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A Map of the Swirled

How IGs Focus on Departmental Top Management Challenges

In December 1997, then Majority Leader Dick Armey of the House of Representatives asked the federal Inspectors General (IGs) to identify "the 10 most serious management problems" in their host agencies. The House was developing an inventory of current management problems facing the federal government, and wanted Office of Inspector General (OIG) assistance. Congressman Armey's request began a yearly process that was eventually codified into law with the enactment of the Reports Consolidation Act of 2000, Public Law 106-531 (the Act). The Act requires agencies to include their OIG's list of significant management issues in their annual performance and accountability reports.

With the initial request, OIGs were required to focus on identifying the most significant issues facing their agencies. At the Small Business Administration (SBA) OIG, this has resulted in surfacing top management challenges and motivating agency managers to implement corrective actions.

History at SBA OIG—The Yellow Banana

The concept of a white paper highlighting the most critical issues facing agency leaders was not completely new at SBA OIG. The late Dr. James F. Hoobler, who served as IG of the agency from 1991 to 1997, perceived the need for such an analysis during the transition to the second Clinton administration. With the anticipated arrival of a new administrator and top policy team, Dr. Hoobler challenged the OIG staff to develop a "road map to program reform and success" at SBA. This challenge was unlike anything ever undertaken. Like many OIGs, our work for the most part was comprised of individual audits and investigations that focused on specific issues or aspects of agency programs. We had not stepped back and put together an assessment of the agency from a global perspective based on multiple OIG products and general knowledge of agency operations.

After months of analysis and drafting, OIG issued a report on "Critical Issues Facing the SBA" in May 1997. Affectionately known as the "yellow banana" because of its bright cover, the report identified 22 issues deserving attention from the new administrator and her team. Fourteen of these were designated "critical issues" and were based on prior OIG audit, inspection, and investigative work. They covered a broad range of SBA program areas, including business loans, disaster assistance loans, minority enterprise development, government contracting, small business development centers, surety bond, and agency management and financial activities. The remaining six issues were entitled "other concerns." They were based on the experiences, perceptions, and concerns of OIG

SBA's Top Ten Management Challenges lists are available at the SBA OIG's online reading room: *http://www.sba. gov/ig/igreadingroom. html*

staff as agency employees, rather than on empirical research. These issues covered areas such as policy formulation, budget formulation and execution, cost accounting system, field office monitoring, the district director candidate program, and information processing support.

SBA's then newly appointed administrator, Aida Alvarez, received the report on May 12, 1997. Over the next two months, she and deputy administrator Ginger Lew held two lengthy sessions with IG Hoobler and the OIG executive team to discuss in detail the report and its recommended actions. At the conclusion of the meetings, the administrator indicated that she would determine which program officials would be responsible for addressing each issue and that she would ask them what they planned to do to address OIG's concerns. In August, she included the OIG report in the mandatory reading materials provided to her senior staff in preparation for an off-site retreat on strategic and performance planning. Based on these actions, IG Hoobler stated that he was "particularly gratified that this OIG product is being used for the purposes for which it was intended. In my judgment, it is illustrative of the type of proactive objective assistance that an OIG can provide to an agency principal as a byproduct of its mission responsibilities." (Letter from James F. Hoobler to Edward De Seve, Acting Deputy Director for Management, Office of Management and Budget (OMB), August 14, 1997.)

During the summer of 1997, SBA OIG distributed the critical issues report to SBA's external stakeholders. In addition to OMB, recipients included the Senate Committee on Governmental Affairs; the House Committee on Government Reform and Oversight; the Senate and House Committees on Small Business; and the Senate and House Appropriations Subcommittees on Commerce, Justice, State, the Judiciary, and Related Agencies. In these transmittals, IG Hoobler stated that Administrator Alvarez's actions in discussing the issues and considering OIG's recommendations was "an important first step towards program reform and molding SBA into a model financial credit agency." (Letter from James F. Hoobler to Senator Fred Thompson, Chairman, Senate Committee on Governmental Affairs, July 14, 1997.)

