

INSPECTION REPORT

INSPECTION OF SBA'S INITIAL DISASTER ASSISTANCE RESPONSE TO HURRICANE IRMA





EXECUTIVE SUMMARY

INSPECTION OF SBA'S INITIAL DISASTER ASSISTANCE RESPONSE TO HURRICANE IRMA

Report
No. 18-16

April 26,
2018

What OIG Reviewed

This report presents the results of our inspection of the Small Business Administration's (SBA's) initial disaster assistance response to Hurricane Irma. Hurricane Irma, a category 5 hurricane, first made landfall on September 6, 2017, in the U.S. Virgin Islands. On September 10 and September 11, 2017, this catastrophic hurricane also impacted residents in Florida, Georgia, and South Carolina, causing at least \$42.5 billion in property damage. Hurricane Irma was the second of three major hurricanes (Harvey, Irma, and Maria) impacting the United States between August 25 and September 20, 2017.

Our objective was to assess SBA's initial disaster assistance response to Hurricane Irma, including staffing adequacy, loan application volume, and timeliness of disaster loan approvals.

To answer our objective, we interviewed SBA Office of Disaster Assistance (ODA) officials to discuss staffing, disaster loan application processing, and the loan applications remaining to be processed. We also reviewed applicable laws and regulations, SBA's standard operating procedures (SOPs), including SOP 50 30 8, and other SBA operating and training guidance. In addition, we conducted on-site visits in Florida at seven Disaster Recovery Centers (DRCs) and Business Recovery Centers (BRCs) to determine SBA's initial disaster assistance to Hurricane Irma survivors. We analyzed data to assess loan application volume, processing times, and loans remaining to be processed.

What OIG Found

Overall, we found that SBA established a meaningful presence in the immediate aftermath of Hurricane Irma. While still assisting Hurricane Harvey disaster survivors in Texas, within 20 days after Hurricane Irma was declared a disaster in Florida, SBA provided 127 staff for 27 recovery centers set up by the Federal Emergency Management Agency and the affected states and the U.S. territories. By the end of December 2017, SBA opened and operated 134 recovery centers to assist Hurricane Irma disaster survivors. Also, in response to the three hurricanes, SBA's ODA

increased its staff from 1,660 to 4,703 employees. Although SBA was able to provide staffing to assist Hurricane Irma survivors, SBA management noted that the current Schedule-A hiring process makes it difficult to rapidly hire employees. We also found that SBA management could better assess their personnel needs if they fully utilized available management staffing tools.

In our review of loan volume associated with Hurricane Irma, we noted that by the end of December 2017, SBA accepted 110,464 Hurricane Irma loan applications of those, 105,257 or about 95 percent were processed and 5,207, or about 5 percent, were remaining to be processed. As of the end of December 2017, the combined loan applications remaining to be processed were 29,272. We also found there were 5,117 damage loss verifications remaining to be processed of those, 2,283, or 44.6 percent, were for Hurricane Irma.

Lastly, we evaluated SBA's processing times for Hurricane Irma disaster loan applications with a loan approval or denial decision as of the end of December 2017. The average processing time was approximately 21 days when computer-generated declines were not included. However, when these computer-generated declines were included, the overall average processing time was approximately 15 days. Despite the unprecedented volume of disaster loan applications and hiring challenges, SBA met its 45-day processing goal for the applications processed.



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

Final Report Transmittal
Report Number: 18-16

DATE: April 26, 2018

TO: Linda E. McMahon
Administrator

FROM: Hannibal "Mike" Ware
Acting Inspector General

A handwritten signature in black ink, appearing to be "H. Ware", written over the printed name of the sender.

SUBJECT: *Inspection of SBA's Initial Disaster Assistance Response to Hurricane Irma*

This report presents the results of our inspection of SBA's initial disaster assistance response to Hurricane Irma.

