the agency's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

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1. **Federal Financial Management Systems Requirements**: In conducting our audit, we found that security over financial information was not provided in accordance with OMB Circular A-130, Management of Federal Information Resources, Appendix 3, Security of Federal Automatic Information Systems.

2. **Federal Accounting Standards**: Test results disclosed that SBA's financial management systems did not substantially comply with Federal accounting standards criterion, because the audit disclosed a material weakness in internal control relating to SBA's ability to prepare auditable statements and related disclosures.

3. **United States Government Standard General Ledger (SGL) at the Transaction Level**: SBA's financial systems did not capture information using the same description and posting rules contained in the SGL. Specifically, SBA's loan accounting system does not adequately capture budgetary data in a manner that facilitates preparation of financial statements and reports. As a result, SBA developed a manual process whereby it develops balances for budgetary accounts based on summaries of various transactions. This manual process, while effective for preparing required reports, does not comply with SGL requirements at the transaction level.

For information required by OMB Bulletin No. 98-08 with respect to these noncompliance matters, please refer to the accompanying Independent Auditor's Report on Internal Control.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

This report is intended solely for the information and use of SBA management, OMB, and Congress and is not intended to be and should not be used by anyone other than these specified parties. We caution that noncompliance may occur and not be detected by the tests performed and that such testing may not be sufficient for other purposes.

COTTON & COMPANY LLP

By: ______________________
Matthew H. Johnson, CPA

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

DATE: FEB 23 2000

TO: Robert G. Seabrooks
Assistant Inspector General
for Auditing

FROM: Joseph P. Loddo
Chief Financial Officer

SUBJECT: Audit of SBA's FY 1999 Financial Statements

We have reviewed the draft audit report supplied by Cotton & Company including the opinion on SBA's fiscal year 1999 financial statements, internal control status, and compliance with applicable laws and regulations. We are pleased to note that the financial statements were completed on time this year, allowing the audit to be completed timely, and that SBA received an unqualified opinion for our fourth year in a row. It is notable that the SBA is the only credit agency to receive an unqualified opinion on its financial statements for four consecutive years. We believe that this indicates to the public that SBA is maintaining its fiscal discipline and soundness, while supporting its increasing loan programs to meet small business needs, and we are very proud of this accomplishment.

We are pleased to find that the number of internal control findings in the audit report has decreased from three for the FY 1998 report to only two in FY 1999 on (1) the financial reporting process and (2) information system controls. Although the FY 1998 audit report was not issued until September last year, the SBA made substantial progress on all three FY 1998 findings – removing the subsidy finding entirely by process improvement and a new Disaster model. The FY 1999 financial statements were submitted on time, and while we improved our quality assurance process, further improvement is needed that we will make in FY 2000. Information system controls have become increasingly important to all Federal agencies with the proliferation of information systems to conduct our business. SBA is committed to this issue, and has dedicated staff and resources since the end of last year to ensure its systems are in full compliance. This will be an on-going effort in the future, including the integration of this requirement with SBA's systems modernization initiative.

The SBA is committed to being a 21st century leading-edge institution. Part of this commitment is maintaining the unqualified opinion on our financial statements and removing all material internal control findings. Therefore, we look forward to working with you and our external auditor, Cotton & Company, during FY 2000 to resolve the remaining two findings. Any questions may be addressed to John Kushman or Louise Wilson of my staff.

Appendix A

MANAGEMENT'S SEMIANNUAL

REPORT ON FINAL ACTIONS

For the Period:

April 1, 1999 – September 30, 1999

Appendix A

EXECUTIVE SUMMARY

INTRODUCTION

The Inspector General Act of 1978, as amended, requires the head of each Federal agency to report, semiannually, on the status of management's action on audit recommendations made by the Office of Inspector General (OIG). Throughout the year, the OIG conducts audits of the Small Business Administration's (SBA) management and programs and makes recommendations for improvement. SBA management has the option to agree or disagree with the OIG's recommendations. Agreement places responsibility on the manager to implement those recommendations, which is referred to as "final action." The Office of the Chief Financial Officer is responsible for monitoring the implementation of audit recommendations and reporting on the status of audit recommendations including final actions. This report, as a supplement to the Semiannual Report of the Inspector General, summarizes the final actions taken from April 1 through September 30, 1999.

