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A CAUTIONARY TALE: A REVIEW OF SBA'S FAILED 2014 AGENCY RESTRUCTURE

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTEENTH CONGRESS

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A CAUTIONARY TALE: A REVIEW OF SBA'S FAILED FISCAL YEAR 2014 AGENCY RESTRUCTURE

WEDNESDAY, JUNE 14, 2017

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The Committee met, pursuant to call, at 12:50 p.m., in Room 2360, Rayburn House Office Building. Hon. Steve Chabot [chairman of the Committee] presiding.

Present: Representatives Chabot, Luetkemeyer, Kelly, Comer, Velázquez, Lawson, and Espaillat.

Chairman CHABOT. Good morning. The Committee will come to order.

I would like to first address the tragedy that happened this morning. Our prayers and thoughts go out to all those who were affected, our colleagues, staff, and Capitol Police who were injured in the shooting this morning. Obviously, our colleague Steve Scalise, the Whip, who I understand has undergone surgery or is currently, and also Special Agent David Bailey and Crystal Griner, as well as a former staffer and a current staffer, Zachary Barth and Matt Mika. So we want to do everything we can within our powers to pull for them and keep them in our prayers. I think I speak for all of us when I say how grateful we are to the Capitol Police and the security detail, particularly that they were on the scene. With the Whip not there, I guess there would not have been security there and that is a very scary thought because unfortunately, the carnage which could have occurred is hard to imagine, or you just do not want to think about it. They are heroes and we should applaud them today, and our prayers will continue to out for those recovering and we hope that they are back on Capitol Hill as soon as possible.

I will then move into my opening statement.

The Committee is here today to examine how the Small Business Administration managed its fiscal year 2014 Voluntary Early Retirement Authority and Voluntary Separation Incentive Payment program. According to the SBA's Office of Inspector General, the SBA failed to effectively manage and implement this program. Now, I would note that the shortcomings that I am about to highlight, obviously, occurred under the previous administration and the current administration should not necessarily, obviously, be responsible for what happened in the past but we are hoping that

they will improve on what was there. That is obviously the goal and the purpose of this Committee and our oversight.

The Voluntary Early Retirement Authority (VERA) allows federal agencies the option to offer voluntary early retirement to restructure and downsize an agency's workforce. Usually combined with VERA, the Voluntary Separation Incentive Payment authority (VSIP) allows agencies to offer lump sum payments of up to $25,000 to employees who are in surplus positions or have skills that are no longer needed.

In 2014, the SBA submitted a request to the Office of Personnel Management for VERA and VSIP authority. The SBA claimed that it wanted to: (1) address workforce competency and agency skills gaps; (2) decrease the average age of the agency's workforce; and (3) address budgetary constraints to avoid a reduction in force. OPM granted SBA's request.

The Office of Inspector General conducted an audit of the SBA's management of its VERA/VSIP program, and in its audit released just a couple of weeks ago the OIG determined that the SBA failed to achieve any of its goals. Let me repeat that. They did not meet any of the goals. Not one or two of them, but all of them. It did not address workforce competency and agency skills gaps. It did not decrease the average age of the agency's workforce. It did not address budgetary constraints to avoid a reduction in force. In fact, apparently the agency was facing no real threat of a reduction in force.

OIG's audit uncovered a number of other troubling findings. The SBA did not complete a skills gap assessment until a year after the VERA/VSIP was implemented. SBA did not have a contingency plan to transfer institutional knowledge to younger employees. The SBA did not even have a tracking mechanism to determine which employees were taking advantage of the early-retirement buyouts.

Further, the SBA gave inaccurate information in its plan submitted to OPM. The SBA claimed it had established a high-risk task force to examine the challenges necessitating the VERA/VSIP. No such task force ever existed. The SBA claimed a steering committee was established to review the agency workforce allotments. No steering committee existed. The VERA and VSIP options are supposed to help agencies restructure and reshape their workforces; yet, the SBA's workforce was left almost completely unchanged.

This hearing will hopefully pull out lessons learned from the SBA that they can use in the future. And more broadly, as other agencies potentially seek to restructure their workforces through the VERA/VSIP options, they can also learn from the SBA's experience or lack thereof.

To learn that, as with most things in life, preparation is key. We want to thank the Office of Inspector General for its work on this topic. The OIG's work helps to improve the integrity, accountability, and performance of the SBA and its programs. This audit report is just one example of that.

We want to thank our witnesses both for being here today. We look forward to your testimony.

I would now like to yield to the Ranking Member, Ms. Velázquez, for her opening statement.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

And on behalf of the Democratic side, I, too, want to say that we stand united in praying for our colleagues, the staffers and the police injured, and we extend our profound thanks to the Capitol Police for their bravery in preventing this situation from being much, much worse.

One of the benefits of serving on this committee is that even in times of political partisanship, this committee functions in a largely bipartisan manner. Given today's events, I think we can all agree that setting partisanship aside a little more often and focusing on our commonalities as legislators seeking to improve our nation might behoove us. I know this committee does that with great frequency, and that is something for which I am thankful. On that note, let me turn to today's hearing.

SBA is the only agency in the federal government charged specifically with helping small businesses grow and succeed. The Small Business Administration is critical to our nation's overall economic health. All its functions serve to strengthen and preserve the entrepreneurial foundation of our economy. For small businesses to fully reap the benefits of SBA programs, it is important for the agency to operate efficiently and effectively. As such, one of the most important roles of this committee is conducting vigorous oversight of the SBA and its activities. This allows us to know that the agency is serving small businesses well, while spending taxpayers' dollars wisely. For example, as recently as last year, after a request to review the management of the SBA, GAO testified to this committee that the agency's organizational structure was overly complex and that workforce planning was not up to date. Because such redundancies and deficiencies can ultimately lead to poor service to entrepreneurs, we must emphasize the importance of improved agency operations.

As such, today's hearing will focus on similar findings from the IG's recently released report on SBA's management of its fiscal year 2014 Voluntary Early Retirement Authority and Voluntary Separation Incentive Payment program. Specifically, I am greatly concerned about the lack of progress that SBA made in addressing its organizational structure through these programs. For instance, the IG found that because SBA did not achieve its goals, the agency paid over $2 million for early retirements for positions that were not restructured. Furthermore, former SBA administrator Maria Contreras-Sweet testified last year that 150 employees took early retirement under the VERA/VSIP program, allowing SBA to recruit candidates with specific competencies. Yet, no skills gap analysis was performed prior to the program and SBA failed to target such employees for the program based on those skills.

These actions raise a number of questions that it is important we evaluate so we can ensure SBA is operating in the best way possible to assist our nation's job creators. But to do so, SBA must take heed of the IG's suggestions for better management of the VERA/VSIP authority. Effective implementation of organizational matters are critical to the agency's ability to serve small businesses.

In that vein, I think it is notable to mention that the use of the program occurred prior to our current SBA management's arrival.

And while there is still much work to do, I am pleased that steps are being taken to address the IG's recommendation.

I look forward to the witnesses' testimonies and hearing how the agency can improve its structure and exercise of personnel authority.

With that, I yield back, and I thank the witnesses.

Chairman CHABOT. Thank you. The gentlelady yields back.

I will take just a moment to explain our rules, and I would preface that with reminding Committee members that if they opening statements prepared, they can submit them for the record.

We operate under the 5-minute rule as I am sure you know. Each of you will have 5 minutes to testify. There is a lighting system to assist you. The green light will be on for 4 minutes. The yellow light will come on and let you know you have got a minute to wrap up, and then the red light will come on and we would ask you as much as possible to stay within those time limits. And we also restrict ourselves to 5 minutes as well.

I would now like to formally introduce our witnesses today. Our first witness, I think, has one of the coolest names in Washington, Hannibal Ware. And with a cool name like Hannibal, he goes by Mike. So, but great name. Mr. Ware serves as the Acting Inspector General for the Small Business Administration, Office of Inspector General. The OIG is responsible for the independent oversight of the SBA's programs and operations. The OIG conducted the audit that is the subject of today's hearing. We look forward to hearing Mr. Ware's testimony today.

And our second witness will be Mr. Joseph Loddo, who is the Chief Operating Officer at the Small Business Administration. Joseph is a cool name, too. It happens to be my middle name. In this role, Mr. Loddo works to improve overall agency performance by implementing innovative, effective, and more efficient processes throughout the agency. Mr. Loddo is a member of the Senior Executive Service with 30 years of experience in the Federal Government. Mr. Loddo also served as a captain in the U.S. Army, and thank you for your service. We welcome Mr. Loddo today and look forward to his testimony as well.

Mr. Ware, you are recognized for 5 minutes.

STATEMENTS OF HANNIBAL "MIKE" WARE, ACTING INSPECTOR GENERAL, UNITED STATES SMALL BUSINESS ADMINISTRATION; JOSEPH LODDO, CHIEF OPERATING OFFICER, UNITED STATES SMALL BUSINESS ADMINISTRATION

STATEMENT OF HANNIBAL "MIKE" WARE

Mr. WARE. Thank you very much.

Chairman Chabot, Ranking Member Velázquez, and distinguished members of the Committee. Thank you for the opportunity to be here today and for your continued support of the Office of Inspector General.

We recently published the results of our audit of the Small Business Administration's Management of the Voluntary Early Retirement Authority, also called VERA, and Voluntary Separation Incentive Payment, also called VSIP program. I am happy to discuss our findings with you today.

According to the Office of Personnel Management, agencies may use VERA and VSIP to decrease the workforce when undergoing substantial organizational change, such as restructuring or downsizing. Both reorganization tools require approval from OPM. In fiscal year 2014, SBA requested and obtained VERA and VSIP authority from OPM. Within SBA's fiscal year 2014 request and approval, only employees eligible for either full retirement or VERA were entitled to apply for the VSIP. In its request, SBA cited programmatic, demographic, and budgetary challenges as justification to use the VERA/VSIP authority to reshape its workforce to succeed in meeting its mission.

To achieve this initiative, SBA drafted the VERA/VSIP plan with the purposes of: (1) addressing workforce competency and skills gaps; (2) increasing the population of early career employees and creating a pipeline of new leaders; and (3) addressing budgetary constraints to avoid a reduction in force.

It should be noted, OIG was made aware of concerns regarding the manner in which SBA exercised its authority from OPM. As such, we conducted a review to determine whether SBA accomplished its fiscal year 2014 VERA/VSIP program goals. As a basis for our audit, we relied upon applicable laws, regulations, and OPM's guidance on VERA and VSIP.

Our office found that while SBA made limited progress in restructuring and reshaping the workforce, it did not accomplish its stated goals of the VERA/VSIP program. As a result, SBA paid $2.1 million for early retirements for positions that were not restricted following VERA/VSIP.

In context of goals stated to OPM, it was troubling to find SBA included inaccurate information in the VERA/VSIP plan. We also found in carrying out the VERA/VSIP plan, SBA did not make significant changes to its organizational structure. In fact, SBA did not have a restructuring plan in place before offering the VERA/VSIP option, which, of course, made it difficult for SBA to achieve desired organizational structure changes.

Overall, SBA may have been more successful in achieving its goals had it properly managed the VERA/VSIP program by developing specific and measurable VERA/VSIP goals, including accurate information in the plan making significant changes to its organizational structure and making substantial changes to job functions following VERA/VSIP.

