# AUDIT REPORT

# AUDIT OF RISE ACT ELIGIBILITY CONTROLS

JANUARY 19, 2018 REPORT NUMBER 18-09

# EXECUTIVE SUMMARY

## AUDIT OF RISE ACT ELIGIBILITY CONTROLS

Report No. 18-09

January 19, 2018

### What OIG Reviewed

This report presents the results of our audit of the Small Business Administration's (SBA's) Recovery Improvements for Small Entities after Disaster Act of 2015 (RISE Act) eligibility controls. Hurricane Sandy struck the East Coast of the United States on October 29, 2012, causing approximately $67 billion in damage. The RISE Act, enacted November 25, 2015, cited Government Accountability Office findings in which SBA reported that the Agency was challenged by an unexpectedly high volume of loan applications received early in its Hurricane Sandy response. As a result of this challenge, many affected businesses and homeowners were unable to apply for SBA financing. The RISE Act reopened the Hurricane Sandy disaster loan application filing period for 1 year.

The RISE Act also required the Office of Inspector General to review the controls for ensuring applicant eligibility for these loans. Our audit objectives were to (1) assess SBA controls for ensuring disaster loan applicant eligibility under Section 1101 of the RISE Act and (2) determine whether only eligible recipients received loans under the RISE Act.

As of May 31, 2016, SBA had disbursed 640 Sandy RISE Act loans, totaling $18 million. As of June 30, 2017, the total disbursed amount of these loans totaled $23.7 million. We audited a statistically valid sample of 26 of these loans to determine whether the borrowers were eligible based on statute, regulation, and Agency policy. We tested loss verification and application processing controls to determine whether SBA complied with Federal laws and regulations, and SBA policies and procedures. We also interviewed SBA officials to understand newly established controls and how they were implemented.

### What OIG Found

While SBA established several controls intended to mitigate the risks of reopening the loan application period 3 years after Hurricane Sandy, it did not establish controls to ensure that loss verifiers obtained documentary evidence of incurred costs prior to loan approval when real estate already had been repaired. For 6 of 26 loans we reviewed, loss verifiers did not obtain receipts, invoices, and other documentation of incurred costs needed to support damage claims. As a result, SBA approved loans without sufficiently verifying damages and determining eligible loan amounts. *Training Directive for Superstorm Sandy Relief* required the capture of this information in order to determine total project costs. Since some properties had been fully repaired, with no remaining physical damage to view, this documentary evidence was critical for determining the eligible loan amount. When projecting these findings to the population of 640 loans, we estimate that proper controls were not applied to ensure that approximately 63 loans and disbursements of approximately $415,579 were awarded in accordance with program requirements.

We also found that 5 of the 26 RISE Act disaster loans reviewed, totaling $1,714,110, contained ineligible disbursements due to wrongful acts by borrowers or errors in loan processing.

In addition, three of the loans reviewed had indications of fraud or misapplied loan proceeds and were subsequently referred to our Investigations Division for review.

### OIG Recommendations

We provided two recommendations to improve SBA's management of the Disaster Assistance Program to prevent loans to ineligible borrowers and protect against fraud.

### Agency Response

SBA management agreed to implement both recommendations, stating they would require additional support for the total loss amount when damages have been fully or partially repaired and implement refresher training to loan officers and loss verifiers to ensure thorough examination of loan documents, to prevent loans to ineligible borrowers and protect against fraud.

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

**Final Report Transmittal**
Report Number: 18-09

**DATE**: January 19, 2018

**TO:** Linda E. McMahon
Administrator

**FROM:** Hannibal "Mike" Ware
Acting Inspector General

**SUBJECT:** *Audit of RISE Act Eligibility Controls*

This report presents the results of our audit of RISE Act eligibility controls. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on the draft of this report when preparing the final report. SBA agreed with both recommendations.