FINAL ACTIONS

Recommendations made by the OIG and subsequent final actions taken by management may be of either a monetary or non-monetary nature. Monetary recommendations may take the form of "disallowed costs" or "funds put to better use." Disallowed costs are those which management agrees are a violation of regulations, contracts or other agreements with the SBA, and should not be incurred by the Government. Funds put to better use represent opportunities to reduce operating inefficiencies and to use Agency funds for better purposes. In general, both categories represent the Agency's intent to make the optimum use of its resources. Non-monetary recommendations are those which do not necessarily have any immediate monetary effect; but would, nonetheless, enhance program operations and management capabilities.

The tables in this report summarize the monetary final actions taken over the past semiannual period (Tables I and II) and identify those recommendations awaiting final actions which have been outstanding in excess of 1 year (Table III). Table III serves to prioritize those outstanding recommendations, to identify the circumstances surrounding their delay and to expedite their eventual completion. These tables are summarized as follows:

TABLE I. Final Actions with Disallowed Costs

This table provides statistics on 34 recommendations with disallowed costs and 19 final actions with collections of $1,384,301.

TABLE II. Final Actions to Put Funds to Better Use

This table indicates actions taken on the recommendations concerning putting funds to better use. During the period, there were eight recommendations and six final actions having cost savings of $7,195,556.

TABLE III. Final Actions Not Completed Within 1 Year

This table provides information on nine audits containing 15 recommendations where final action was not taken by SBA management within 1 year of the management decision date of an audit recommendation.

CONCLUSION

The details of final action activity related to monetary recommendations are included after the three tables. In addition to the 25 monetary final actions reported in the three statutorily required categories, SBA management completed 32 final actions on 58 non-monetary recommendations during the semiannual period ending September 30, 1999. (The 58 non-monetary recommendations include 43 recommendations on audits completed during the reporting period.) The SBA has an active program to monitor and follow up on OIG audit recommendations. Our outstanding actions remain at a low level. The Agency expects future reports will continue to show the results of its prompt attention to concerns raised in the Inspector General's audit reports.

Appendix A

TABLE I

FINAL ACTION ON AUDIT RECOMMENDATIONS WITH DISALLOWED COSTS

For The 6 Month Period Ending September 30, 1999

	Number of Recommendations	Disallowed Costs (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	6	$970
B. Recommendations on which management decisions were made during the period.	28	$1,434
C. Total recommendations pending final action during period.	34	$2,405
D. Recommendations on which final action was taken during the period.		
1. Recoveries:		
(a) Collections and Offsets	18	$1,384
(b) Property	0	$0
(c) Other	0	$0
2. Write-Offs	1	$19
3. Total	19	$1,403
E. Recommendations needing final action at the end of the period.	15	$1,001

Appendix A

U.S. SMALL BUSINESS ADMINISTRATION

TABLE II

FINAL ACTION ON AUDIT RECOMMENDATIONS WITH FUNDS PUT TO BETTER USE

For The 6 Month Period Ending September 30, 1999

	Number of Recommendations	Funds to be Put to Better Use (Rounded to Thousands)
A. Recommendations with management decisions on which final action had not been taken at the beginning of the period.	3	$600
B. Recommendations on which management decisions were made during the period.	5	$7,082
C. Total recommendations pending final action during period.	8	$7,681
D. Recommendations on which final action was taken during the period.		
1. Value of recommendations implemented (completed).	6	$7,196
2. Value of recommendations that management concluded should not or could not be implemented or completed.	0	$2
3. Total	6	$7,198
E. Recommendations needing final action at the end of the period.	2	$483

U.S. SMALL BUSINESS ADMINISTRATION

TABLE III

FINAL ACTION ON AUDIT RECOMMENDATIONS NOT COMPLETED WITHIN 1 YEAR

For The 6 Month Period Ending September 30, 1999

Report	Program	Date Issued	Management Decision Date	Questioned Cost Disallowed	Funds Put To Better Use	Explanation
32C002033 8(a) Work Performance Requirements	8(a)	3/31/93	9/30/95			Two recommendations remain open. The 8(a) program is working with the OIG to develop a Procedural Notice to guide the field on how to comply with the intent of the Walsh-Healey Public Contracts Act. The program is also working with the OIG to determine the extent of applicability for a more active role by SBA in monitoring work performance requirements after contract award. We estimate these recommendations will be finalized by June 30, 2000.