We provided two recommendations to improve SBA's management of its VERA/VSIP program. We recommended that SBA conduct and document a lessons-learned review on the fiscal year 2014 VERA/VSIP performance, including planning, implementation, results, and recommended improvements. We also recommended that SBA develop and issue procedural guidance to ensure that agency officials conduct future VERA/VSIP programs in accordance with VERA and VSIP regulations and OPM guidance. SBA officials agreed to implement corrective actions to resolve both of these recommendations. It is important to note the decisions and actions that underline our findings occurred in the past. As such, our recommendations are aimed at ensuring SBA learns from this most recent experience and strengthens internal controls to ensure any future exercise of VERA/VSIP authority achieves stated goals and

objectives and to ensure the agency is a steward of the taxpayer's dollars.

I am proud of the work performed by our auditors to shine the light on this significant exercise of personnel authority by the SBA. Though the findings of our report are ascribed to SBA, it is a timely report in context of the March 13, 2017, presidential executive order on a comprehensive plan for reorganizing the executive branch. VERA/VSIP authority undoubtedly will be a tool that many agencies will consider as they seek to implement this order. In this regard, it is noted, OPM updated its VERA/VSIP guidance in March of 2017.

Thank you for the opportunity to speak to you today, and I look forward to your questions.

And if I may, I would like to publicly offer my concern and prayers for those affected by that outrageous act of violence this morning. Thank you very much.

Chairman CHABOT. Thank you very much. We appreciate that greatly.

Mr. Loddo, you are recognized for 5 minutes.

STATEMENT OF JOSEPH LODDO

Mr. LODDO. Chairman Chabot, Ranking Member Nydia Velázquez, and distinguished members of the Committee. On behalf of Administrator Linda McMahon and the SBA family, we extend our sorrow and prayers for your colleagues and the staff who were impacted today. We hope for their rapid recovery.

Chairman CHABOT. Thank you very much. We appreciate that.

Mr. LODDO. Thank you for inviting me here to speak to you today. My name is Joe Loddo, and I am the Chief Operating Officer of the United States Small Business Administration. I am here to talk to you about SBA's 2014 agency restructuring plan under the Voluntary Early Retirement Authority and the Voluntary Separation Incentive Program.

VERA provides agencies the option to offer voluntary early retirement. VSIP, often combined with VERA, allows agencies to offer lump sum payments to employees as an incentive to separate. Both VERA and VSIP require OPM's approval and are used along with careful strategic workforce planning to reshape the agency's workforce when undergoing substantial organizational changes such as restructuring or reorganization. In SBA's case, there was a large percentage of retirement-eligible employees at the time of the 2014 VERA/VSIP. Twenty-five percent of the current employees were eligible to retire immediately, including 50 percent of those in occupation series that cover most of the field office positions. Over 1,000 SBA employees were eligible for VERA/VSIP at the time of approval. The average SBA employee's age was 51, compared to the average age of 47 for the rest of the Federal Government. Because of the large number of employees eligible for the VERA/VSIP offering, there was a risk of putting SBA in a vulnerable position, and therefore, it was important to prepare for and manage these impending departures.

SBA's VERA/VSIP program was approved by OPM on August 12, 2014, and announced to the agency's employees on August 19, 2014. All employees accepting the VERA/VSIP were required to

separate from the agency by September 30, 2014. SBA's management approved 300 positions as eligible for the VERA/VSIP; 149 employees took the VERA/VSIP option. As the inspector general's report indicates, SBA did not carry out the 2014 VERA/VSIP properly. As a result, SBA did not achieve the goals of the program. We agree with the OIG's recommendation in the audit report dated May 30, 2017, and are conducting an analysis of the program. We will document the lessons learned, including the areas of planning, implementation, results, and recommended improvements. We will include all stakeholders in the process.

Since I joined the Office of the Chief Operating Officer, first as the Deputy Chief Operating Officer and now as the COO, I have worked to ensure that all personnel hiring decisions are made on a sound basis. To begin to remedy some of the mistakes made with VERA/VSIP, I issued guidance on May 11, 2016, that all remaining 2014 VERA/VSIP vacancies must be modified to conform to OPM's guidelines.

Under Administrator McMahon, SBA has created the Resource Management Board. The mission of the board is to ensure the best use of SBA's limited resources by reviewing FTE allotments and determining the best use of resources to accomplish the agency's mission. The board meets on a biweekly basis and it is comprised of four senior executive-level personnel.

Further, SBA has determined that there is no need for the VERA/VSIP program during Fiscal Year 2017, and consequently, we will not be offering the program to employees this fiscal year. Administrator McMahon has made it very clear that SBA must operate efficiently and effectively. She is holding every senior management accountable for the results and expects to see them. I fully share her view.

Thank you very much for the invitation to testify, and I welcome your questions.

Chairman CHABOT. Thank you very much.

I would first like to yield to my colleague, Mr. Kelly, who is Chairman of the Subcommittee on Investigations, Oversight, and Regulations, for his questions. I will take mine then after the Ranking Member. I would note that our colleague was on the ballfield this morning, and even though he served two tours in Iraq, that is a very stressful thing to go through. So God bless you, man.

Mr. KELLY. Thank you, Mr. Chairman, and ranking member.

I first want to say I thought it was important to be here today at this hearing. I, with the Congress, with the people of this great Nation, will not be intimated by cowards. We all, both parties, will continue to do the people's work even in the face of these type of things. All involved are in my prayers. I want to echo the chairman and the ranking member's thing. Let me tell you; I was there, and our Capitol Police, those two great officers, Officer Bailey or Agent Bailey and Agent Griner. Let me tell you; they are warriors and they are heroes, and they saved countless lives there this morning. And with that being said, let us get to work.

On May 30, 2017, the SBA Office of the Inspector General released an audit which included that SBA failed to effectively manage its VERA/VSIP program. As a result, SBA wasted at least $2.1

million in its attempt to restructure and reshape its agency's workforce.

And to Mr. Ware, your audit determined that SBA wasted $2.1 million in its attempt to restructure. How did your office determine that dollar figure?

Mr. WARE. Thanks, Congressman. The dollar figure was determined by our auditors. Let me start that because the agency did not have a tracking mechanism for those positions, our auditors had to basically go in and extrapolate this data from multiple sources to try to figure out which positions aligned with the ones that the people had left with. So they looked at whether or not the position was in the same place? Did it have the same title? The same area and everything like that? And from that, they were able to identify the 54 that came up with that.

Mr. KELLY. And that number only represents the balance of 54, like you said——

Mr. WARE. Yes.

Mr. KELLY. —that the SBA subsequently refilled without a significant change in the function of those. So that $2.1 million could even be a higher price tag than that; is that correct?

Mr. WARE. That is correct.

Mr. KELLY. Okay. And to Mr. Loddo, how were the buyouts funded? And what funding stream did the money come from?

Mr. LODDO. The salary fund; the source was the salary and benefits line item in SBA's appropriation.

Mr. KELLY. I just, I want to make sure that we dig into this. This is the people's money and you have people up here working in a bipartisan fashion. We cannot afford for these things to do that, and I know it was not necessarily on your watch, but that does not alleviate the responsibility going forward to make sure that it does not happy worse on your watch. And I want your assurement—not really you, Mr. Ware, because you have already done your work, but Mr. Loddo—that you will do all that you can to ensure that something like this does not happen and waste the taxpayers' hard-earned dollars that they give to this Congress and to the SBA to do the people's work.

Mr. LODDO. My promise to the entire Committee is that that will never happen under my watch. I can add that the CHCO and the deputy CHCO are no longer with the agency; I hired a new CHCO that is very well qualified. In the interview process, I said to him that I want this agency's HR department to be one of the best in two years, and the best in three years. Will you commit to that mission? He said, yes, sir; I will. We are very fortunate to have our CHCO, and I promise you that SBA will never allow something that happened in the past like this to ever occur, especially on my watch.

Mr. KELLY. Thank you. And Ranking Member Velázquez, thank you for your kind words, and Chairman Chabot. Let me tell you, we are a bipartisan Committee, and we are about the people's work. And there is no greater honor than to be on this Committee with both of you all. And with that, I yield back, Mr. Chairman.

Chairman CHABOT. Thank you very much. And I think we are both honored to have you on this Committee. So thank you very much.

I would now like to yield to the gentlelady from North Carolina, Ms. Adams, who is the Ranking Member of the Subcommittee on Investigations, Oversight, and Regulations.

Ms. ADAMS. Thank you, Mr. Chair, and Ranking Member Velázquez, for hosting today's meeting. And thank you, gentlemen, for your testimony.

I do want to identify with the remarks of both the chair and my colleague, as well as our ranking member about the really terrible, terrible situation this morning. And of course, we keep our colleague, as well as those others who were hurt, including Capitol Police, in our prayers and thank them for their support.

I just want to take a second and introduce, if I can, Mr. Chair, my grandson, my youngest grandson, Aaron Lindsay, who is here working in my office this week. He is not getting paid but he is learning a lot.

Chairman CHABOT. Welcome. All right.

Ms. ADAMS. He is a rising junior.

Chairman CHABOT. Would you mind standing up so we can see? All right. There we go. We want to make sure that Grandma embarrasses you enough.

Ms. ADAMS. Thank you very much for your testimony. I do want to say that the SBA, in accordance with the inspector general's recommendation, has indicated that they will provide written guidance outlining expectations for ensuring compliance with any OPM approved VERA/VSIP plan.

Mr. Loddo, will the SBA include diversity goals in its guidance to ensure that the agency has a diverse staff concluding any future workforce restricting?

Mr. LODDO. In any VERA/VSIP plan, as well as any plan that we are looking at in terms of restructuring or reorganizing the agency, that is a critical component in terms of making sure that the minority staff that is on board with SBA has an important role to play and that we take into consideration their role in any plan, particularly VERA/VSIP.

Ms. ADAMS. Thank you. I am happy to hear that.

The OIG report concluded that the SBA did not make significant changes to its organizational structure and that 54 of the 149 positions vacated were filled.

Mr. Loddo, does the lack of organizational changes and the vacant positions mean that SBA is currently understaffed?

Mr. LODDO. In the Fiscal Year 2018, we requested 2,100 employees, which is down 55. What we are currently doing as a result of a discussion with Administrator Linda McMahon, is we are restructuring and reorganizing the entire agency. I have the privilege tomorrow to present those recommendations to the Administrator. She allowed us to get all the senior executives together to make those recommendations in terms of improving the program and restructuring and reorganizing the agency. So that presentation will be tomorrow.

Ms. ADAMS. Okay. Well, thank you very much.

Mr. Ware, SBA has indicated that they will take steps to meet your recommendations; however, they need additional time to do so. Do you have plans to follow up on those actions later this fall?

Mr. WARE. We definitely do have plans. And I have to say that Mr. Loddo and I spoke about the recommendations, and Mr. Loddo has assured us that they will even before the time that they requested. But we have a standard audit recommendation follow-up process that we work closely with the agency with, and we will definitely be carrying them all the way through to closure using that process.

Ms. ADAMS. Thank you, sir. During your investigation, did SBA explain why it took them one year after VERA/VSIP was implemented to complete their skills gap analysis?

Mr. WARE. I did not hear from them as to why it took that long, but it was not something that was at the forefront of the planning.

Ms. ADAMS. Okay.

Mr. WARE. So I would guess that they were trying to rectify that on the back end.

Ms. ADAMS. Okay. So you did not ask the question?

Mr. WARE. No, I did not.

Ms. ADAMS. Okay.

Mr. WARE. I am pretty sure the auditors asked the question though. I could get that answer for you.

Ms. ADAMS. All right. Thank you. I would appreciate it if you would.

Mr. WARE. Okay.

Ms. ADAMS. And thank you both very much for your responses to my questions. And again, Mr. Chair, I thank you for yielding to me. I yield back.

Chairman CHABOT. Thank you very much. The gentlelady yields back.

I will now recognize myself for 5 minutes, and I will begin with you, Mr. Ware.