We appreciate the courtesies and cooperation extended to us during this audit. 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: Althea Coetzee Leslie, Deputy Administrator
Pradeep Belur, Chief of Staff
Christopher M. Pilkerton, General Counsel
Martin Conrey, Attorney Advisor, Legislation and Appropriations
James E. Rivera, Associate Administrator for Disaster Assistance
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# Introduction

The mission of Small Business Administration's (SBA's) Office of Disaster Assistance (ODA) is to provide low interest disaster loans to businesses of all sizes, private nonprofit organizations, homeowners, and renters to repair or replace real estate, personal property, machinery and equipment, inventory, and other business assets that have been damaged or destroyed in a declared disaster, such as Hurricane Sandy. Hurricane Sandy struck the East Coast of the United States on October 29, 2012, causing approximately $67 billion in damage. It was the Nation's most costly storm since Hurricane Katrina, which caused $128 billion in damage.

### Recovery Improvements for Small Entities After Disaster Act of 2015

On November 25, 2015, Congress enacted the Recovery Improvements for Small Entities After Disaster Act of 2015 (RISE Act). One purpose of the RISE Act was to improve SBA's disaster assistance program. Among other provisions, Section 1101 of the RISE Act required opening at least a 1-year timeframe in which small businesses, homeowners, renters, and nonprofit entities that sustained damage as a result of Hurricane Sandy could apply for a disaster loan. The Act also required the Office of Inspector General (OIG) to review the controls for ensuring applicant eligibility for loans made under Section 1101.

The RISE Act noted that the Government Accountability Office concluded SBA's operation of the Disaster Loan Program after Hurricane Sandy did not meet established timeliness goals for processing business loan applications because it was challenged by an unexpectedly high volume of loan applications it received early in its response to Hurricane Sandy. For this reason, the RISE Act stated that many businesses and homeowners affected by Hurricane Sandy were unable to apply for financing from SBA. According to SBA data, RISE Act loans were processed faster than Sandy loans. See Appendix II for a comparison of average disaster loan processing times.

The RISE Act included new provisions for physical damage disaster loans, which allowed for the construction of safe rooms and provided supplemental assistance for contractor malfeasance. In addition, the RISE Act included provisions for reducing delays on disaster loan closing and disbursement, safeguarding taxpayer interests, and increasing transparency of loan approvals. On December 2, 2015, SBA reopened the filing period for survivors in all states affected by Hurricane Sandy to apply for low interest disaster loans.

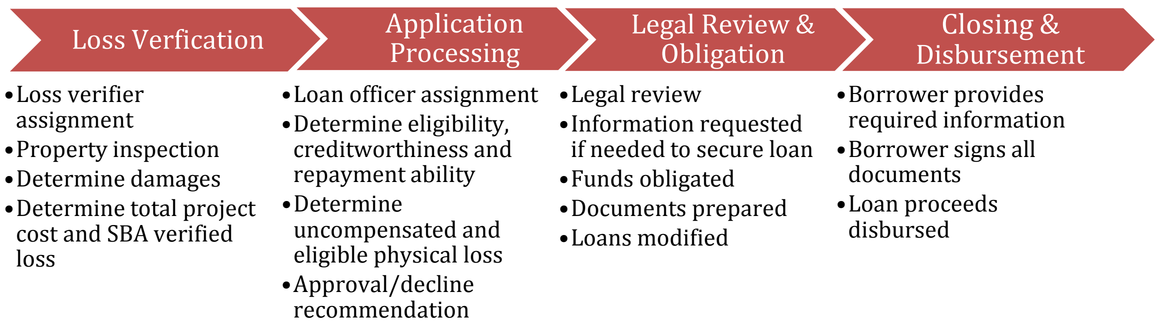
As of May 31, 2016, SBA had approved 804 Sandy RISE Act loans totaling $37.3 million (net of cancellations) and had fully or partially disbursed 640 loans totaling $18 million. We selected a statistically valid sample of 26 of the 640 loans that had been approved and disbursed as of May 31, 2016. During the course of our audit, partially disbursed loans subsequently continued to receive disbursements, and by June 30, 2017, the total disbursed amount of the 640 loans in our universe had risen to $23.7 million. The June 30, 2017 value of the 640 loans in the sample universe is the basis for the findings and questioned costs in this report.