Later that year, SBA OIG was one of the OIGs that received the request from Majority Leader Armey asking for our assessment of the 10 most serious management

issues facing our host agencies. We responded by selecting 10 issues from our earlier critical issues report. What we did not know was that the request would be repeated again and again. When it came the next year, we scrambled to update our challenges and identify new ones. Over time, it became evident that our planning, reporting, and follow-up processes should focus on the critical management challenges. Each year we have refined our processes to make them more effective.

Getting Results—Use of a Scoring System

The most important aspect of identifying top management challenges is achieving needed actions so that the challenge can be removed from the list. It's one thing to identify a problem—it's another to make it go away. We developed several techniques that help. The common thread is telling the story in a way that busy managers find convincing.

One of our top challenges is computer security controls. These weaknesses had been identified for years through the annual financial statement audit, which included an assessment of computer security as required, by OMB Circular A-130 and requirements contained in the Federal Information System Control Audit Manual (FISCAM). Despite our repeated recommendations, the SBA Office of the Chief Information Officer (OCIO) continued to experience problems because it had not been successful in obtaining resources to administer an effective information security program.

In FY 1998, we developed a scoring system to assess the progress of specific issue areas of concern based on the results of the audit using the FISCAM. Adequate controls rated a code 1, partial control was rated code 2, and an inadequate control became a code 3. We presented a summary matrix showing the control and the system assessed. To enhance the visual presentation, we equated the rating to a color scheme similar to the current OMB scorecard. In the example excerpted below (See Figure 1), approximately 50 percent of the System Software Controls assessed were a Code 3 (red) and only 17 percent were Code 1 (green).

The bleak picture the charts painted prompted top SBA management to immediately allocate $3 million to improve system controls. Just two years later, 67 percent of the controls were adequate (green) and none of the areas for the System Software Controls were inadequate (See Figure 2):

Scoring audit results and presenting the results of the audit in a one-page assessment to top agency officials proved effective. This year we adopted this approach for all top 10 management challenges.

Framework for Assessment—Internal Controls

To adapt our scoring assessment process to all management challenges, we needed a framework to assess the actions needed to provide reasonable assurance that there would be

FIGURE 1. Software Controls Status, FY 1998

System	A	B	C	D	E	F
Access to system software is limited.	2	3	2	3	3	4
System access is monitored.	3	3	3	3	3	3
Changes to system are authorized and documented.	1	2	1	2	1	2

Excerpt from one page chart showing results for System Software Controls of FY 1998 FISCAM audit. (Code 4 represented a control that was not assessed.)

sustained and beneficial efforts devoted to resolve the challenge. For five challenges, OIG used the General Accounting Office Standards for Internal Controls in the Federal Government to develop the specific actions using the five categories of the control standards:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

We identified the key actions within each of the five categories that are essential to achieve success. For instance, the control environment sets the "tone from the top" and to accomplish an action there must be appropriate attention to implement actions. More importantly, there must be a commitment of resources and training. These actions have become our basis for assessing the adequacy of corrective measures. For selected management challenges, we identified two or three of the most important actions under each category that will provide reasonable assurance that the problem will be corrected.

Just as with the FISCAM process, the actions needed to address the issues are assessed and coded as "Action has been implemented," (num-ber 1), "progress is being made," (number 2), or "the action has not been implemented/no substantial progress is being made" (number 3). We shared our assessment with the agency program managers to obtain a common understanding of the actions needed and the scorecard assessment.

Focus Groups

For several years, we invited top management to participate in identifying top agency challenges. They cordially acknowledged our invitations, but did not provide any input. In FY 2001, we became more proactive by holding formal focused discussions with selected groups of senior officials from SBA's headquarters, regional, and district offices. To keep the cost of bringing so many field people together reasonable, we "piggybacked" onto several regional end-of-the-year meetings of district directors. We took a number of actions to help participants feel at ease. These included: contracting with an outside facilitator to run the meetings; having only one OIG senior staff member in attendance; and promising to destroy the meeting tapes prior to the publication of any information.