What prompted your office to conduct an audit of the 2014 VERA/VSIP buyout process in the first place? And do you think that the SBA's management of the VERA/VSIP rollout affected agency morale?

Mr. WARE. What prompted us to look into this was that we received inquiries from our Congressional authorizing committee. And we also received hotline complaints. And these complaints were saying that this just was not being rolled out correctly. That there was not any planning. And we, in essence, went and found that. That was the reason why we went in there.

And in terms of the effect on morale, our review did not focus on morale. But I would say this; that it was evident that at least some were affected enough to come forward, to go to their congressional representatives, to come to our office through the hotline, and some even went to the Office of Special Counsel. So in that regard I would definitely say.

Chairman CHABOT. How about the morale issue?

Mr. WARE. That is what I was saying. Our office did not take a look directly at the morale issue but it was evident that there was enough of a morale issue that the staff felt that they needed to come forward to talk about this.

Chairman CHABOT. Thank you.

Mr. Loddo, could you comment on the morale issue?

Mr. LODDO. Yes. Two points. Two weeks after the VERA/VSIP was announced, the CHCO at that particular point in time, sent a letter to the rest of SBA, basically saying to ignore the guidelines of the OPM policy and the SBA plan for VERA/VSIP; any critical position could be filled without any restrictions. That is the first point that I would like to make.

The second is that there was a tremendous morale problem within OHRS. As the Deputy Chief Operating Officer, I began day-to-day operations meetings within the Office of Human Resources because of a lack of leadership in OHRS; given that they had no chief human capital officer at that particular point in time. I remained with OHRS for about 4 months, at which point I discovered the letter written by the previous CHCO ignoring the OPM guidance. I rescinded the letter immediately so that the agency would follow the OPM guidelines implemented and promised in the agreement for the VERA/VSIP plan.

Chairman CHABOT. Thank you very much.

Let me ask you both a question before my next question. Are either one of you attorneys by any chance?

Mr. WARE. I am not.

Mr. LODDO. I am not.

Chairman CHABOT. Okay. Well, I am, and I just had a question. It is somewhat of a legal question but it bothered me a little bit when I read that, you know, one of the purposes of this whole thing was to decrease the average age of the agency's workforce. It sounds a little bit like age discrimination to me. And I do not know if the legal beagles at the department have looked into that? And perhaps this is rampant throughout the Federal Government. I am not quite sure. But do either one of you want to respond to that?

Mr. LODDO. I will take the first observation.

The Office of Personnel Management has certain criteria in terms of you have to be eligible in terms of length of service in the Federal Government. So basically, one option is 25 years. Another option is 20 years. So it is really based off of length of service in the Federal Government, not truly based off of the age, per se.

Mr. WARE. Can I add to that?

Chairman CHABOT. Yes, go ahead.

Mr. WARE. That is actually one of the things that are covered under the use of VERA or VSIP. That was one of the approved things that OPM would approve in terms of trying to help to generate a younger workforce.

Chairman CHABOT. Okay. It just seems instinctively bothersome to me, and I know it is number of years' service, but that sort of goes with your age, too, over time. The two go hand in hand. So that bugs me a little bit. In Ohio, we have got, you know, judges have to retire, I believe it is at age 70. They can stay there but they cannot run for reelection after age 70. And it has gone to the Supreme Court and they have said it is okay. So I am assuming that I am not the first person or the first plaintiff's attorney that has ever thought of this. And so I am guessing somebody there. But if you would not mind perhaps having your legal beagles get back to our legal beagles so we can make sure that we are covered there.

I have run out of time so I cannot ask even more probing questions at this time, but I would now like to recognize the Ranking Member for 5 minutes.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. I guess at our age we are more sensitive to that issue.

Mr. Ware, in your testimony you noted a number of ways that SBA might have been more successful in achieving its VERA/VSIP goals. What would you identify as the underlying cost of SBA's failed VERA/VSIP?

Mr. WARE. Thank you for that question. I would actually assign three causes to it. The first one would be the lack of any true level of planning that would have aligned with OPM's requirements and SBA's stated goals. That would be the first one. To add to the first one as well, it is almost as if they rushed to implement something they were not exactly ready for. Otherwise, the plan would have been done on the top.

But the second one is the lack of tracking because they did not have a formal tracking mechanism to really track who left what and what positions would need to be restructured and all that. That was the second cause.

And the last one——

Ms. VELÁZQUEZ. So what are they doing about that in terms of tracking?

Mr. WARE. We have not found, as of this date, and Mr. Loddo probably could speak about that some more, but at the time that we looked, that snapshot that we looked at, and even the follow-up past, the snapshot, we had not found that they were able to effectively track them even now.

And then the third one was that what Mr. Loddo spoke about, that the former CHCO put out really poor guidance in the form of that memorandum that in essence told everybody in HR you could just simply backfill the positions.

Ms. VELÁZQUEZ. Thank you.

Mr. Loddo, the IG reported that as a result of the VERA/VSIP, SBA experienced a loss of instructional knowledge in some program offices, including the Office of Capital Access. What action has SBA taken to rectify this?

Mr. LODDO. Thank you for the question. There are two offices that were impacted severely by the VERA/VSIP. Twenty-six percent came from the field and——

Ms. VELÁZQUEZ. Twenty-six percent came from the field?

Mr. LODDO. Yes, from the District Offices in the field. And 16 percent came from the Office of Capital Access. What was important for us knowing that that knowledge was leaving; we have the responsibility to transfer the knowledge that is within the agency to the future leaders and to the new people coming on board. We do that in four major ways.

One is what we call the peer-to-peer hour. Every Thursday at 1 o'clock, throughout the agency, we provide training on different subjects.

Ms. VELÁZQUEZ. Okay.

Mr. LODDO. The second is mentoring. The third is lender-teacher. And the fourth is related to the employees actually do this themselves and then identifying areas that they want to study.

Ms. VELÁZQUEZ. Okay.

Mr. Ware, in your report, you note that the Office of Human Resource Solutions, the division responsible for planning the VERA/VSIP and the OPM justification, did not include the majorities of SBA leadership team in the planning of the VERA/VSIP. This did not occur until after the plan had been signed by the administrator and submitted to OPM. So please help me understand what effect did the leadership exclusion have on the entire process and the success of the program?

Mr. WARE. Without the leadership, without the key members of the leadership team being at the table, these people would have been in the best position to ascertain how to most effectively restructure and reshape the agencies, in particular, their divisions. So not having them at the table meant that even if the plan was in place, the plan would have missed the type of insight that any of them could have brought to the table. And because of that as well, there was miscommunication and misinformation. They actually thought because they had done it before that they could simply backfill the positions.

Ms. VELÁZQUEZ. So what actions are you taking to correct the inefficiency of not having the leadership providing the input when they needed to do it?

Mr. LODDO. The audit report done by the IG in Table 3 outlines 14 steps for a program related to VERA/VSIP. Clearly, it is communications and leadership involvement. Every one of these items was skipped in that one month of planning under 2014 leadership. There was no transparency. There were no communications. It was implemented in 30 days. Ninety-five people were done by position; 54 were done because of the employee. That is not the way you would do a VERA/VSIP. It would never happen under my watch.

Chairman CHABOT. The gentlelady's time is expired. Thank you.

The gentleman from Kentucky, Mr. Comer is recognized for 5 minutes.

Mr. COMER. Thank you, Mr. Chairman.

You all mentioned that the SBA did not develop any mechanism or designate any person to track who was taking advantage of the early retirement buyouts. And you also touched on the effect of not having any tracking mechanism. My question is do you know why the SBA did not track which employees were accepting these early retirement buyout packages?

Mr. Loddo?

Mr. LODDO. Thank you for the question. In large part it was due to the letter from the CHCO saying there are no restrictions in terms of your re-hiring, which is outside of the guidelines of the OPM policy.

Mr. COMER. Okay. Mr. Ware, what do you think the most important improvements SBA should make to increase the effectiveness of any future VERA/VSIP buyouts?

Mr. WARE. Well, definitely they need to sit and come up with a comprehensive plan that would get them to where they need to be in terms of their restructuring and reclassifying positions, anything they need to make them more streamlined and efficient. And of course, they could implement our recommendations, the two

which they will do. And lastly, Mr. Loddo spoke about the best practices associated with the effective use of VERA/VSIP. That is something we offered in the report and that they are aware of.

Mr. COMER. Okay. Mr. Ware, do you think the SBA's mistakes are unique to the SBA? Or do you know whether other agencies have been committing the same or similar mistakes?

Mr. WARE. In our audit, one of the things that the auditors looked for was had similar reports been done across government? And I believe if I am not mistaken, it was EPA OIG where they found that it had similar issues. Other than that, I have been in the Office of Inspector General community for going on 28 years, and this was my first foray into this. But I do know this; that experience tells me that if you do not start at the front in terms of putting together a proper plan that you can implement, this is the type of thing that happens in all kinds of programs across government.

Mr. COMER. My last question to Mr. Loddo, you stated in your testimony that SBA will not be conducting early retirement buyouts this year. Since SBA will not be using VERA or VSIP, how does SBA plan to reform its agency workforce?

Mr. LODDO. Thank you for the question.

Having discussions with the administrator, she asked at the very beginning how can we restructure and reorganize the agency? She tasked the senior executives to come up with a plan to look at the programs and restructure the agency. We are presenting that plan tomorrow to her. It will streamline the agency. It will improve the programs and allow us to work within the 2,100 employee ceiling level that we requested for Fiscal Year 2018.

Mr. COMER. Okay.

Thank you, Mr. Chairman. I yield back.

Chairman CHABOT. Thank you. The gentleman yields back.

The gentleman from Florida, Mr. Lawson, who is the Ranking Member of the Subcommittee on Health and Technology, is recognized for 5 minutes.

Mr. LAWSON. Thank you, Mr. Chairman. And welcome to the Committee.

I am still trying to understand the skills gap, you know, and how the skills gap really occurred from 2004, I think. Now, with my relationship in dealing with employees with this VERA/VSIP option that they had, it appears that more emphasis is placed on the worker than it is the administration. Can you respond to that? With the skills gap?

Mr. WARE. Well, with the skills gap analysis, that is supposed to really be done by the agency who is implementing the VERA/VSIP. So what that does is one of the requirements that OPM has is in order to implement, in order to even get approval for this, you need to show that you have a real reason that you need to offer this to employees to help them to retire quickly. So the way that you do that is by restructuring. So you are saying we are on longer going to need these positions. We need a new type of skill in order to move the agency in whatever direction the agency thinks it needs to be going in. So that is what it meant by that.

Mr. LAWSON. Okay. And I had one other question. It can go to either one of you. And you might have to a certain extent, but can

you describe the current status of the health of SBA with regard to the capacity to guarantee loans and provide resources to small businesses? And has the skills gap that existed before this requirement on the VERA/VSIP been eliminated?

Mr. LODDO. The skills gap will always be a continuous problem for SBA because of people retiring and new people coming on, and we have to train middle management to be the new leaders of tomorrow. To ensure that we do not lose that knowledge, we have specialized training for our staff, particularly in Capital Access, as it relates to our guarantee programs, our 504 programs, and our other lending programs.

Mr. LAWSON. Okay. And this would be my last question here. And it is for either of you. The economic factors that result in the VERA/VSIP being implemented and is SBA immune to any of these factors?

Mr. WARE. Congressman Lawson, could you please repeat that? I did not catch the first part of the question.

Mr. LAWSON. It says that, and now I am seeing if it is here on his answer, what economic factors can result in VERA/VSIP being implemented and is SBA immune to any of these factors?

Mr. WARE. Do you want me to go? I figure that is an agency question.