Report	Program	Date Issued	Management Decision Date	Questioned Cost Disallowed	Funds Put To Better Use	Explanation
43H006021 8(a) Continuing Eligibility Reviews	8(a)	9/30/94	1/31/95			Four recommendations remain open. (1) The 8(a) program is drafting changes to procedures requiring program participants to annually submit personal financial statements. (2) Changes were implemented in the annual review process to help determine whether 8(a) participants should be considered economically disadvantaged. The program is still reviewing this issue with the OIG. (3) The development of a standard form to report the adjusted personal net worth of 8(a) participants is in process. (4) Due to the statutorily defined date for program year and the SBA's lack of control over a firm's tax year, the program feels that a recommendation to realign 8(a) firms' program years with their fiscal years and the tax years of the owners cannot be implemented. The program is working with the OIG on this issue. We estimate these recommendations will be finalized by June 30, 2000.

Report	Program	Date Issued	Management Decision Date	Questioned Cost Disallowed	Funds Put To Better Use	Explanation
53E010021 8(a) Competitive Business Mix Requirements	8(a)	9/29/95	3/29/97			Three recommendations remain open. (1) Implementation of mandatory limits on the dollar value of 8(a) contracts for every 8(a) company not meeting its competitive mix requirement was affected by changes in 8(a) regulations that eliminated sole source contracts for these companies. It is still too early to tell whether these changes have had the desired effect. (2) The 8(a) program has implemented a plan that, to the maximum extent practicable, tracks former 8(a) companies after they have completed the program and determine whether they are still in business. The 8(a) program is again reviewing this and will make appropriate implementable changes. (3) The 8(a) program is making necessary changes to the computer system to ensure that data needed to track former 8(a) companies is maintained. We estimate these recommendations will be finalized by June 30, 2000.

Report	Program	Date Issued	Management Decision Date	Questioned Cost Disallowed	Funds Put To Better Use	Explanation
53H004006 SBA Loan Servicing & Debt Collection Activities – evaluate effectiveness	7(a)	3/31/95	4/30/95			The remaining open recommendation is to revise bank agreements requiring that guaranty fees be remitted by Electronic Funds Transfer. The Office of Financial Assistance is working closely with the Office of the General Counsel on a revised version of SBA form 750 bank agreement. We anticipate this recommendation will be finalized by December 31, 1999.
65E001021 Basic Ordering Agreements	8(a)	9/25/96	2/10/97			The remaining open audit recommendation concerns limiting assigned SIC codes to one major group. The program office continues to work with OIG to have this recommendation restated and included in a technical correction to regulations. Anticipated completion is June 30, 2000.

Report	Program	Date Issued	Management Decision Date	Questioned Cost Disallowed	Funds Put To Better Use	Explanation
76H006015 FY 1996 Financial Statements – Management Letter	Chief Information Officer	4/29/97	1/26/98			A system to ensure that field computer security officers are made aware of all failed access attempts is being handled through an operating system security upgrade. We anticipate implementation by December 31, 1999.
77F007021 LowDoc Loan Program	7(a)	7/18/97	10/20/97	$23,677.00		One recommendation remains open. The SBA Administrator has approved litigation against the bank for repayment of the amount the Agency disbursed to purchase the guaranty. The case is now with Office of the General Counsel to initiate the lawsuit after they try one last time to get the bank to voluntarily repay.

Report	Program	Date Issued	Management Decision Date	Questioned Cost Disallowed	Funds Put To Better Use	Explanation
77H001011 Grant Closeout Procedures	Management & Administration	3/26/97	10/20/97			One recommendation remains open. An SOP revision has been written that includes grant closeout followup procedures. The OGC conditionally approved the SOP, but required another rewrite of the grants section. SOP changes are expected to be completed by December 30, 1999. In the meantime, a Procedural Notice is being issued to address the open audit issue.
77S918018 User Technology Associates Incurred Costs For CY 92, 93 & 94	Management & Administration	6/6/97	3/26/98	$79,371.94		The one recommendation concerns whether indirect rates reflect rates acceptable by the Defense Contract Audit Agencies. The SBA requested payment from User Technology Associates. No funds have been collected to date, but settlement is expected by December 31, 1999.