We appreciate the courtesies and cooperation extended to us during this inspection. If you have any questions, please contact me at (202) 205-6586 or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6616.

cc: James Rivera, Associate Administrator
Pradeep Belur, Chief of Staff
Chris Pilkerton, General Counsel
LaNae Twite, Director, Office of Internal Controls

Table of Contents

Introduction.....	1
Overview of Office of Disaster Assistance	1
Disaster Loan Processing Overview.....	1
Prior Work.....	2
Objective.....	3
Staffing Adequacy.....	4
Initial Staffing Levels.....	4
Hurricane Irma Disaster Recovery Centers and Business Recovery Centers.....	4
Hurricane Irma Disaster Loss Damage Verification.....	5
Employee Retention	5
Loan Application Volume and Processing.....	6
Loan Processing Timeliness.....	7
Appendix I: Objective, Scope, and Methodology.....	8
Appendix II: SBA Disaster and Business Recovery Centers.....	9
DRCs and BRCs Visited.....	9
Appendix III: OIG Hotline Complaints From Hurricane Irma.....	10

Introduction

The Small Business Administration (SBA) plays a major role in disaster relief efforts in the wake of hurricanes, floods, earthquakes, and other physical disasters that occur in the United States and its territories. The mission of SBA's Office of Disaster Assistance (ODA) is to provide low interest disaster loans to individuals and businesses impacted by such disasters. Loans are offered to businesses of all sizes, private non-profit organizations, homeowners, and renters to repair or replace real estate, personal property, machinery and equipment, inventory, and business assets that have been damaged or destroyed in a declared disaster. SBA also provides eligible small businesses and most private non-profit organizations necessary working capital to help overcome economic injury.

Hurricane Irma, a Category 5 hurricane with maximum sustained winds of 185 miles per hour, first made landfall on September 6, 2017, in the U.S. Virgin Islands. On September 10 and 11, 2017, this catastrophic hurricane also impacted residents in Florida, Georgia, and South Carolina, causing at least \$42.5 billion in property damage. Hurricane Irma was the second of three major hurricanes (Harvey, Irma, and Maria) impacting the United States and its territories between August 25 and September 20, 2017. By the end of December 2017, SBA received 110,464 Hurricane Irma loan applications; of those, 105,257, or about 95 percent, were processed and 5,207, or about 5 percent, were remaining to be processed. Of the 105,257 loans processed, 32,442 were approved, totaling \$1.2 billion.

Overview of Office of Disaster Assistance

ODA has five primary functional groups that perform discrete functions to assist disaster survivors: two Field Operations Centers (FOCs), West and East; the Customer Service Center (CSC); the Processing and Disbursement Center (PDC); and the Damage Verification Center (DVC). The Business Recovery Centers (BRCs) are set up by SBA. The Disaster Recovery Centers (DRCs) are set up by the Federal Emergency Management Agency (FEMA), the states and the U.S. territories in the disaster-affected areas. The FOCs are responsible for assigning staff to the DRCs and the BRCs. There are two FOC locations: one in Sacramento, California, which services all disaster locations west of the Mississippi River, and one in Atlanta, Georgia, which services the geographic area east of the Mississippi.¹

The Government encourages all disaster survivors seeking Federal assistance initially register with FEMA. Once registered, they may be referred to SBA and encouraged to apply for a disaster loan online or in person at a local DRC or BRC in the disaster-affected area.

Disaster Loan Processing Overview

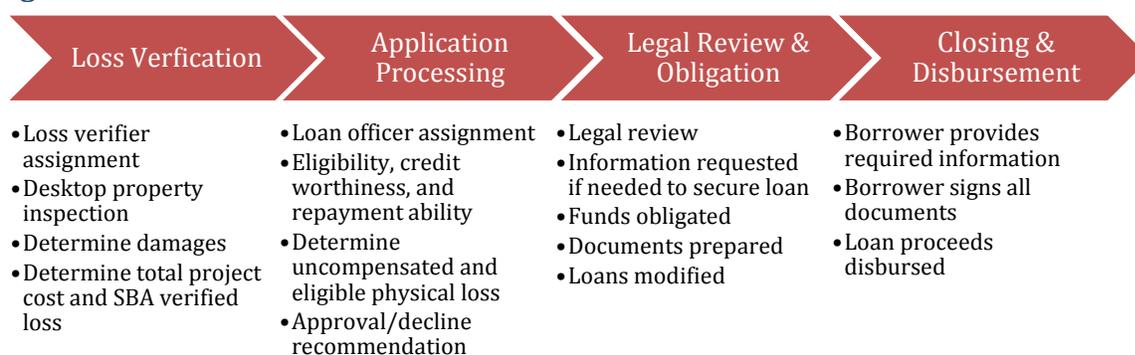
Disaster loan applications are routinely processed in Fort Worth, Texas, at the PDC where eligible applicants are evaluated for creditworthiness and repayment ability. Before a disaster loan can be approved, SBA must verify the loss the applicant sustained as a result of the disaster. Employees assigned to the DVC who perform these tasks are located in Herndon, Virginia; Atlanta, Georgia; Fort Worth, Texas; and Sacramento, California. Effective January 31, 2017, the Associate Administrator for Disaster Assistance implemented off-site (desktop) verification for all home loan applicants and for business loan applicants applying for residential structure (residential rental property owners) loans up to \$25,000.