Mr. LODDO. The agency works in an environment that is changing, where the economy is good, and sometimes less good. The wonderful programs that we offer are applicable whether there are bad times or good times, in terms of our lending programs, our contracting programs, and our counseling programs. We have the economic toolbox for the Nation's small businesses to survive and thrive in an economy, particularly when the economy is on a downswing and lending seems to slow down. Our guarantee program is, as in the past and will in the future, continue to help and save our Nation's small businesses, particularly on a downturn.

Mr. LAWSON. Okay. Mr. Chairman, with that I yield back.

Chairman CHABOT. Thank you. The gentleman yields back.

The gentleman from Missouri, Mr. Luetkemeyer, who is the Vice Chairman of this Committee, is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. And welcome, witnesses.

I am kind of curious. We have a situation where we talked about there was not a skills gap analysis. Why was that not done prior to the OPM approval of the plan? It would seem to me that there would be documents and proposals and plans that would need to be in place and approved prior to their approval for the entire program and any money being released. Was that not done?

Mr. LODDO. Your statement is absolutely correct; it was not done.

Mr. LUETKEMEYER. Is that not part of the process?

Mr. LODDO. It is very much——

Chairman CHABOT. Could you pull that mic a little closer so everybody can hear you?

Mr. LODDO. I am sorry.

Chairman CHABOT. Thank you.

Mr. LODDO. It is very much a part of the process and it was not done. The entire plan was done in 30 days. It did not follow 12 of

the 14 recommended approaches in terms of building out a VERA/VSIP plan. This was meant primarily to help what turned out to be——

Chairman CHABOT. Not to interrupt you but that mic is still—you have got it over here. And if you could—there are people in the room——

Mr. LODDO. Like that?

Chairman CHABOT. There you go.

Mr. LODDO. The program was offered to 149 people. What is disappointing is that for 54 people, it was not about positions, it was about who they were, the employee. And the lack of that planning, the lack of communications, and the lack of leadership really caused that program to be a failure before it even started.

Mr. LUETKEMEYER. What you are telling me is that OPM is the one that really screwed up here from the standpoint—they approved a plan without all of the doucumentation and everything in place, without checking all the boxes. Is that what you just said?

Mr. LODDO. The Office of Personnel Management approved the plan. With little real diligence they should not have but they did. And we violated what we agreed to.

Mr. LUETKEMEYER. Okay. To follow up on that, are there any processes in place? Now, Mr. Ware, you recall—I guess the first question is, today you indicated that there were some folks that contacted your office and that is why you instigated the investigationis that correct?

Mr. LODDO. Yes.

Mr. LUETKEMEYER. Are you normally, do you in a routine go through and audit programs like this or do you have to have a contact in order to be able to do that?

Mr. WARE. Thank you for the question.

Currently, we have a risk-based approach to the many programs that the SBA has in order to efficiently and effectively put our resources where they need to be to make sure that we are covering everything.

Mr. LUETKEMEYER. Okay. So you do not have a routine that you go through? Like every 6 months, every year, every 5 years you go through and audit the program? You have to have some sort of a reason to go in. Is that what you are telling me?

Mr. WARE. No, sir. True.

Mr. LUETKEMEYER. Okay.

Mr. WARE. We do for the major programs.

Mr. LUETKEMEYER. Okay. So the OPM, do they have a review process? Is part of the process of allowing this to happen, approving the VERA/VSIP program, is part of that process for them to go back and periodically review? Or do they request reports, periodic reports, audits?

Mr. WARE. Yes, they do. We found that that is part of it.

Mr. LUETKEMEYER. Were you doing it?

Mr. WARE. They——

Mr. LUETKEMEYER. Obviously, not.

Mr. WARE. No. Actually, no. What we found was that a requirement was made that they had to do quarterly updates. But what we found was the agency reported to OPM that it was too pre-

mature at that stage to provide the quarterly updates and there was no follow up.

Mr. LUETKEMEYER. So OPM really dropped the ball on this one.

Yes, sir. Mr. Loddo?

Mr. LODDO. What SBA presented to OPM, some of the premises they used were false.

Chairman CHABOT. Mr. Loddo, could you——

Mr. LODDO. What OPM received from SBA were some false premises. And as a result of those premises, they made a decision. Their decision, based off of false premises, is why we ended up with an approval.

Mr. LUETKEMEYER. All right. Well, the point I am trying to make is we have got two bad actors here. We have got the SBA that did not fulfill the requirements of the plan that they requested be put in place and approved for, and you have got OPM that really approved a plan they should not have to begin with because none of the documentation was in place and did not do the audits that were necessary. Is that a fair statement?

Mr. LODDO. I would say that they had limited documentation and some of the documentation was false. And as a result, they approved the plan.

Mr. LUETKEMEYER. Okay.

Mr. WARE. I would say this.

Mr. LUETKEMEYER. I have one more question. Be quick.

Mr. WARE. Okay. Be quick. What I would say is this; I think that the boxes, the necessary boxes were checked based on what SBA provided them and telling them that they were going to do.

Mr. LUETKEMEYER. Okay. So we know we had a bad actor at SBA who wrote a letter that sort of said here is a get out of free jail card. Do what you want to do. Ignore the guidance from this plan. Has that person been prosecuted? Have any sort of charges been brought? Has any sort of punitive action been taken against that individual?

Mr. LODDO. That CHCO is no longer with SBA.

Mr. LUETKEMEYER. That is not my question.

Mr. LODDO. There were no penalties other than she is no longer——

Mr. LUETKEMEYER. Did he get a VERA/VSIP exit package?

Mr. LODDO. She did not apply for the VERA/VSIP. However, the COO who had oversight over this plan did and took the $25,000, which is also disappointing.

Mr. LUETKEMEYER. Well, if I may——

Chairman CHABOT. The gentleman's time has expired, but this is getting interesting so the chair will give you an additional minute.

Mr. LUETKEMEYER. Okay. So we have someone here who basically violated the tenet of the approved plan. There is no punitive action being planned whatsoever? Is that what you are telling me?

Mr. LODDO. The person no longer works for SBA and there are no punitive plans in place. What we are witnessing is the lack of integrity, the lack of vision, and the lack of execution.

Mr. LUETKEMEYER. Okay. We have $2.1 million that was doled out apparently incorrectly. Is that what you are telling me, Mr. Ware?

Mr. WARE. Yes.

Mr. LUETKEMEYER. So therefore, is there any chance of getting that back because of this individual's blatant disregard for the plan itself?

Mr. WARE. It is important to understand this; that the $2.1 million, they were actually paid to folks who qualified for a program that SBA offered.

Mr. LUETKEMEYER. Yes, but they were paid under false pretenses from the standpoint that we did not have a skills gap analysis done here to show that the people that they are replacing or would replace them, this is not the way that the program should be qualified. They should not be qualified; correct?

Chairman CHABOT. The gentleman's time is expired, but go ahead and answer the question.

Mr. WARE. That is actually a part of the execution of the plan after these people have duly qualified to leave. The execution is what went wrong with the plan. But these people appropriately applied for and got what they applied for.

Mr. LUETKEMEYER. I appreciate the chair's indulgence. Thank you.

Chairman CHABOT. The gentleman's time is expired.

The gentleman from Pennsylvania, Mr. Evans, who is the Ranking Member of the Subcommittee on Economic Growth, Tax, and Capital Access is recognized for 5 minutes.

Mr. EVANS. Thank you, Mr. Chairman.

Mr. Chairman and ranking member, before I ask my questions, there is a young lady I would like to introduce. She is a Girl Scout intern. She has been with me all week this week. Ms. Lindsay Rodgers from Centerville, Virginia. Could she——

Chairman CHABOT. Lindsay, if you could stand up. Thank you.

Mr. EVANS. I think, Mr. Chair and ranking member, she is trying to measure what seat she would like to have up here. I think that is what she is doing.

I would like to follow up to what my colleague was just raising some questions, particularly to the inspector general. And you have some experience on this.

Based on your experience, do you feel the administration's past history will tend towards compliance? So I know a lot of specific questions have been asked to you, but as you have gone through this process, do you think they will tend towards compliance?

Mr. WARE. My work with Mr. Loddo has shown me that he is at face value at what he has said. This has been my experience with working with Joe for over a year. And he has moved quickly and swiftly when he heard about what was going on, and he has assured us that he is going to comply with our recommendations even before the date that we agreed to, and I have no reason to doubt that he will do as he said as long as he is in that position.

Mr. EVANS. Okay.

Mr. Loddo, are there any plans to attempt to privatize any of the jobs that currently exist in SBA?

Mr. LODDO. In our plan that we are presenting to the Administrator tomorrow, it would be, I think, premature for me to make that conclusion because it is the Administrator's decision. But generally speaking, we are looking to improve our programs. I have not identified any programs that would be outsourced at this particular point.

Mr. EVANS. At this point, but is that on the table in the discussions?

Mr. LODDO. Not to my knowledge.

Mr. EVANS. I yield back the balance of my time.

Chairman CHABOT. Thank you very much. The gentleman yields back.

The gentleman from Iowa, Mr. Blum, who is the Chairman of the Subcommittee on Agriculture, Energy, and Trade, is recognized for 5 minutes.

Mr. BLUM. Thank you, Mr. Chairman. And thank you to the panelists for being here today.

Mr. Loddo, my question is going to be directed toward you. I think you stated in your testimony that Administrator McMahon instructed senior level executives in the SBA to put together a plan to streamline the agency; is that correct?

Mr. LODDO. Yes, that is correct.

Mr. BLUM. When is the last time the agency was streamlined?

Mr. LODDO. I joined the agency in 1991. This is the first time that I have witnessed where senior executives have come together to offer to the Administrator reorganizing, restructuring, and looking at programs to improve them to our Nation's small businesses.

Mr. BLUM. That is like 26 years ago. A long time ago?

Mr. LODDO. That is correct.

Mr. BLUM. I come from the private sector. I was CEO of a publicly-traded company. Does the agency need to be told to stream, to reorganize, to be more effective, efficient stewards of the taxpayers' money? Please answer that.

Mr. LODDO. The answer to that question is under the leadership of Administrator Linda McMahon, there is no need to tell her that. She is definitely interested——

Mr. BLUM. No. No, I said does the agency though, the first time in 25 years you have streamlined. Why would the management of the agency streamline the agency every other year? Every year? Every 5 years? Why is there 20 years in between?

Mr. LODDO. I think we go through that in what I would call micro perks, a particular program, or a particular restructuring of a particular office. But what we are looking at and what will be presented to the administrator tomorrow is the restructuring and reorganizing of the entire agency. And she has a requirement to report to OMB by June 30th on those recommendations.

Mr. BLUM. And she comes from the private sector so I am sure she has. I was just wondering why it took 26 years. I would think the management of the agency would want to do that on their own is my point. Are you familiar with best practices? Best practices in the private sector, are you familiar with that concept?

Mr. LODDO. Absolutely, having owned two small businesses that grew very rapidly, we did it all the time because the markets were changing.

Mr. BLUM. So do you stay abreast of best practices today in your job?

Mr. LODDO. Yes; absolutely. I have to, particularly on the technology side and particularly as it relates to cyber security.

Mr. BLUM. And do you think the agency is effective? Is efficient? Is a great steward of taxpayer money today?

Mr. LODDO. It will be after Administrator Linda McMahon makes the decisions on the proposals submitted to her.

Mr. BLUM. So it has not been?

Mr. LODDO. There is room for improvement. Significant room for improvement.

Mr. BLUM. In your compensation plan, is there incentives in your compensation plan to have the agency be streamlined and effective and efficient?