DETAIL OF FINAL ACTION ACTIVITY

DISALLOWED COSTS

Report #: 65H002019
Audit Title: Business Loan Center
Amount: $627,039.00 collected
Issue Date: 9/20/96

Summary: The purpose of this audit was to determine whether the Business Loan Center's (BLC) procedures were consistent with SBA's requirements for: (1) originating and servicing loans repurchased by SBA, (2) charging fees and screening loan applicants for eligibility, (3) monitoring delinquent debt, and (4) implementing required internal controls. The audit found that originating and servicing of SBA guaranteed loans deviated from SBA's requirements. It was recommended that BLC reimburse the SBA for originating and servicing errors, if actual losses exist after full liquidation of each loan.

Final Action: The SBA agreed that existing loan purchase procedures already require a review at the time of purchase by the field office.

Report #: 66H002011
Audit Title: Population and Marketing Analysis Center's Subrecipient Awards to Geo Demographics, Ltd.
Amount: $105,431.00 collected
Issue Date: 3/29/96

Summary: The objective of this audit was to determine whether awards made to Geo Demographic, Ltd. (GDL) complied with procurement standards. The audit found that the Population and Marketing Analysis Center (PMAC) paid GDL from SBA funds for software and training services which involved a conflict of interest. Because GDL received the awards contrary to procurement standards, GDL was unjustly enriched. The audit recommended that the SBA require PMAC to remit their profit on these awards.

Final Action: The SBA notified PMAC of the audit finding and requested reimbursement for unjust fees paid to GDL.

Report #: 85W003009
Audit Title: Loan Liquidations
Amount: $493,034.00 written off
Issue Date: 2/27/98

Summary: The audit objective was to determine whether the liquidation process in FY 1994 maximized recoveries. The audit found that there were deficiencies in seven of the 31 loans liquidated by lenders and recommended SBA initiate recovery action, if the statute of limitations has not expired, for these seven loans.

Final Action: The SBA determined that there is no legal basis to initiate suit on six of the loans and insufficient information to form an opinion on the remaining loan.

Report #: 88H009026
Audit Title: Safeco / First National Surety Company
Amount: $8,800.00 collected
Issue Date: 9/30/98

Summary: The primary objectives of this audit were to determine if: (1) Safeco / First National complied with SBA's and its own policies and procedures in applying for bond guarantees for which SBA paid claims, (2) claims and expenses paid by the SBA were allowable, allocable and reasonable, and (3) fees due SBA were accurately calculated and remitted in a timely manner. The audit found that Safeco / First National did not always comply with SBA's policies and procedures for underwriting bonds. Safeco / First National paid losses and expenses under performance and payment bonds issued to the Clave Company when the contractor defaulted. SBA required Safeco / First National to reimburse the SBA for these questioned costs. The SBA later determined that all but $8,800 of the costs associated with the Clave Company bond were the result of questionable decisions by the surety after the obligee called the default under the bond. These decisions are not a basis for the SBA to demand recovery of its guarantee payments.

Final Action: The SBA collected $8,800 from Safeco / First National Surety Company.

Report #: 9-01
Audit Title: WV High Technology Consortium Foundation - Indirect Costs
Amount: $18,966.00 written off
Issue Date: 10/27/98

Summary: The purpose of this audit was to determine whether indirect costs claimed by the West Virginia High Technology Consortium Foundation for two SBA grants were allowable. The audit found that the Foundation had not fully complied with regulations and should refund $18,966 to the SBA.

Final Action: The SBA has requested a full refund of these unallowable costs, to date, no funds have been collected.

Report #: 9-03
Audit Title: CNA Surety Companies Chicago, IL
Amount: $630.00 collected
Issue Date: 1/29/99

Summary: The purpose of this audit was to determine whether CNA Financial Corporation (CNA) surety companies complied with SBA's policies and procedures in applying for bond guarantees, submitting allowable claims, and remitting fees timely and accurately. The audit found that for 11 of 24 bonds reviewed, policies and procedures were not consistently followed by CNA. CNA issued one bond to a contractor for more than the value of the contract, a violation of SOP 50-45. The audit recommended that CNA reimburse the SBA for the amount overpaid on this performance bond.