¹ Minnesota is assigned to FOC East in Atlanta, Georgia.

The new desktop verification process uses third-party information in conjunction with a telephone interview of the applicant to obtain information about the property and the extent of the damage sustained as a result of the disaster. For Presidential declarations like Hurricane Irma, all approved loan amounts of \$25,000 or less are reviewed, and the damage is compared with FEMA’s database information.² Approved disaster loans over \$25,000 require an on-site inspection prior to disbursing any funds over \$25,000. If there is a discrepancy between the initial and the on-site verification, the loss verification staff conducts an extensive re-verification to more accurately determine the loss amount.

After all application requirements are met, the application is accepted by the PDC for further processing. Those who qualify are approved, and their loan closing documents are prepared at the PDC. In addition, all disaster loans are disbursed by the PDC following receipt of the borrower’s signed closing documents. Figure 1 shows SBA’s disaster loan process after the application is accepted and an initial credit check is completed.

Figure 1: SBA’s Disaster Loan Process



Due to the unprecedented magnitude of Hurricanes Harvey, Irma, and Maria, SBA was still receiving loan applications as of February 8, 2018. Further, SBA expanded loan processing operations to three additional locations: Sacramento, California; Washington, DC; and Buffalo, New York. SBA staffed the Farmers Branch, Texas, location in February 2018. SBA began processing loans at the Sacramento location almost immediately after Hurricane Harvey struck, and the other locations were gradually added.

Prior Work

SBA OIG 18-10, *Inspection of SBA’s Initial Disaster Assistance Response to Hurricane Harvey* (January 19, 2018). This report found that SBA’s initial response to Hurricane Harvey was expeditious. By the end of October 2017, ODA had more than quadrupled its staff to 4,310 and operated 84 recovery centers. As of November 2, 2017, ODA had served 60,694 Hurricane Harvey disaster survivors. Despite its quick response, due to the magnitude of the three successive hurricanes impacting the United States and its territories, SBA was unable to meet its goals for answering calls and responding to email messages and had a backlog of 21,571 loan applications waiting to be processed.

GAO 14-760, *Additional Steps Needed to Help Ensure More Timely Disaster Assistance* (September 29, 2014). This report found that SBA did not meet its 21-day timeliness goal for processing Hurricane

² Hurricane Irma was a Presidential Declaration in all affected states except for South Carolina, which was an Administrative SBA Disaster Declaration. Presidential Declarations activate SBA’s physical and economic injury disaster loan (EIDL) programs and some other forms of Federal, state or other assistance. Administrative SBA Disaster Declarations activate SBA’s physical and EIDL programs.

Sandy business loan applications. SBA took an average of 45 days to process physical business loan applications to approval and 38 days for business economic injury loans. SBA stated that it was challenged by an unexpectedly high volume of loan applications received early in its response to the disaster, as well as by technological difficulties. The Government Accountability Office (GAO) recommended that SBA revise its disaster planning documents and conduct a formal documented evaluation of lenders' feedback that can inform SBA and Congress about statutory changes that may be necessary to encourage lenders' participation in Immediate Disaster Assistance Program.

SBA OIG 14-14, *Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations* (June 30, 2014). This report found that SBA's reported performance did not accurately communicate to eligible applicants and oversight officials how long it took staff to process loan applications. The processing time performance standards were generally not attainable beyond certain application volume levels.

SBA OIG 13-10, *The Small Business Administration Did Not Effectively Assess Disaster Assistance Staffing Requirements, Availability, and Readiness* (January 25, 2013). This report found that if another disaster of a magnitude similar to the 2005 Gulf Hurricanes occurred, SBA could encounter challenges in meeting staffing needs to achieve its mission. During the Gulf Hurricanes, training and supervising a large influx of temporary staff proved very difficult for SBA.

Objective

Our objective was to assess SBA's initial disaster assistance response to Hurricane Irma, including staffing adequacy, loan application volume, and timeliness of disaster loan approvals.