Mr. LODDO. That would be a decision by the Administrator. There are funds that could be used to award people for performance outside of the normal routines.

Mr. BLUM. That is good to hear because I think we need incentives, more incentives like they have in the private sector in the public sector so the employees of the Federal Government have an incentive to save taxpayers money.

Mr. LODDO. If I could add?

Mr. BLUM. Absolutely.

Mr. LODDO. The Senior Executive Service of the Small Business Administration is absolutely committed to improving the efficiency and effectiveness of the agency under Administrator Linda McMahon. This is the first time we have had that option.

Mr. BLUM. That is good to hear. Bad to hear about the past but good to hear that things are changing.

As a Committee, how do we judge your performance? Do you have markers? Do you have performance goals, parameters that we are familiar with, that we are aware with, or is this like typical Federal agency, it just goes on and on and on forever without any real measurement, without anybody being held accountable?

Mr. LODDO. Let me frame this answer in the words of Administrator Linda McMahon. We have performance plans, and in fact, my office overlooks those performance plans to make sure that they are done. When I reported to her that they were not in the best shape, this was her message to the supervisors and the leadership of SBA on her first week at SBA. In her opinion, it is intolerable that those performance plans are not perfect; that the communications between the supervisors and the staff must occur in person, when possible. Then she went on to say anything less than that she views as insubordination.

Mr. BLUM. That is good to hear. I have confidence in Administrator McMahon. It is just I am concerned about the past. The past. But we cannot change that. All we can do is change the future. So thank you for your answers, and I yield back the time I do not have.

Chairman CHABOT. Thank you. The gentleman's time is expired.

And the chair will just note for the record we are very encouraged to hear the words of the gentleman. So we will follow up down the road and see if it actually happened. We certainly hope it does,

and the Committee is determined to do everything we can to work with you to make sure that does happen.

And unless one other colleague would come, our final interrogator this afternoon will be the gentleman from New York, Mr. Espaillat, and then the Ranking Member has a question after that.

Mr. ESPAILLAT. Thank you, Mr. Chairman, and Ranking Member Velázquez. I will be brief. Much has been said already.

Mr. Loddo, I want to know, what is the SBA doing to attract like more younger members, employees, the millennium types to fill these vacancies? What is your outreach to ensure that that kind of new employee comes in?

Mr. LODDO. The agency is very fortunate to have 68 District Offices across the country. When we place an announcement for recruiting, it is required to go out onto USAJobs. In addition to that, our office, under the Office of Human Resources Solutions, reaches out to particular organizations in government as well as the CIO councils to look for people that could come on board with SBA. So we are looking at targeted communities. We are looking at the broad USAJobs. And we are looking at the specialty areas where we can find the people that are good in cyber, find the people that are good in HR, as well as the most important people that we have, the people in the field that work day in and day out with our Nation's small businesses.

Mr. ESPAILLAT. I will encourage that as technology continues to play a bigger role in small businesses that there is a full effort to try to engage those that are really knowledgeable in assisting small businesses in that endeavor.

And what about diversity? How are you planning to make the agency be fully diverse? And what are you doing to recruit from different groups?

Mr. LODDO. We have an office that reports to me under the Office of Diversity, Inclusion, and Civil Rights. They report to all senior management by office in terms of the makeup of the staff that we have, and where we have a disparity, we, in OHRS, need to resolve that issue. And that is why we target particular communities in order to be able to cause that gap to be removed.

Mr. ESPAILLAT. Again, in this arena, also, many small businesses are owned by recent arrivals or first generation Americans that require, I think, daily access to the services that you provide but perhaps are not getting there through the front door because they may not be full effort with regards to having a healthy diversity within the agency that will get them there. So I encourage you to also do that.

I yield my time.

Chairman CHABOT. Thank you. The gentleman yields back.

And the Ranking Member has a question.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman.

Mr. Loddo, how long have you been at SBA? Working at SBA?

Mr. LODDO. I have been at the Small Business Administration since 1991. I joined in the District Director candidate program. I was the first person hired outside of the agency from the private sector.

Ms. VELÁZQUEZ. So when they were working, the administration at SBA was working on the VERA/VSIP plan, what position did you hold?

Mr. LODDO. I was the Deputy in the Disaster Assistance Program.

Ms. VELÁZQUEZ. So you were not working at the office that was in charge of overseeing and making——

Mr. LODDO. That is correct. And if I was, this would not have happened.

Ms. VELÁZQUEZ. Okay. Thank you.

Chairman CHABOT. That was the right answer.

That concludes the questions for today. We want to thank both of you for your testimony. It has been very important and clearly, the SBA needs to do better. I like what I am hearing. And as I said, sometime down the road, and our staff will work with your staff, we would like to hear what the results have been from the reforms and improvements that are being made there.

I would remind members that they will have 5 days to extend their remarks or add supplemental materials. And if there is no further business to come before the Committee, we are adjourned. Thank you very much.

[Whereupon, at 1:58 p.m., the Committee was adjourned.]

APPENDIX

STATEMENT OF

HANNIBAL "MIKE" WARE
ACTING INSPECTOR GENERAL
U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE

COMMITTEE ON SMALL BUSINESS
U.S. HOUSE OF REPRESENTATIVES

JUNE 14, 2017

INTRODUCTION

Chairman Chabot, Ranking Member Velázquez, and distinguished members of the Committee, thank you for the opportunity to be here today and for your continued support of the Office of Inspector General (OIG). We recently published the results of our audit of the Small Business Administration's (SBA's) management of the Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Payment (VSIP) program. I am happy to discuss our findings with you today.

OIG's ROLE

OIG was established within SBA by statute to promote economy, efficiency, and effectiveness and to deter and detect waste, fraud, abuse, and mismanagement in the Agency's programs and operations. During fiscal year (FY) 2016, OIG achieved nearly $145 million in monetary recoveries and savings—an almost 7-fold return on investment relative to our FY 2016 operating budget—and made 81 recommendations for improving SBA's operations and reducing fraud and unnecessary losses in the Agency's programs.

OIG audits are conducted in accordance with Federal audit standards established by the Comptroller General, and other reviews generally are conducted in accordance with standards established by the Council of the Inspectors General for Integrity and Efficiency (CIGIE). In addition, we coordinate with the Government Accountability Office to avoid duplicating Federal audits. We also establish criteria to ensure that the non-Federal auditors that OIG uses (typically, certified public accountant firms) comply with Federal audit standards.

OIG's FINDINGS PERTAINING TO SBA's MANAGEMENT OF VERA AND VSIP

OIG report 17-13, titled *SBA's Management of Voluntary Early Retirement Authority and Voluntary Separation Incentive Payment Program* presents the results of our audit of SBA's management of the VERA and VSIP program. VERA provides agencies the option to offer voluntary early retirement when restructuring as well as when downsizing. VSIP, often combined with VERA, allows agencies to offer lump-sum payments to employees who are in surplus positions or have skills that are no longer needed in the workforce, as an incentive to separate. SBA offered a VERA-VSIP option in fiscal year (FY) 2014.

Our objective was to determine whether SBA accomplished its FY 2014 VERA-VSIP program goals. To accomplish this objective, we reviewed SBA's VERA-VSIP plan, the Office of Personnel Management's (OPM's) approval letter, and SBA's reports to OPM on the results of the VERA-VSIP program. We interviewed Office of Human Resources Solutions (OHRS) personnel, the individual at

OPM who approved the plan, and other SBA officials to understand how SBA used the VERA-VSIP positions to restructure the agency.

We reviewed the personnel records of the 149 employees who separated under the 2014 VERA-VSIP program, and we reviewed how SBA used these positions to accomplish its goals. We reviewed applicable laws, regulations, and OPM's guidance on VERA and VSIP, as a basis for our audit.

What OIG Found

We found that while SBA made limited progress in restructuring and reshaping the workforce, it did not accomplish its stated goals of the VERA-VSIP program. As a result, SBA paid $2.1 million for early retirements for positions that were not restructured following VERA-VSIP.

Overall, SBA may have been more successful in achieving its goals had it properly managed the VERA-VSIP program by developing specific and measureable VERA-VSIP goals, including accurate information in the VERA-VSIP plan, making significant changes to its organizational structure, and making substantial changes to job functions following VERA-VSIP.

OIG Recommendations

We provided two recommendations to improve SBA's management of its VERA-VSIP program. We recommend that SBA conduct and document a lessons learned review on the FY 2014 VERA-VSIP performance, including planning, implementation, results, and recommended improvements. We also recommend that SBA develop and issue procedural guidance to ensure Agency officials conduct future VERA-VSIP programs in accordance with VERA and VSIP regulations and OPM guidance.

Agency Response

SBA's planned actions resolve the two recommendations. SBA will conduct an after action review on the FY 2014 VERA-VSIP performance that will address the components outlined in the recommendation. Additionally, SBA will provide written guidance outlining expectations and mitigation strategies for ensuring compliance with any OPM approved VERA-VSIP plan.

CONCLUSION

I am proud of the work performed by our auditors to shine the light on this significant exercise of personnel authority by the SBA. Though the findings of our report are ascribed to SBA, it is a timely report in context of the March 13, 2017 *Presidential Executive Order on a Comprehensive Plan for Reorganizing the Executive Branch.* VERA-VSIP authority undoubtedly will be a tool that many agencies will consider as they seek to implement this order. In this regard, it is noted OPM updated its VERA-VSIP guidance in March 2017.

OIG will continue to provide independent, objective oversight to improve the integrity, accountability, and performance of the SBA and its programs for the benefit of the American people. Our focus is to keep SBA leadership, our congressional stakeholders, and the public currently and fully informed about the problems and deficiencies in the programs as identified through our work. We value our relationship with the Committee and the Congress at large, and we look forward to working together to address identified risks and the most pressing management challenges facing SBA.

U.S. Small Business Administration

TESTIMONY of

JOSEPH LODDO

Chief Operating Officer
U.S. Small Business Administration

House Small Business Committee

Wednesday, June 14, 2017

Chairman Chabot, Ranking Member Velazquez, and other distinguished members of this Committee. Thank you for inviting me here to speak with you today. My name is Joe Loddo. I am the Chief Operating Officer of the US Small Business Administration (SBA). I am here today to talk about SBA's 2014 Agency restructuring plan under the Voluntary Early Retirement Authority (VERA)/Voluntary Separation Incentive Program (VSIP). VERA provides agencies the option to offer voluntary early retirement. VSIP, often combined with VERA, allows agencies to offer lump-sum payments to employees as an incentive to separate. Both VERA and VSIP require OPM approval, and are used along with careful strategic workforce planning to reshape an agency's workforce when undergoing substantial organizational changes, such as restructuring or reorganization.

In SBA's case, there were a large percentage of retirement eligible employees at the time of the 2014 VERA/VSIP: 25% of current employees were eligible to retire immediately, including 50% of those in the occupation series that covers most of the Field Office positions. Over 1,000 SBA employees were eligible for VERA/VSIP; at the time of approval, the average SBA employee's age was 51, compared to the average age of 47 for the rest of the Federal Government. Because of the large number of employees eligible for the VERA/VSIP offering, there was a risk of putting SBA in a vulnerable position, and therefore it was important to prepare for and manage these impending departures.

SBA's VERA/VSIP program was approved by OPM on August 12, 2014, and announced to Agency employees on August 19, 2014. All employees accepting VERA/VSIP were required to separate from the Agency by September 30, 2014. SBA management approved 300 positions as eligible for VERA/VSIP; 149 employees took the VERA/VSIP.

