



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

ADVISORY MEMORANDUM

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To: Stephen D. Galvan
Chief Operating Officer

/S/Original Signed

From: Debra S. Ritt
Assistant Inspector General for Auditing

Subject: Flexible Staffing of SBA Personnel During Times of Emergencies or
Catastrophes to Aid Disaster Loan Processing

In April, 2006, SBA initiated post Katrina disaster planning activities to improve its ability to assist future disaster victims. This memorandum recommends extending use of the Disaster Credit Management System's (DCMS) virtual loan and lending capabilities to additional Agency personnel and third-party contractors to enhance SBA's ability to assist disaster victims. This expanded DCMS user base will help compensate for local resource constraints, improve mobilization timing, and increase the Agency's overall operational flexibility in responding to major disasters.

At the beginning of the Gulf Hurricane season of 2005, the DCMS user base was limited to Office of Disaster Assistance (ODA) permanent and temporary personnel located in Atlanta, Georgia, Buffalo, New York, Fort Worth, Texas, Herndon Virginia, and Sacramento, California. From September 2005 through May 2006, SBA hired thousands of temporary loan officers, attorneys and other loan and lending personnel to process SBA disaster loans through DCMS. No other SBA personnel or SBA locations could fully utilize DCMS in 2005 to reduce loan processing backlogs.

Former Administrator Barreto, in his November 8, 2005 testimony to Congress, pointed out the disaster staffing limitations under the current system: "We have literally exhausted the market for disaster loan officers, but that has not stopped us. To respond to this unprecedented disaster we are temporarily transferring experienced SBA lending staff to our Fort Worth processing center and the backup center in Sacramento." However, transferring staff to Fort Worth and Sacramento is costly and may be unnecessary.

DCMS was implemented in November, 2004 and configured for an average of 600 SBA users with the potential to scale to a maximum of 1,500 users. The number of users was based upon a 5-year annual average of 83,900 applications received and an average annual approval rate of about 30,500 applications from 1998 through 2003 for the SBA Disaster Assistance program. As of September 20, 2006, SBA had received approximately 422,200 loan applications and approved approximately 157,986 loans for the 2005 catastrophic disasters of Hurricanes Katrina, Rita and Wilma.

ODA used about 95 percent of DCMS system capacity for processing loan activities in Fort Worth, Sacramento, and Buffalo. ODA was able to expand or scale DCMS to accommodate 3,500 users working in two shifts to meet demand. However, DCMS lacked the capacity to process disaster loans by other SBA personnel working outside of ODA's Fort Worth, Sacramento and Buffalo facilities.

A. The Disaster Credit Management System Upgrade Project

Because of DCMS capacity limitations, SBA upgraded DCMS to increase the number of users from 1,500 to up to a future potential of 10,000 concurrent users. The DCMS upgrade project includes upgrading hardware, including database and application servers, and segmenting the functions of those servers to achieve maximum performance and throughput. SBA upgraded DCMS hardware in June 2006 and tested capacity for 7,500 concurrent users. Further enhancements of DCMS' software modules are envisioned so that the Agency can support lending capability for 8,000 to 10,000 concurrent users.

Given the planned increases in DCMS capacity and user access, we believe that SBA should further enhance DCMS capability to allow access to other SBA personnel to provide disaster assistance as well as those hired from private sector resources to process disaster loans. This expanded user access would reduce travel costs associated with the assignment of individuals temporarily to the disaster loan processing center in Fort Worth and the need for work space to accommodate such individuals.

If the DCMS user base is further expanded, SBA will also need to deploy the technical and service upgrades as well as address related funding issues to support various disaster response scenarios. The following are examples of enhancements that would require consideration:

- The SBA Wide Area Network and all computers would have to be enabled for DCMS access by Office of Field Operations (OFO) and Headquarters (HQ) personnel.
- Helpdesk capabilities would need to be expanded to allow the DCMS client software to be successfully loaded and maintained onto SBA desktop computers nation-wide.

The above infrastructure costs could be offset by the short term mobilization cost avoidance resulting from reduced hiring of temporary ODA personnel and reduced temporary facility, relocation, and travel expenses.

B. Use of Office of Field Operations

SBA was not able to fully use its regional, district and branch offices to process disaster loans because these offices did not have access to DCMS. As of March 2006, OFO had 1,011 personnel located in 94 regional, district and branch field offices including district directors, lender relations specialists, and business development specialists. During the 2005 Gulf Hurricanes, some OFO personnel temporarily processed disaster loans, contacted borrowers, and made loan and lending decisions as loan officers. All decisions were subsequently approved by ODA senior loan officers.

SBA's operating procedures¹ allow for full or partial details of personnel to accomplish the mission of the Agency. Also, SBA's procedures identify that the Agency has the authority to take whatever actions may be necessary to carry out SBA's mission during emergencies.² However, details of personnel and related plan implementation would be subject to prior union notification and plan impact negotiation.

According to OFO officials, OFO personnel have loan experience and were assigned to work on disaster loans.