### Disaster Loan Processing Overview

Once a disaster loan application is submitted, it undergoes a screening process. After all application requirements are met, the application is accepted by the Processing and Disbursement Center for further processing. If the application includes physical property damages, the application is assigned to the loss verification process. Once loss verification is complete, the application is assigned to a loan officer for processing. The loan officer then processes the application and recommends approval to a supervisory loan officer, who approves the loan. The Accounts

Department then reviews the loan documents for errors and completeness and sends loan closing documents to the borrower for signature. After the borrower signs the loan documents during the closing process, the Agency makes an initial loan disbursement. Figure 1 summarizes the process, which has controls embedded in every phase to ensure applicant eligibility.

**Figure 1: SBA Disaster Loan Process**




Loss verifiers assigned to the Damage Verification Center (DVC) are responsible for determining the estimated repair or replacement cost of real, personal, and business property, based on actual incurred costs and SBA cost estimation guidelines. They provide loan officers with information gathered during on-site inspections to guide them in their eligibility determinations. The verified loss amount undergoes review and once approved, is transferred to a loan officer.

Loan officers make all loan eligibility determinations, including ineligible property, and apply program limits to eligible property based on verified losses.[1] Loan officers subtract any recoveries from the verified loss amount to determine the uncompensated physical loss amount and prevent duplication of benefits.[2]

## Prior Work

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 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 technological difficulties. GAO recommended that SBA revise its disaster planning documents and take steps to implement previously authorized private sector disaster loan programs.

SBA OIG 14-16, *Audit of Effectiveness and Timeliness of Hurricane Sandy Loan Closing and Disbursement Processes* (August 27, 2014). This report identified opportunities for ODA to further reduce overall loan disbursement times by obtaining critical borrower documents such as vehicle registrations, deeds, leases, trust agreements and marriage or death certificates early in the application process rather than at the time or loan closing and disbursement.

[1] Program limits are generally $200,000 in real estate damages and $40,000 in personal property for home loans and $2,000,000 for business loans.
[2] Duplication of Benefits is duplicate assistance for any part of a loss for which the individual or business applicant has received financial assistance under any other program, from insurance, or from any other source.

SBA OIG 15-13, *Hurricane Sandy Expedited Loan Process*es (July 13, 2015). This report found that SBA's Hurricane Sandy home loan expedited process slightly reduced loan application processing time and mitigated loan default risk. However, the expedited Economic Injury Disaster Loan method for working capital business loans did not result in any time savings. Neither of the expedited methods reduced the overall time from application acceptance to initial loan disbursement.

## Objectives

Our audit objectives were to (1) assess SBA controls for ensuring disaster loan applicant eligibility under Section 1101 of the RISE Act and (2) determine whether only eligible recipients received loans under the RISE Act.

## Finding 1: Controls to Verify Damage Claims Need Strengthening

SBA established controls to ensure applicant eligibility pursuant to Section 1101 of the RISE Act, but these were not sufficiently applied to support the eligible loan amounts when full or partial real estate repairs already had been made. SBA's *Training Directive for Superstorm Sandy Relief* required loss verifiers to determine the actual costs of repairs at the initial inspection when repairs already had been started or completed. However, we found that loan files did not always include receipts, invoices, and other documentation needed to support damage claims for those repairs. This occurred because ODA relied on an existing control to obtain receipts and other documentation only at loan disbursement; the final phase of the loan-making process. This control was not adequate for loss verification because it occurs after the damage amount has been provided to a loan officer for use in establishing loan amount and because no receipts are obtained until cumulative disbursements exceeded $50,000. In addition, SBA did not require receipts for the amount of the final disbursement, which may be a large amount in the case of real estate loans.

Loan officers rely on costs determined by the loss verifier to establish the eligible loan amount. *Training Directive for Superstorm Sandy Relief* required that actual costs of completed and ongoing repairs be based on receipts, invoices, and other documentation. This was particularly important for RISE Act loans, since many properties had been fully or partially repaired when RISE Act loans were being processed. In some loans included in our sample, no physical damage remained for loss verifiers to assess. For 6 of the 26 loans reviewed, we found that loss verifiers did not obtain documentation to substantiate damage claims. Therefore, SBA approved $73,600 in loans without sufficiently verifying damages and ensuring applicants were eligible to receive disaster assistance loans. Based on our statistical projection of these results to the RISE sample universe, we estimate that SBA approved at least 63 loans, valued at approximately $415,579, without sufficiently verifying damages to ensure eligibility.