As the Inspector General's audit report indicates, SBA did not carry out the 2014 VERA/VSIP properly. As a result, SBA did not achieve the goals of the program. We agree with the OIG's recommendations in the audit report dated May 30, 2017 and are conducting an analysis of the program. We will document the lessons learned, including in the areas of planning, implementation, results and recommended improvements. We will include all stakeholders in the process.

Since I joined the Office of the Chief Operating Officer—first as the Deputy COO, and now as the COO—a little over a year ago, I have worked to ensure that all personnel and hiring decisions are made on a sound basis. To begin to remedy some of the mistakes made with VERA/VSIP, I have issued guidance that all remaining 2014 VERA/VSIP vacancies must be modified to conform to OPM guidelines.

Under Administrator McMahon, SBA has created the Resource Management Board. The mission of the board is ensure the best use of SBA's limited resources by reviewing FTE allotments and determining the best use of resources to accomplish the Agency's mission. The board meets on a bi-weekly basis (more often as needed) and is comprised of SES-Level personnel.

Further, SBA has determined that there is no need for a VERA/VSIP program during FY2017 and, consequently, will not be offering the program to employees this fiscal year.

Administrator McMahon has been very clear that the SBA must operate efficiently and effectively. She is holding every senior manager accountable for results and expects to see them. I fully support and share her view. Thank you very much for the invitation to testify and I welcome your questions.

AUDIT REPORT

SBA'S MANAGEMENT OF VOLUNTARY EARLY RETIREMENT AUTHORITY AND VOLUNTARY SEPARATION INCENTIVE PAYMENT PROGRAM

May 30, 2017 REPORT NUMBER 17-13

EXECUTIVE SUMMARY

SBA'S MANAGEMENT OF VOLUNTARY EARLY RETIREMENT AUTHORITY AND VOLUNTARY SEPARATION INCENTIVE PAYMENT PROGRAM

Report No. 17-13

May 30, 2017

What OIG Reviewed

This report presents the results of our audit of the Small Business Administration's (SBA's) management of the Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Payment (VSIP) program. VERA provides agencies the option to offer voluntary early retirement when restructuring as well as when downsizing. VSIP, often combined with VERA, allows agencies to offer lump-sum payments to employees who are in surplus positions or have skills that are no longer needed in the workforce, as an incentive to separate. SBA offered a VERA-VSIP option in fiscal year (FY) 2014.

Our objective was to determine whether SBA accomplished its FY 2014 VERA-VSIP program goals. To accomplish this objective, we reviewed SBA's VERA-VSIP plan, the Office of Personnel Management's (OPM's) approval letter, and SBA's reports to OPM on the results of the VERA-VSIP program. We interviewed Office of Human Resources Solutions (OHRS) personnel, the individual at OPM who approved the plan, and other SBA officials to understand how SBA used the VERA-VSIP positions to restructure the agency.

We reviewed the personnel records of the 149 employees who separated under the 2014 VERA-VSIP program, and we reviewed how SBA used these positions to accomplish its goals. We reviewed applicable laws, regulations, and OPM's guidance on VERA and VSIP, as a basis for our audit.

What OIG Found

We found that while SBA made limited progress in restructuring and reshaping the workforce, it did not accomplish its stated goals of the VERA-VSIP program. As a result, SBA paid $2.1 million for early retirements for positions that were not restructured following VERA-VSIP.

Overall, SBA may have been more successful in achieving its goals had it properly managed the VERA-VSIP program by developing specific and measureable VERA-VSIP goals, including accurate information in the VERA-VSIP plan, making significant changes to its organizational structure, and making substantial changes to job functions following VERA-VSIP.

OIG Recommendations

We provided two recommendations to improve SBA's management of its VERA-VSIP program. We recommend that SBA conduct and document a lessons learned discussion on the FY 2014 VERA-VSIP performance, including planning, implementation, results, and recommended improvements. We also recommend that SBA develop and implement policies and procedures to ensure that future VERA-VSIP programs are conducted in accordance with VERA and VSIP regulations and OPM guidance.

Agency Response

SBA's planned actions resolve the two recommendations. SBA will conduct an after action review on the FY 2014 VERA-VSIP performance that will address the components outlined in the recommendation. Additionally, SBA will provide written guidance outlining expectations and mitigation strategies for ensuring compliance with any OPM approved VERA-VSIP plan.

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

Final Report Transmittal
Report Number: 17-13

DATE: May 30, 2017

TO: Linda E. McMahon
Administrator

FROM: Hannibal "Mike" Ware
Acting Inspector General

SUBJECT: *SBA's Management of Voluntary Early Retirement Authority and Voluntary Separation Incentive Payment Program*

This report presents the results of our audit of SBA's management of the fiscal year 2014 VERA-VSIP program. We conducted this audit in accordance with Generally Accepted Government Auditing Standards.

We considered management comments on a draft of this report when preparing the final report. This report contains two recommendations that SBA agreed to implement.

We appreciate the courtesies and cooperation that we received from your staff during our audit. Please contact me at (202) 205-6586 or Riccardo Buglisi, Director, Business Development Programs Group, at (202) 205-7489, if you would like to discuss this report or any related issues.

cc: Mary Anne Bradfield, Chief of Staff
Joseph P. Loddo, Chief Operating Officer
Elias Hernandez, Chief Human Capital Officer
Eric S. Benderson, Acting General Counsel
Timothy E. Gribben, Chief Financial Officer and Associate Administrator for Performance Management
Martin Conrey, Attorney Advisor, Legislation and Appropriations
LaNae Twite, Director, Office of Internal Controls

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Introduction

According to the Office of Personnel Management (OPM), agencies may use Voluntary Early Retirement Authority (VERA) and Voluntary Separation Incentive Payment (VSIP) to decrease the workforce when undergoing substantial organizational change such as restructuring or downsizing. Both reorganization tools require approval from OPM.

Agencies can use VERA to temporarily lower the age and years of service requirements for retirement to increase the number of employees who are eligible for retirement from the Federal Government. Employees must meet minimum age and service requirements to take advantage of VERAs. Under a VERA program, agencies offer early retirement annuity payments to employees age 50 and above with at least 20 years of service or to employees at any age with at least 25 years of service.[1]

Similarly, with OPM approval, agencies can grant lump-sum payments of up to $25,000 as an incentive to voluntarily leave the Federal Government. VSIPs are available for employees who meet general eligibility requirements. To meet VSIP eligibility requirements, an employee must, among other things, be serving in an appointment without time limit, currently employed by the Executive Branch for a continuous period of at least 3 years, and serving in a position covered by the agency's VSIP plan.[2] In addition, the employee must apply for, and receive approval for, a VSIP and not be included in any of the ineligibility categories.[3]

SBA's FY 2014 VERA-VSIP Program

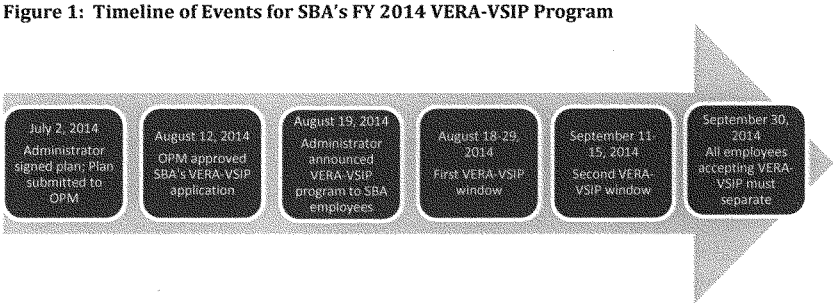
In fiscal year (FY) 2014, the Small Business Administration (SBA) requested and obtained VERA and VSIP authority from OPM. Within SBA's FY 2014 request and approval, only employees eligible for either full retirement or VERA were entitled to apply for VSIP. In its request, SBA cited programmatic, demographic, and budgetary challenges as justification to use the VERA-VSIP authority to reshape its workforce to succeed in meeting its mission. To achieve this initiative, SBA drafted the VERA-VSIP plan with the purposes of (1) addressing workforce competency and skill gaps, (2) increasing the population of early career employees and creating a pipeline of new leaders, and (3) addressing budgetary constraints to avoid a reduction in force (RIF).

SBA's Office of Human Resources Solutions (OHRS) was responsible for planning the agency's VERA-VSIP program and preparing the VERA-VSIP justification submitted to OPM for approval. OHRS was also responsible for managing the implementation of the VERA-VSIP program and reporting progress to OPM. According to OHRS officials, SBA began planning for the FY 2014 VERA-VSIP program in May 2014. In June 2014, the Chief Human Capital Officer (CHCO) briefed the newly appointed Administrator on SBA's workforce challenges, and informed her of the high percentage of retirement-eligible employees. The CHCO and the OHRS Chief of Strategy, Policy, and Accountability, in consultation with the Chief Operating Officer (COO) and a Financial Analyst,

[1] 5 U.S.C. §§ 8336(d)(2) and 8414(b)(1).
[2] 5 U.S.C. § 3521(1) and (2)(A).
[3] According to 5 U.S.C. § 3521(2)(B), VSIP ineligibility categories include: reemployed annuitants; having a disability such that the individual is or would be eligible for disability retirement; having a decision notice of involuntary separation for misconduct or poor performance; receipt of previous Federal Government VSIP; performing a service, during the 36-month period preceding the date of separation, for which a student loan repayment benefit was or is to be paid; performing a service, during the 24-month period preceding the date of separation, for which a recruitment or relocation incentive was or is to be paid; and performing a service, during the 12-month period preceding the date of separation, for which a retention incentive was or is to be paid.

developed the VERA-VSIP plan, which the Administrator signed and OPM approved (see Figure 1). According to the VERA-VSIP plan, SBA was to complete restructuring efforts by March 31, 2016.

Figure 1: Timeline of Events for SBA's FY 2014 VERA-VSIP Program



Source: OIG generated from interviews and supporting documentation.

For the FY 2014 VERA-VSIP program, 149 employees voluntarily separated from the agency. All 149 employees received an incentive payment in addition to their accrued annual leave payouts. In total, SBA spent $5.6 million on the incentivized separations.

Objective

Our objective was to determine whether SBA accomplished its FY 2014 VERA-VSIP program goals.

Finding: SBA Did Not Accomplish Its VERA-VSIP Program Goals

While SBA made limited progress in restructuring and reshaping the workforce, it did not accomplish its stated goals of the VERA-VSIP program. Specifically, SBA did not (1) address workforce competency and skill gaps, (2) increase the population of early career employees and create a pipeline of new leaders, or (3) address budgetary constraints to avoid a reduction in force (RIF). As a result, SBA's VERA-VSIP program achieved few, if any, of its planned goals and paid $2.1 million that SBA could have used for other priorities.

Overall, SBA may have been more successful in achieving its goals had it properly managed the VERA-VSIP program by

- developing specific and measurable VERA-VSIP goals,
- including accurate information in the VERA-VSIP plan,
- making significant changes to its organizational structure following VERA-VSIP implementation, and
- making substantial changes to job functions when filling positions, including mission critical and Senior Executive Service (SES) positions vacated through the VERA-VSIP program.

SBA Did Not Develop Specific and Measurable VERA-VSIP Goals

Although SBA cited programmatic, demographic, and budgetary challenges in its VERA-VSIP plan, SBA did not include specific or measureable goals to address these challenges. Specifically, we noted the following:

- SBA's programmatic challenge centered on competency and skills gaps in the workforce resulting from a significant change in SBA's service model. However, SBA's VERA-VSIP plan did not outline how the agency would reshape and restructure its workforce. To accomplish this goal, SBA could have developed new position descriptions to address new skills, or developed a new organizational structure to implement a change in the service model, or both. (See Appendix III for VERA-VSIP best practices.)