Staffing Adequacy

Initial Staffing Levels

The Small Business Act requires the SBA Administrator to ensure that the number of full-time equivalent employees in ODA is not less than 800 permanent employees and that the disaster cadre is not less than 1,000. After Hurricane Irma was declared, ODA had 1,660 employees. Since Hurricane Irma was the second of three major hurricanes, SBA already had increased staffing levels to process disaster loan applications. In the immediate aftermath of Hurricane Irma, SBA provided 127 employees to assist survivors in the impacted areas. Although SBA management was able to provide staffing to assist Hurricane Irma survivors, they noted that the current Schedule-A hiring process made it difficult to rapidly hire employees, and the OIG noted that management could have used staffing management tools to better assess personnel needs at the DRCs and BRCs. Table 1 shows the overall staffing levels at the ODA Functional Centers.

Table 1: ODA Staffing Levels

Functional Center Name	9/15/2017	9/30/2017	10/30/2017	11/30/2017	12/30/2017
Process & Disbursement Center	896	1,368	2,374	2,599	2,669
Damage Verification Center	304	435	698	838	834
Customer Service Center	103	210	321	290	279
Field Operations Center West	203	379	509	425	368
Field Operations Center East	154	187	408	537	553
Total Staff	1,660	2,579	4,310	4,689	4,703

Source: Information Provided by SBA Office of Disaster Assistance.

Hurricane Irma Disaster Recovery Centers and Business Recovery Centers

SBA established a meaningful presence in the immediate aftermath of Hurricane Irma. We found within 20 days after Hurricane Irma was declared a disaster; SBA provided 127 staff for 27 recovery centers set up by FEMA and the affected states and the U.S. territories. By the end of December 2017, SBA opened and operated 134 recovery centers to assist Hurricane Irma disaster survivors.

SBA staff at DRCs and BRCs provided on-site assistance to disaster survivors, and SBA Disaster Assistance staff determined locations and operating schedules for BRCs. In some instances, DRCs and BRCs were housed at the same location. Although the BRCs are created specifically to help business owners with recovery, SBA does not turn away homeowners or renters who come to a BRC seeking a disaster assistance loan. SBA's policy is to assist any eligible disaster survivor who enters a BRC or DRC. SBA staff can make loan denials on the spot based on income tests and family size. This allows SBA to immediately refer disaster survivors back to FEMA for possible additional grant assistance, if they did not qualify for an SBA loan.

SBA also partnered with the Internal Revenue Service (IRS) at one DRC. IRS representatives obtained income tax information needed for disaster loan applicants on-site instead of sending survivors elsewhere to get copies of their tax information. In addition, we noted that FOC East customer service representatives and team leaders used draft program guidance, which served as a reference guide for new employees when team leaders were busy serving disaster survivors. SBA

may want to consider assessing the effectiveness of this guidance, and determine whether it should be finalized for use in the future.

The services offered at the DRCs and BRCs included the following:

- assistance with questions and completion of disaster loan applications using SBA's Disaster Loan Assistance Portal
- information about rebuilding and repairing property
- access to other Federal, state, and local government program assistance
- community outreach to disaster survivors
- performing loan closings
- business counseling services and technical assistance from SBA Resource Partners such as the Small Business Development Center, Service Corps Of Retired Executives, and Women's Business Centers.

We conducted site inspections at seven of the DRCs and BRCs located in Florida (see Appendix II). We observed that disaster loan applicants were experiencing minimal wait times and some locations did not have any customers during our visit. The DRCs and BRCs were staffed with a minimum of three employees, and the number of employees was based on input from the team leaders at the DRCs and BRCs, guidance from the Officer in Charge at the Joint Field Office and physical accommodations at each center. However, SBA management did not use staffing management tools such as the Routing Sheet to capture the number of disaster survivors that received service at the DRCs and BRCs. Also, they did not always use the Daily Field Activity Report to capture wait times. Additionally, SBA did not have established goals for wait times at the DRCs and BRCs; therefore it was difficult to measure performance.