Final Action: The SBA requested and received $630 from CNA.

Report #: 9-06
Audit Title: Fidelity and Deposit Company of Maryland
Amount: $376,841.00 collected
Issue Date: 3/22/99

Summary: The objectives of this audit were to determine whether: (1) the Fidelity and Deposit Company of Maryland (F&D) complied with SBA underwriting policies, (2) F&D claims, expenses and recoveries were in accordance with SBA requirements, and (3) F&D fee remittances and refunds were timely and accurate. The audit found that F&D did not always follow SBA procedures for underwriting and did not always follow requirements related to claims, expenses and recoveries. The audit recommended F&D remit: (1) $1,005 to SBA due to an incorrect recovery amount remitted to the SBA, (2) $21,350 for the uncollected portion of a note, (3) $635 due to the improper allocation of expenses, (4) $192,620 for SBA's portion of losses paid to indemnitors of Greg Williams, and (5) $166 representing the remaining amount of fees due SBA that were in the SBA suspense account.

Final Action: The SBA notified F&D to remit these amounts to the SBA.

Report #: 9-07
Audit Title: On-Line Women's Business Center
Amount: $3,822.00 collected
Issue Date: 3/22/99

Summary: The objective of this audit was to determine whether claimed costs were allowable. The audit found that the On-Line Women's Business Center inappropriately charged a computer to Federal funds.

Final Action: The SBA requested reimbursement of these funds.

Report #: 9-10
Audit Title: Contractors Bonding and Insurance Company
Amount: $0.00 collected and $0.00 written off
Issue Date: 3/31/99

Summary: The primary objectives of this audit were to determine if: (1) claims and expenses paid by the SBA were allowable, allocable and reasonable, (2) Contractors Bonding and Insurance Company (CBIC) complied with SBA's and its own policies and procedures in applying for bond guarantees for which the SBA paid claims, and (3) fees due to the SBA were accurately calculated and remitted in a timely manner. The audit found that CBIC issued invalid powers of attorney for three bonds and requested that CBIC provide a written document or other support indicating the attorney was indeed an attorney-in-fact for CBIC's agent when the bonds were executed or ratify the powers of attorney for these bonds.

Final Action: The SBA requested the surety provide an affidavit indicating that the attorneys were authorized to issue the bonds in question.

Report #: 9-13
Audit Title: Gulf Insurance Group
Amount: $142,284.00 collected
Issue Date: 7/28/99

Summary: The objectives of this audit were to determine if: (1) Gulf complied with SBA's and its own policies and procedures in applying for bond guarantees for which the SBA paid claims, (2) claims and expenses paid by the SBA were allowable, allocable and reasonable, and (3) fees due the SBA were accurately calculated and remitted in a timely manner. The audit found that Gulf did not always comply with SBA's requirements for issuing SBA guaranteed bonds. A review of ten defaulted bonds disclosed that one bond was executed after work under contract had started without SBA's approval. The auditors also determined that Gulf submitted legal expenses that were not allocable to the bonded contract for one bond, remitted salvage to SBA in an untimely manner for two bonds and pursued indemnification against a principal determined to have no viable assets for another bond.

Final Action: The SBA notified Gulf to remit SBA its share of losses and not submit any further claims due to the commencement of work prior to a bond extension. Gulf was also notified to remit SBA its share of expenses related to the investigation of the agent's underwriting practices.

Report #: 9-16
Audit Title: Kansas City District Office 7(a) Loans
Amount: $118,330.00 collected
Issue Date: 8/4/99

Summary: The objective of this audit was to determine whether 7(a) loans (excluding special programs with modified requirements) were processed and proceeds disbursed and used in accordance with SBA requirements. The audit found that proceeds for one loan were used for unauthorized purchases and capital improvements, and the proceeds of another loan were used to repay debt rather than purchase machinery as agreed to in the loan authorization. The audit recommended the Kansas City District Office deny guarantees on the first loan and reduce the guarantee on the second.

Final Action: For the first loan, the SBA agreed that, if we are asked to honor our guarantee and purchase our portion of the loan, we will recommend denial of liability. For the second loan, the SBA agreed that, if we are asked to honor our guarantee, we will propose a repair of the guarantee.