- SBA's demographic challenge highlighted the percentage of employees who would be eligible for full retirement in the following 5 years, the average age of SBA employees, and the difficulty in retaining and promoting talent without career growth. SBA neither identified a target percentage of employees who would be eligible for full retirement in the following 5 years nor developed a plan for adequate transfer of knowledge when an employee retired to promote career growth in remaining employees. SBA claimed that it partially met a demographic goal by hiring a younger workforce. However, 1 month after VERA-VSIP was implemented, SBA reported that the average age was unaffected. Likewise, 2 years after VERA-VSIP was implemented, the average age of SBA employees remained at 51. Further, some program offices, including the Office of Capital Access, experienced a loss of institutional knowledge because of the program.

- SBA's budgetary challenge focused on economic circumstances that could have required SBA to take drastic measures such as a RIF. However, SBA did not articulate a fiscal aim for cost savings. Although SBA's VERA-VSIP plan stated that a RIF would be necessary if OPM did not approve the VERA-VSIP plan, the principal author of the VERA-VSIP plan later explained she added these claims to bolster the weight of the application when no threat of a RIF existed.

While SBA did not include specific or measureable goals to address the various challenges, some program offices used the vacated full-time equivalents (FTEs) from the VERA-VSIP program to make positive programmatic and organizational changes. For example, the Deputy Associate Administrator for the Office of Field Operations asserted he redesigned some position descriptions to include new competencies and skills needed to perform higher-level tasks and trained various employees to perform the wide array of functions within the office. Similarly, Office of the Chief Financial Officer officials claimed they replaced some lower-graded positions vacated under the VERA-VSIP program with higher-graded positions with increased professional expectations. Additionally, Government Contracting and Business Development senior officials claimed they made some organizational changes, such as formally separating previously merged responsibilities within the Office of Government Contracting and the Office of Policy, Planning, and Liaison. Further, the SBA's Chief of Staff asserted SBA used some vacated FTEs to create new positions such as the Chief Learning Officer, the Chief Digital Officer, and an IDEA Lab team to support digital services.

SBA Included Inaccurate Information in the VERA-VSIP Plan

SBA's VERA-VSIP plan also contained inaccurate claims. For example, SBA's VERA-VSIP plan did not accurately portray the effect of the Federal Acquisition Certification requirement on mission critical positions. The plan stated that the National Defense Authorization Act for FY 2014 mandated Business Opportunity Specialists to obtain Federal Acquisition Certification in Contracting as a prerequisite for employment. The VERA-VSIP plan did not mention the provision in the law that allows currently employed Business Opportunity Specialists, serving on or before January 2013, to obtain the credential by January 2018.[4] The plan indicated that approximately 43 percent of employees eligible to retire at the time of the VERA-VSIP implementation were in a series that required the Level I certification. Therefore, with a 2018 deadline for the certification, the employees in those positions at the time of the VERA-VSIP implementation had sufficient time to comply with the new mandate or could have retired under their own accord without the agency having to pay an incentive payment.

The plan also identified that potentially 885 employees, in 14 position titles, did not possess the competencies or skills needed to perform their jobs. However, according to OHRS officials, SBA did not complete a skills gap analysis until February 2016, more than 1 year following the VERA-VSIP implementation. Additionally, the plan listed 49 other positions as affected by "organizational change," including Law Librarian, Paralegal Specialist, Lead Mail Clerk, and Audio Visual Production Specialists. Neither the plan, OPM reports, subsequent interviews, nor agency documentation indicated that these positions, or others, changed because of organizational reshaping.

In addition, SBA reported to OPM, in the VERA-VSIP request, that it established a High-Risk Task Force to examine the outlined programmatic, demographic, and budgetary challenges. According to the request, one outcome of the High-Risk Task Force was to create an SBA-wide steering committee to review FTE allotments across the agency and to determine the best allocation of FTEs to accomplish the agency's mission. We found no evidence of a High-Risk Task Force or of a steering committee dedicated to the stated functions. While some of SBA's senior officials we interviewed participated in committees with similar names, none participated in a steering committee formed to review VERA-VSIP FTEs, and none had heard of a High-Risk Task Force.

[4] National Defense Authorization Act for Fiscal Year 2013, H.R. 4310, Sec. 1622(c).

SBA Did Not Make Significant Changes to Its Organizational Structure

SBA did not have a restructuring plan in place before offering the VERA-VSIP option, which made it difficult for SBA to achieve desired organizational structure changes. Additionally, OHRS did not include the majority of SBA's leadership team in the planning of the VERA-VSIP program until after the plan had been signed by the Administrator and submitted to OPM. According to Government Accountability Office (GAO) findings, efforts to address key organizational issues, like strategic workforce planning, are most likely to succeed if, at their outset, agencies' top program and human capital leaders set the overall direction, pace, tone, and goals of the effort.[5]

SBA partially based its request for VERA-VSIP on the concept that the agency's new Administrator was reshaping the organization to align with her vision for SBA, including a new service delivery model to be executed by employees with heightened competencies and skills. Yet, SBA did not implement a new service delivery model and did not target employees for the VERA-VSIP program based on competencies and skills. Further, SBA did not develop a mechanism to track any reshaping efforts within the organization and provided inaccurate information to OPM regarding the agency's restructuring.

Restructuring Plan for VERA-VSIP

In the FY 2014 VERA-VSIP plan, SBA stated that it faced a skills gap in its workforce resulting primarily from a significant change in its service model. According to an OHRS official, 2 months after the VERA-VSIP employees had separated from the agency, SBA hired a consulting firm to prepare white papers to aid in the development of a new service model and recommend changes to the agency's organizational structure.[6] The consulting firm delivered the white papers to OHRS officials in March 2015.[7] However, OHRS officials did not take any actions to implement the recommendations in the white papers. According to OHRS officials, the Administrator's office was reviewing the white papers and they were waiting on direction from senior officials before implementing the recommended organizational or service level model changes. Subsequently, in September 2016, the Chief of Staff told us that SBA would not implement the white paper recommendations. More than 2 years after the 2014 VERA-VSIP implementation, SBA has yet to implement a new service model.

Methodology for Identifying Eligible VERA-VSIP Positions

Although SBA's VERA-VSIP plan focused heavily on competencies and skills gaps resulting from a significant change in its service model indicating the need for the VERA-VSIP, SBA did not consider these factors when identifying the list of eligible positions. Instead, SBA OHRS officials created the list of eligible positions for the VERA-VSIP plan by identifying all SBA employees who met the age and service requirements for immediate retirement. In follow-up correspondence between SBA's OHRS officials and the OPM reviewing official, the OPM reviewing official questioned the method of identifying positions eligible for the VERA-VSIP. Specifically, the OPM reviewing official reminded OHRS officials that VERA and VSIP were position-based authorities, not employee-based authorities. OHRS officials responded by describing vast organizational changes within the agency to justify the broad universe of positions eligible for the VERA-VSIP. Although SBA crafted a

[5] GAO-04-39, Key Principles for Effective Strategic Workforce Planning (December 2003).
[6] SBA employees who accepted the VERA-VSIP were required to separate from the Agency by September 30, 2014. SBA contracted with the consulting company 2 months later in November 2014.
[7] SBA spent approximately $466K for the consulting firm's services.

compelling rationale to justify the list of eligible positions, there was no particular organizational change planned at the time the VERA-VSIP authority was requested.

Mechanism to Track the VERA-VSIP Reshaping Efforts

OHRS officials who planned the VERA-VSIP program did not design a tracking mechanism or designate an individual to track the agency's use of the VERA-VSIP program. As a result, SBA was not able to account for all of the positions vacated through VERA-VSIP. At the time of SBA's VERA-VSIP program, OPM required agencies to report how VERA-VSIP affected the shape of the workforce and whether VERA-VSIP had the desired results, as well as other information. Although SBA did not track restructuring efforts, an OHRS official provided quarterly reports to OPM regarding VERA-VSIP, as required by VERA and VSIP regulations.[8] In the final report to OPM, SBA's OHRS official stated that it was, "too premature to determine the full impact of VERA-VSIP offering," but noted several general changes to SBA. Additionally, the OHRS official reported that SBA made progress to reshaping the workforce by initiating evaluations of service models and creating white papers to determine the best course of action for reshaping. However, SBA's final report to OPM was submitted in January 2016 and, based on our analysis, SBA had already improperly filled more than 35 percent of the positions vacated through VERA-VSIP.

SBA Did Not Make Substantial Changes to Job Functions

According to OPM officials, a position vacated through a VERA-VSIP program should either be eliminated or restructured and not filled in the same manner. OHRS officials understood that restructuring positions required significant changes such as relocating, having a major duty added or restructured, implementing new standards, or changing the duties by 25 percent or more. The CHCO communicated these goals to agency officials, during a meeting held on September 4, 2014. However, on October 27, 2014, the CHCO issued a memorandum to OHRS staff that contained guidance that allowed filling positions deemed too critical to go vacant or not appropriate for restructuring or relocation without a significant change to the position. One week later, under the direction of the CHCO, an OHRS official provided detailed information to program office senior officials on how to submit recruitment requests to OHRS human resources staff to fill a VERA-VSIP vacancy deemed too critical to go vacant without any form of restructuring or reshaping. These actions were in direct conflict with SBA's distinct assurance to OPM that it would restructure every position vacated due to VSIP.

In regards to the SES positions SBA included in the VERA-VSIP plan, OPM required SBA to describe "how specifically the SES positions will be restructured in the future (e.g., to reflect newly required skills, competencies, knowledge) if a VSIP is granted." SBA assured OPM that any vacated SES positions included in the VERA-VSIP would be reallocated to other places in the agency and not refilled unless restructured or re-described to address skill imbalances. The CHCO's October 27, 2014, memorandum and the guidance to program offices explicitly contradicted the assurance provided to OPM following OPM's express concern that "SES positions are viewed as critical to the organization or 'continuing' positions that would need to be refilled."

Because of the CHCO's guidance, OHRS human resources staff filled positions vacated under VERA-VSIP without a significant change, contrary to the intent of VSIP, OPM guidance, and SBA's guarantee to OPM.[9] We found that 54 of the 149 positions vacated under the 2014 VERA-VSIP were filled without a significant change in function or other required change (see Appendix I). Thus, SBA

[8] 5 CFR § 831.114 and 5 CFR § 842.213; 5 CFR § 576.
[9] 5 U.S.C. § 3522.

paid $2.1 million as an incentive for early retirement for positions it did not restructure following the VERA-VSIP implementation (see Appendix II).[10] Most notably, SBA filled SES and other high-level positions without consideration of the VERA-VSIP program requirements as follows:

- The COO, a contributor to the VERA-VSIP plan, retired and received an incentive payment, under the VERA-VSIP. An OHRS official claimed that converting the position from career SES to political appointment was a significant change to the position and therefore met the intent of the VERA-VSIP. However, neither the duties of the COO nor the organizational structure of the office significantly changed. In fact, the position description was identical for the politically appointed COO and the former career COO.

- The dual-titled Deputy Associate Deputy Administrator for GCBD and Deputy Assistant Administrator for Noncontiguous States and Territories retired and received an incentive payment under the VERA-VSIP. According to GCBD officials, this was a mission-critical position. This position was vacant for 20 months before SBA filled the position using a revised position description and a new title of Deputy Associate Administrator for GCBD. Not only was the SES position not reallocated, the responsibilities of the position were not significantly changed.

- Five District Directors retired and received incentive payments under the VERA-VSIP. SBA filled all five positions within 6 to 12 pay periods after the VERA-VSIP, using the same position descriptions and without any restructuring to the organization.