Hurricane Irma Disaster Loss Damage Verification

Loss verifications for all approved disaster home loans are performed as desktop verifications for loans \$25,000 or less. When loans are greater than \$25,000, SBA performs an on-site, post-desktop review. On August 4, 2017, there were 91 loss verifiers, and by the end of December, SBA had hired 743 staff in response to all disasters. As of September 15, 2017, there was a beginning balance of 4,491 loss verifications for all disasters to be processed. Between September 15, 2017, and December 31, 2017, it received an additional 225,811 to process for a total of 230,302 to be completed. SBA processed 225,185, leaving 5,117 remaining to be processed; of those, 2,283 or 44.6 percent were for Hurricane Irma. The SBA loss verification strategic goal for FY 2017 was to complete 75 percent in 3 days or less for home loans and 4 days or less for business loans. Based on the data we reviewed, we were unable to determine whether the Agency met its goal. The Activity Report provided by SBA only displayed the average number of days to perform verifications for all disasters. The report did not contain the actual number of days.

Employee Retention

Of the Functional Centers, FOC West experienced the highest overall attrition level, which was 52.71 percent (194 of 368) as of December 30, 2017. The other centers had attrition rates from 10.7 to 36.2 percent, with the DVC having the lowest attrition of 10.7 percent. The overall attrition rate for centers was 18.8 percent as of December 30, 2017. ODA did not maintain information on what caused employees to leave the organization; consequently, areas that may need improvement were not identified. Table 2 provides a breakdown of ODA staff separations, by Functional Center, since Hurricane Irma.

Table 2: ODA Staffing Cumulative Separation Levels

Functional Center Name	9/30/2017	10/30/2017	11/30/2017	12/30/2017
Process & Disbursement Center	40	133	249	343
Damage Verification Center	14	36	69	90
Customer Service Center	19	53	75	101
Field Operations Center- West	29	68	146	194
Field Operations Center- East	18	38	92	155
Cumulative Separations	120	328	631	883

Source: Information Provided by SBA Office of Disaster Assistance.

Loan Application Volume and Processing

By the end of December 2017, SBA received 110,464 disaster loan applications, of which they processed 105,257, or 95 percent leaving 5,207, or 5 percent, remaining to be processed for Hurricane Irma. The loans processed totaled over \$1.2 billion. Table 3 shows the applications processed and approved for Hurricane Irma.

**Table 3: Hurricane Irma Loan Application Volume
September 14, 2017–December 28, 2017**

As of Date	Total Apps Received - Irma	Total Apps Processed - Irma	Total Apps Approved - Irma	Dollar Value of Loans Approved - Irma
9/14/2017	129	63	0	\$0
9/30/2017	22,612	11,900	182	\$8,335,700
10/30/2017	73,663	46,896	6,866	\$261,560,500
11/30/2017	102,044	86,749	23,649	\$859,672,200
12/28/2017	110,464	105,257	32,442	\$1,239,671,700

Source: Disaster Credit Management System Disaster Activity Reports.

SBA considers an average fiscal year of disaster activity to include processing 52,000 loan applications. Due to the unprecedented magnitude of Hurricanes Harvey, Irma, and Maria, SBA received loan applications that far exceeded normal processing capacity. By the end of December 2017, SBA processed 238,296 loan applications for Hurricanes Harvey, Irma, and Maria combined and approved 79,289 loans, totaling approximately \$4.6 billion. Table 4 shows the applications processed and approved for all three hurricanes.

**Table 4: Hurricanes Harvey, Irma, and Maria Loan Application Volume
September 14, 2017–December 28, 2017**

As of Date	Combined Total Apps Processed	Combined Total Apps Approved	Combined Dollar Value of Loans Approved
9/14/2017	13,904	1,986	\$172,068,100
9/30/2017	47,375	7,969	\$669,165,000
10/30/2017	115,422	27,665	\$2,018,355,400
11/30/2017	188,894	57,933	\$3,572,288,700
12/28/2017	238,296	79,289	\$4,578,810,000

Source: Disaster Credit Management System Disaster Activity Reports.

Loan Processing Timeliness

We evaluated SBA’s processing times for Hurricane Irma disaster loan applications with a loan approval or denial decision as of the end of December 2017. We calculated that SBA’s average processing time for loans that were approved, denied, or withdrawn was approximately 21 days when the auto-declines and pre-loss verification declines were not included.³ When these computer-generated declines were included, the overall average processing time was approximately 15 days. The average processing times for denials and approvals only without auto decline and pre LV decline were 20 and 25 days, respectively. These time frames only include loan applications that SBA was able to process. Despite the unprecedented volume of disaster loan applications and hiring challenges, SBA met its 45-day processing goal for the applications that were processed.⁴ Table 5 contains the loan processing times for Hurricane Irma loan applications.