- Business Development Specialists have a basic knowledge of lending and the loan processing experience. Their duties are tailored to their offices and the office's personnel needs. They oversee the Small Business Development Center (SBDC) and Service Corps of Retired Executives (SCORE) programs, which make them uniquely qualified in all aspects of business development.
- Lender Relations Specialists oversee the Sections 7(a) and 504 lending programs and ensure compliance with SBA lending practices. Their main job is to train and maintain relationships with banks. OFO believes they are well qualified to process business disaster loans.

As previously noted, the Katrina disaster showed that providing timely assistance to disaster victims should be SBA's utmost priority. While a cost benefit analysis may warrant using resources beyond ODA only in catastrophic events, senior SBA management should nevertheless have the flexibility and capability to make that decision.

¹ SOP 33 00 2A, SBA Position Classification Program

² SOP 37 11 5A, SBA Labor Relations Program

C. Use of the Office of General Counsel

As of March 2006, 71 attorneys and 31 legal support staff in the field were assigned to OFO. According to the former Acting General Counsel, some attorneys assisted OFO with disaster loan processing during the 2005 Gulf hurricane season; however, that project is virtually complete. SBA is preparing to implement a nationwide reorganization of legal services approved on March 10, 2006, that would reassign all attorneys in the district offices and some of their support staff from OFO to the Office of General Counsel (OGC). The affected personnel will remain at their present duty stations.

The former Acting General Counsel believed that having district counsels perform disaster loan closing and other disaster legal functions is a viable solution for future catastrophic disasters where the need for attorneys outstrips the number available in ODA processing centers. However, until the reorganization is fully implemented, OGC will not know the full availability of its personnel to aid in catastrophic disasters going forward. Moreover, relevant staffing levels are likely to change in the future and would need to be reassessed periodically to determine whether this is a viable alternative going forward.

As with OFO, OGC also identified that funding would be an issue. Since OGC and ODA are funded with different appropriations, OGC needs to charge back to ODA the cost of work performed. Additionally from a legal perspective, OGC identified that real estate and Uniform Commercial Code law varies state-to-state. The attorneys would need to be brought up to speed on the states where the disasters occur so that the interests of the government could be protected. Finally, OGC indicated that some field attorneys are in the bargaining unit and, therefore, such a plan would be subject to prior notification and the opportunity to negotiate impact and implementation.

Conclusions

OIG believes that during times of catastrophic disasters, all facets of the Agency may need to be involved in aiding the disaster loan process. With the planned upgrade to DCMS, SBA should be able to use personnel from headquarters and the field in responding to catastrophic disasters. ODA would also be able to maintain command and control of disaster loan activities through virtual loan and lending control of DCMS as well as using email and telephonic methods of contacting personnel from other offices when necessary.

SBA operating procedures allow the Agency the flexibility to detail employees to different offices to handle unexpected workloads within the Agency. Such details are subject to union communication and negotiation. Flexible staffing would allow SBA to respond to victims of catastrophic disaster events in a timelier manner and allow the Agency to prioritize its Agency goals during national emergencies.

The DCMS Upgrade Project will allow for more concurrent users of the system. While there are peripheral issues, all facets of the Agency would be available for the next catastrophic disaster or set of disasters when they occur. Therefore, SBA should have a plan in place and the infrastructure necessary when all facets of the Agency should again be needed to support its disaster loan program.

Recommendations

We recommend that the Chief Operating Officer:

- 1.A Establish an Agency-wide flexible staffing plan to respond to increased loan processing needs from a catastrophic disaster. This plan should consider the cost and benefits of fully utilizing SBA personnel short-term versus solely utilizing SBA's Office of Disaster Assistance when catastrophic disasters occur.
- 1.B Extend Disaster Credit Management System access to SBA staff outside the Ft. Worth, Sacramento and Buffalo facilities and to third-parties that SBA contracts with for supplemental disaster assistance.

Management Response and OIG's Evaluation of Management's Responses

Management concurred with the two recommendations and provided several technical corrections. The entire response is included in Attachment "A" to this report.

We consider the actions agreed to by management as being responsive to the report findings and recommendations. Based on SBA's response, we modified the number of locations in the DCMS user base, updated the number of loan applications and loan approvals to reflect current levels, and incorporated feedback regarding the SBA's interpretation of existing policies and procedures. We also increased the number of potential concurrent users on DCMS to reflect SBA's most recent test results.

* * *

Our review was conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of its examination of relief efforts provided by the Federal government in the aftermath of Hurricane Katrina and Rita. As such, a copy of the report has been forwarded to the PCIE Homeland Security Working Group which is coordinating Inspectors General review of this important subject. The nature and brevity of this assessment precluded the use of our normal audit protocols; therefore, this review was not conducted in accordance with generally accepted government auditing standards. Had we followed such standards, other matters might have come to our attention.

If you have any questions, please contact Jeff Brindle, Director Information Technology and Financial Management Audit Group at (202) 205-[EXEMPTION 2].

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