During our audit, we met with SBA's COO and Deputy COO to discuss the preliminary findings of this report. Based on the information we provided, the Deputy COO issued a memorandum rescinding the provision in the October 27, 2014, guidance that allowed the agency to fill vacancies created by the FY 2014 VERA-VSIP program that SBA deemed critical or essential to key agency operations without a significant change to the position. The memorandum gave the direction, moving forward, for OHRS to reshape any position created by the VERA-VSIP program prior to filling the vacancy.

Conclusion

SBA did not develop specific and measureable goals, provide accurate information, significantly change the agency's organizational structure, or substantially change job functions to sufficiently address the programmatic, demographic, and budgetary challenges described in the FY 2014 VERA-VSIP plan. SBA may have been more successful had OHRS officials included SBA's program offices' leadership teams in the planning of the VERA-VSIP program. However, OHRS did not involve these officials until after the Administrator had signed the plan and OHRS submitted it to OPM. In addition, OHRS officials may have been able to demonstrate program accomplishments had they developed a mechanism to track how the SBA used the vacated positions within the Agency.

[10] Of the $2.1 million paid to the employees who voluntarily separated from SBA under the VERA-VSIP program, $1.3 million was paid out in incentive payments and the remainder was for accrued annual leave payments. See scope and methodology section for additional information on how we identified these positions.

Recommendations

We recommend that the Chief Operating Officer:

1. Conduct and document a lessons learned on the FY 2014 VERA-VSIP performance, including planning, implementation, results, and recommended improvements. Include input from multiple stakeholders within the agency, specifically administrative and program office senior officials.

2. Develop and issue procedural guidance to ensure that SBA officials conduct future VERA-VSIP programs in accordance with VERA and VSIP regulations and OPM guidance.

Analysis of Agency Response

SBA management provided formal comments that are included in their entirety in Appendix IV. SBA management agreed to implement the recommendations by September 29, 2017.

Summary of Actions Necessary to Close the Report

The following provides the status of the recommendations and the necessary action to close them.

1. Resolved. The Chief Operating Officer and the Chief Human Capital Officer concurred with our recommendation and plan to complete final action on this recommendation by September 29, 2017. The recommendation can be closed when SBA provides evidence that it conducted a "lessons learned" on the FY 2014 VERA-VSIP performance, including planning, implementation, results, and recommended improvements, with input from multiple stakeholders within the agency, specifically administrative and program office senior officials.

2. Resolved. The Chief Operating Officer and the Chief Human Capital Officer concurred with our recommendation and plan to complete final action on this recommendation by September 29, 2017. The recommendation can be closed when SBA provides evidence that it developed and issued procedural guidance in accordance with VERA and VSIP regulations and OPM guidance.

Appendix I: Objective, Scope, and Methodology

Our audit objective was to determine whether SBA accomplished its FY 2014 VERA-VSIP program goals.

To answer our objective we obtained SBA's VERA-VSIP plan, OPM's approval letter, and SBA's reports to OPM on the results of the VERA-VSIP. We interviewed OHRS personnel from the Strategy, Policy, and Accountability Division who managed the program, the Workforce Acquisition Division and the Executive Resources Team who filled VERA-VSIP vacated positions, and Payroll Processing Division who provided payroll support. We interviewed personnel in the Office of Chief Financial Officer Performance Management regarding the computation of VSIP payment estimates included in the plan. We also spoke with the individual who approved the plan at OPM. We reviewed applicable laws and regulations, and OPM's guidance on VERA and VSIP, as a basis for our audit.

One of the key individuals responsible for the majority of the decisions involved in the VERA-VSIP program planning and implementation process, the CHCO, left the agency in December 2015. Because the CHCO was no longer with the agency, we reviewed the VERA-VSIP program planning documentation, including meeting materials, workforce planning analyses, and financial analyses on the cost of the VERA-VSIP, in order to gain a better understanding of the intended goals of the program.

In order to assess the extent SBA achieved its planned goals, we reviewed all hiring, promotion, demotion, and reassignment actions that occurred from October 2014 through December 2015 including the audit universe of 149 employees who separated from the agency under the FY 2014 VERA-VSIP program. We analyzed this information to assess how SBA filled the vacated VERA-VSIP positions. Additionally, we interviewed senior officials in GCBD, Office of Capital Access, Office of Field Operations, and Office of the Chief Financial Officer to understand the extent to which the program office achieved the VERA-VSIP program goals. We also interviewed the SBA's Chief of Staff for an Agency-wide perspective on the VERA-VSIP program performance.

To determine whether a position was filled without a significant change, we reviewed the position description, the Request for Personnel Action (SF-52), and the Notice of Personnel Action (SF-50) for the filled position from information housed within the Workforce Acquisition Division in OHRS. Additionally, we reviewed the position description, SF-52 for the voluntary retirement as well as the VERA SF-50, the VSIP SF-50 that identified the amount of the incentive payment, and the leave data for the VERA-VSIP employee who vacated the position housed within the Human Resource Systems and Payroll Processing Division. Since OHRS was unable to provide the resources to pull the requested information, the audit team accessed the personnel records in the electronic official personnel folder and retrieved the necessary documents. We also reviewed Record of Leave Data forms (SF-1150) to check annual leave totals to be paid.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Use of Computer-Processed Data

We relied on data reported in the National Finance Center and OHRS systems; Recruitment, Assessment, Selection, Credentialing, and Onboarding Tracking System; and VERA-VSIP application database to develop our audit universe and audit sample. We relied on information obtained directly from OPM's electronic Official Personnel Folder. We verified that data recorded in the National Finance Center and OHRS systems matched the information contained in the personnel folder documentation that we reviewed. As a result, we believe the information is reliable for the purposes of this audit.

Review of Internal Controls

The Office of Management and Budget Circular A-123 provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal controls. According to OMB, agencies are responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.[11] We reviewed SBA's VERA-VSIP program and determined SBA management did not design effective controls. We found that SBA did not establish roles or procedures for monitoring the implementation of the VERA-VSIP plan and could not provide reasonable assurance on the accomplishments of the VERA-VSIP goals. Compounding the lack of controls to track the accomplishments of the VERA-VSIP program, CHCO directed human resources and program office hiring officials to override controls designed by the OHRS policy official on filling VERA-VSIP vacated positions. Finally, we found that SBA provided inaccurate quarterly reports on the status of the VERA-VSIP implementation to OPM.

[11] OMB Circular A-123, Management's Responsibility for Internal Control (December 21, 2004).

Appendix II: OIG Schedule of Questioned Costs[12]

Amount	Description	Explanation
$1,335,798	Unnecessary Incentive Payment	VSIP payments to the 54 VERA-VSIP employees who held positions that SBA subsequently filled without a significant change in function or other required change
$796,701	Unnecessary Annual Leave Payment	Annual leave payments to the 54 VERA-VSIP employees who held positions that SBA subsequently filled without a significant change in function or other required change
$2,132,499	Total of Unnecessary Incentive and Annual Leave Payments	

Source: OIG data analysis of OHRS human resources records.

[12] Questioned costs are expenditures that are not supported by adequate documentation at the time of the audit or otherwise do not comply with legal, regulatory, or contractual requirements.

Appendix III: Best Practices Associated with the Effective Use of VERA-VSIP

We used the following source documents to identify best practices when offering a VERA-VSIP option: (1) VERA regulations, (2) VSIP regulations, (3) OPM VERA Guide, (4) OPM VSIP Guide, (5) OPM Human Resources Flexibilities and Authorities in the Federal Government, (6) OPM Workforce Reshaping Handbook, (7) GAO March 2006 Report – Agencies Are Using Buyouts and Early Outs with Increasing Frequency to Help Reshape Their Workforces, and (8) SBA Human Capital Strategic Plan FY 2013–2016.[13]

	Practice/Action	Source Document	SBA Performed Action
1	Identify the specific reshaping goals of the agency.	1, 3, 4, 6, 7	No
2	Review current and develop future organizational charts at the program and agency levels.	2, 3, 4, 5, 6	No
3	Identify key staff to manage the process from the planning stages through the reporting and evaluation stages.	1, 2, 3, 4	No
4	Confirm that the agency is able to financially support VERA-VSIP or other outplacement services.	2, 4, 6	Yes
5	Develop workforce reshaping strategies that fully consider alternative methods.	3, 4, 5, 6, 7	No
6	Develop and implement, or review effective workforce/human capital, succession, and reshaping plans.	1, 5, 8	No
7	Develop a knowledge transfer system targeting retirement eligible staff in mission-critical occupations.	2, 8	No
8	Review existing labor agreements and consider any collective bargaining obligations.	3, 4, 6	Yes
9	Design buyout and early out offerings that demonstrate a clear relationship to the agency's workforce reshaping goals and overarching strategic goals.	1, 2, 5, 6, 7	No
10	Design buyout and early out offerings that consider employees' needs.	7	No
11	Develop a communications strategy early in the process.	5, 6, 7	No
12	Prepare staff for increased workload and prepare to advise interested employees on the amount of their annuity and related items.	1, 3, 4, 5, 6	No
13	Consider and adopt ways to maximize cost savings.	7	No
14	Establish an evaluation system to identify and report relevant data on buyout and early out recipients.	5, 7	No

[13] (1) 5 CFR § 831.114 and 5 CFR § 842.213; (2) 5 CFR § 576; (3) *OPM Guide to Voluntary Early Retirement Regulations* (August 2006); (4) *OPM Guide to Voluntary Separation Incentive Payments* (August 2006); (5) *OPM Human Resources Flexibilities and Authorities in the Federal Government Guide* (August 2013); (6) *OPM Workforce Reshaping Handbook* (July 2009); (7) GAO-06-324, *Human Capital: Agencies Are Using Buyouts and Early Outs with Increasing Frequency to Help Reshape Their Workforces* (March 2006); and (8) *U.S. Small Business Administration Strategic Human Capital Plan FY 2013–2016.*

SBA

CHIEF OPERATING OFFICER
AND
CHIEF HUMAN CAPITAL OFFICER

RESPONSE TO AUDIT REPORT

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

DATE:	May 23, 2017
TO:	Riccardo R. Buglisi Office of Inspector General (OIG)
THRU:	Joseph Loddo Chief Operating Officer (COO)
FROM:	Elias Hernandez Chief Human Capital Officer (CHCO)
SUBJECT:	SBA's Management of Voluntary Early Retirement Authority and Voluntary Separation Incentive Payment Program

Thank you for the opportunity to respond to the Report on SBA's Management of the Voluntary Early Retirement Authority and Voluntary Separation Incentive Payment Program (V/V). The object of the review was to determine whether SBA accomplished its FY 2014 VERA-VSIP program goals.

The Office of the Chief Operating Officer (OCOO) and the Office of Human Resources Solutions (OHRS) concur with the Office of the Inspector General's recommendations. The COO and CHCO will address the findings. Below please find the Agency's response to each of the recommendations outlined in the report.

Recommendation 1: *Conduct and document a "lessons learned" on the FY 2014 VERA-VSIP performance, including planning, implementation, results, and recommended improvements. Include input from multiple stakeholders within the agency, specifically administrative and program office senior officials.*

Explanation of the Proposed Action:
Concur. OHRS will conduct an after action review that will address the categories outlined in the recommendation.

Projected Completion Date: September 29, 2017.

Recommendation 2: *Develop and issue procedural guidance to ensure that SBA officials conduct future VERA-VSIP programs in accordance with VERA and VSIP regulations and OPM guidance.*

Explanation of the Proposed Action:
Concur. OHRS will provide written guidance outlining expectations and mitigation strategies for ensuring compliance with any OPM approved VERA/VSIP plan.

Projected Completion Date: September 29, 2017.