Table 5: Hurricanes Irma Loan Processing Times as of December 28, 2017

		All	Home	Business	EIDL*	Non-Profit
Loan Processing with Auto Decline and Pre-LV Decline	Average Processing Days	14.8	13.9	20.6	21.4	26.5
Loan Processing without Auto- Decline and Pre-LV Decline	Average Processing Days	21.4	20.6	26.3	27.0	26.6
ODA Denials	Average Processing Days	19.8	18.9	23.5	23.3	26.8
Approvals	Average Processing Days	24.7	24.0	33.8	31.2	33.3

Sources: 1. SBA provided a data extract from SBA Disaster Credit Management System. 2. OIG calculated processing times based on data extract.

*economic injury disaster loan

³ The Disaster Credit Management System makes the decision based on business rules for initial Auto-Decline and Pre-Loss Verification (Pre-LV) review, which allows disaster survivors to access other sources of disaster assistance such as FEMA grants.

⁴ SBA uses a tiered level of goals for processing loan applications. The number of applications exceeded 250,000 for all disasters by December 31, 2017. For Hurricane Irma the goal was to process loan applications within 45 days. As other disasters occur, the goal for processing additional loan applications could increase.

Appendix I: Objective, Scope, and Methodology

This report presents the results of our inspection of SBA's initial disaster assistance response to Hurricane Irma. Our objective was to assess SBA's initial disaster assistance response to Hurricane Irma, including staffing adequacy, loan application volume, and timeliness of disaster loan approvals.

To answer our objective, we interviewed ODA officials at Headquarters, the PDC in Fort Worth, Texas, and the Office of Disaster Assistance in Herndon, Virginia. We obtained data on the disaster loan application processing, and staffing. Also, we obtained information from officials at FOC East, in Atlanta, Georgia, and the Joint Field Office, in Orlando, Florida. Further, we reviewed applicable laws, regulations, and guidance governing the disaster loans. We also reviewed SBA's standard operating procedures (SOPs), including SOP 50 30 8, the SBA Disaster Preparedness and Recovery Plan, and other SBA operating and training guidance.

We conducted on-site visits to seven DRCs and BRCs in the state of Florida to gain an understanding of policies and procedures for working with disaster survivors, and to determine SBA's initial disaster assistance to Hurricane Irma survivors. We analyzed data to assess loan application processing times using the Disaster Credit Management System.

We conducted this performance-based inspection in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation. Those standards require that we plan and perform the inspection to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions and observations based on our inspection objective. We believe the evidence obtained provided a reasonable basis for our conclusions and observations based on our inspection objective.

Appendix II: SBA Disaster and Business Recovery Centers

DRC – Orange County Bank, Orlando, FL



BRC –The EpiCenter-Pinellas County Economic Development Center, Clearwater, FL



DRCs and BRCs Visited

- Big Pine Key Community Park, Big Pine Key, FL
- Hillsborough Community College Regent, Riverview, FL
- Insurance Building, Palm Harbor, FL
- Miami-Dade College Kendall Campus, Miami, FL
- Orange County Bank, Orlando, FL
- The EpiCenter-Pinellas County Economic Development Center, Clearwater, FL
- W.H. Stuart Conference Center, Bartow, FL

Appendix III: OIG Hotline Complaints From Hurricane Irma

In September 2017, OIG's Hotline began receiving complaints from individuals who indicated they had been subjected to identity theft. The callers specified that they had received a letter from SBA's Disaster Assistance PDC. The letter provided recipients information on how to apply for an SBA disaster loan and also indicated they were receiving the letter from SBA as a result of their registration with FEMA for disaster assistance. However, these individuals had not registered with FEMA, which indicated their identities were being used in a fraud scam targeting FEMA's Individual and Housing Program.

The volume of calls to the OIG Hotline escalated rapidly throughout October 2017. OIG Hotline staff quickly adopted procedures to assist the callers and streamline reporting with SBA's Disaster Assistance Customer Service Center and the National Center for Disaster Fraud. As of December 26, 2017, the OIG Hotline received 607 related complaints pertaining to Hurricane Irma. The OIG's Investigations Division is coordinating this complaint information with its law enforcement partners in furtherance of an investigation.