Report #: 9-17
Audit Title: Insurance Company of the West / Explorer Insurance Company
Amount: $1,124.00 collected
Issue Date: 8/19/99

Summary: The objectives of this audit were to determine if: (1) Insurance Company of the West / Explorer Insurance Company (ICW) complied with SBA's and its own policies and procedures in applying for bond guarantees for which the SBA paid claims, (2) claims and expenses paid by the SBA were allowable, allocable and reasonable, and (3) fees due the SBA were accurately calculated and remitted in a timely manner. The audit found that ICW failed to remit to SBA its share of recoveries in a timely manner for four bonds.

Final Action: The SBA requested and received the additional amount.

FUNDS PUT TO BETTER USE

Report #: 77H001014
Audit Title: Evaluation of Grant Proposal for West Virginia High Technology Consortium Foundation
Amount: $463,905.00 implemented
Issue Date: 4/25/97

Summary: The objectives of this review were to determine whether: (1) proposed costs were reasonable, current, accurate and complete, and (2) the accounting system was adequate to accumulate and allocate costs under Government awards. The audit recommended the Associate Administrator for Administration require the Foundation to prepare a supplemental to the revised proposal that (a) removes all depreciation costs from the indirect cost pool and, (b) reprograms the amounts for the business training center space, contingency costs, general and administrative costs, and unsupported overhead.

Final Action: The Foundation submitted a revised budget reprogramming the questioned costs and the SBA issued an amendment to their contract approving the budget revision.

Report #: 87F020022
Audit Title: Wisconsin DO 7(a) Loans
Amount: $615,000.00 implemented
Issue Date: 7/22/98

Summary: The objective of this audit was to determine whether 7(a) loans (excluding special loan programs such as LowDoc and FA$TRAK) were processed and proceeds disbursed and used in accordance with SBA requirements. The audit recommended that we require the lender to obtain copies of financial statements prepared by an independent accountant or the supporting schedules for the consolidated tax return from the seller for one loan to determine the accuracy of the financial information. Additionally, cancel the guarantee for a second loan because the loan was not disbursed within the specified time limit.

Final Action: For the first loan, neither the recommending official nor the reviewing official felt the data was either unreliable nor out of line and felt that the projections formulated from that information was conservative. The second loan was cancelled.

Report #: 87H003011
Audit Title: Disbursement Processing - C and W Schedules
Amount: $93,692.55 implemented and $2,307.45 not implemented
Issue Date: 3/11/98

Summary: The objectives of this audit were to determine whether SBA's fiscal year 1996 "C" and "W" schedule disbursements were: (1) made to satisfy established liabilities, (2) sent to appropriate payees and addresses, (3) recorded timely and accurately in the Loan Accounting System, and (4) not duplicates of other disbursements. The audit recommended that SBA recover funds due the Agency because of duplicate and inappropriate disbursements.

Final Action: The SBA established receivables, set up repayment plans and is pursuing collection of these amounts due.

Report #: 88H006025
Audit Title: GSA Kansas City 8(a) Sole Source "IDIQ" Contracts Awarded Under GSA's FAST Program
Amount: $6,000,000.00 implemented
Issue Date: 9/29/98

Summary: The purpose of this review was to determine whether sole source 8(a) contracts awarded by the Federal Telecommunications Service of the General Services Administration (GSA) in Kansas City, Missouri complied with the Federal Acquisition Regulation, SBA regulations and statutory requirements. The audit recommended that we not accept two additional GSA offerings for sole source 8(a) IDIQs.

Final Action: These procurement actions were not accepted.

Report #: 9-05
Audit Title: Colorado DO 7(a) Loans
Amount: $22,958.00 implemented
Issue Date: 2/24/99

Summary: The objective of the audit was to determine whether 7(a) loans (excluding special loan programs with modified requirements such as LowDoc) were processed and proceeds disbursed and used in accordance with SBA requirements. The audit found that one loan was approved to repay a note, but the lender did not verify that the borrower had injected the entire amount. The borrower admitted he had injected only part of the required amount. A second loan was approved to purchase land and a building. The loan agreement required the borrower to make an equity injection to pay the SBA guarantee fee. There was no evidence that the borrower had injected the funds. The audit recommended that each of these borrowers inject the remaining equity, as required by their loan agreements.

Final Action: Each of the borrowers made the required equity injections.