To ensure that officials had sufficient opportunity to cover their concerns, the discussions focused on their perceptions of SBA's strengths and weaknesses, and the potential management challenges facing SBA and a new administrator. This format reduced management's reluctance to participate, and SBA officials were receptive to our efforts. The discussions centered on the impact of the rapid changes the agency has experienced in the last few years and a consequential breakdown in senior level communications. The discussions provided considerable support for our development of a human capital management challenge. Moreover, they afforded OIG an opportunity to alert the incoming administrator, through an advisory memorandum, of issues of concern to SBA senior officials. We plan to refine this process for the future.

Tracking and Assessment

In updating the management challenges in the fall of 2000, we found that in some cases, SBA progress was slow. The chief operating officer and chief financial officer (CFO) agreed. With the publication of the FY 2000 Performance and Accountability Report (PAR) in March 2001, OIG and OCFO developed a periodic reporting and assessment process. The schedule for the process was based on the timing of key external reporting dates: the submission of the agency's PAR and the OIG's semi-annual reports to Congress, and of SBA's annual plan and budget to OMB.

Over the remainder of the fiscal year, the agency submitted two progress reports to OIG. Continuing to work together with program man-

FIGURE 2. Software Controls Status, FY 2000

System	A	B	C	D	E	F
Access to system software is limited.	2	2	4	1	1	1
System access is monitored.	2	2	4	1	1	1
Changes to system are authorized and documented.	1	1	1	1	1	1

Excerpt from one page chart showing results for System Software Controls of FY 2000 FISCAM audit.

agement, OIG provided detailed assessments of the two agency reports. To facilitate the tracking process, OCFO established on the SBA intranet a database of progress reports and an assessment of information for internal agency and OIG use. This collaborative relationship has resulted in an improved and timelier follow-up process. OIG believes that continuing this process will help focus the attention of SBA program management on these critical issues and more readily accomplish their resolution.

Conclusion

Certain themes have served as the basis for the SBA OIG approach to managing the "Top 10" process. First, communication and collaboration is important, both within OIG and with our host agency, to ensure the factual accuracy of our report and to build on a common understanding of what we are saying. Second, at the end of the day, the list must represent OIG's assessment of the critical issues. While the agency may happen to agree with some issues, consensus is not a prerequisite to including an issue on our list. Third, once we identify an issue as a significant challenge, we have an obligation to ask whether additional OIG work or participation would be helpful to the agency in solving the problem. By making this part of our annual OIG planning process, we have an opportunity to become part of the solution. (As an example, we have identified the need for human capital management strategies as a critical issue in our lists for FYs 01 and 02. To assist SBA as it addresses

this issue, our inspection and evaluation staff has undertaken a project to identify best practices for structuring an effective human resources office. SBA's assistant administrator for human resources requested this particular topic.

Developing a "top 10" list has been very useful. The list is an excellent briefing tool to acquaint new political appointees and congressional staff with the truly critical issues. It serves as a focal point for evaluating OIG efforts past, present, and future. It facilitates presenting our work in an interdisciplinary manner, which is valuable because we frequently find that in addressing a critical issue we must draw on the differing types of expertise and differing perceptions that our auditors, evaluators, investigators, lawyers and OIG administrators bring to the table. Finally, the list serves as an excellent way for us to assess whether we have made a substantive contribution to our agency by identifying significant issues that were not otherwise apparent and adding value in making recommendations to solve those problems we do identify.

A comment by a senior SBA manager summarizes our objective in using management challenge lists. One year, after acknowledging that the OIG's management challenge list accurately summarized the agency's key issues, a former deputy administrator directed SBA's management team to address SBA's problems so effectively that "the IG and her team will have to work hard to find ten new challenges next year." This is the type of response to management challenges that can enhance excellence in any organization. 🗼