### Sandy RISE Eligibility Controls

As a result of the RISE Act, SBA implemented additional eligibility controls for Hurricane Sandy RISE Act loans. These controls, collectively known as Sandy RISE Notes, were intended for loan officers to mitigate the increased risks associated with approving disaster loans more than 3 years after the disaster event. The Sandy RISE Notes were intended to safeguard SBA from lending for losses not attributable to Hurricane Sandy; lending for losses included in prior SBA disaster loans; refinancing debt acquired after Hurricane Sandy; covering excessive costs for structure elevation or other mitigation measures required by local building codes; duplicating insurance recoveries, Hurricane Sandy National Flood Insurance Program Litigation proceeds, and state, Federal, and municipal grants; and exceeding loan limits on multiple loans.[3]

In addition to RISE Notes, the DVC issued the *Training Directive for Superstorm Sandy Relief*. This directive was applicable to the loss verifiers and included guidance on how to handle on-site inspections, since it had been 3 years since the disaster, and some of the repairs may have been completed. The directive addressed two primary concerns: verification that the damages occurred from Hurricane Sandy and computation of the current total project cost. The total project cost is the sum of all costs associated with the scope of work involved in repairing or replacing the real estate property. These costs include disaster repairs, code-required upgrades, mitigation, and

[3] Lawsuit filed by National Flood Insurance Program (NFIP) policyholders that were not satisfied with the NFIP payments they received after Hurricane Sandy. Litigation presented the U.S. District Court with allegations of questionable engineering practices related to Hurricane Sandy claims.

elective upgrades. The directive specifically stated that the completed repairs portion of the total project cost would be validated or confirmed with paid receipts, invoices, contracts, estimates, and proposals.

### Loss Verifiers Did Not Obtain Documentation to Support Real Estate Damage Claims

Although SBA established additional controls to address the risks associated with these loans, loss verifiers did not always obtain sufficient documentation to support real estate losses. Specifically, we found that during the initial inspections related to 6 loans in our sample of 26, for real estate repair and replacement, loss verifiers did not obtain invoices, receipts, contracts, or other documentation of completed repairs to support the total project cost determination.

DVC management stated that they rely on a compensatory control that occurs at the end of the loan-making process. When a disbursement is scheduled that will result in cumulative disbursements over $50,000, SBA conducts a progress inspection and documentation such as building permits, receipts, and progress reports are obtained from the borrower and reviewed by ODA.

As a result of these control issues, SBA approved and subsequently disbursed loans that were not sufficiently supported by the documentation needed to validate real estate losses, and there is no assurance that loans were made only to eligible borrowers or for Hurricane Sandy–related damages in these instances. Because Hurricane Sandy RISE Act loans were processed 3 years after the disaster, in some cases, loss verifiers could not physically view damage and estimate repair costs. Thus, the review and retention of invoices, receipts, contracts, and other supporting documentation would have yielded more reliable total project cost amounts than the borrowers' unsubstantiated assertions. Further, loans up to $50,000 did not undergo a documentary review of receipts at any time since loss verifiers did not obtain documentation, and these loans did not meet the dollar threshold for a progress inspection. Of 640 loans in the universe, 514, or 80 percent, had disbursements below the $50,000 threshold and thus would not have undergone receipt inspection.

### Recommendation

We recommend that the Associate Administrator for Disaster Assistance:

1. Require loss verifiers to obtain documents such as paid receipts, invoices, contracts, estimates, insurance claim documentation, and proposals from the borrowers at initial loss verification inspection for placement into the DCMS loan file to support SBA's verified total loss amount and ensure borrower eligibility for loans covering damages that have been fully or partially repaired; if such documentation is not available, obtain written certification from borrowers to support damage repair costs.

## Finding 2: RISE Act Loans Provided to Ineligible Applicants

As of May 31, 2016, SBA had disbursed 640 Sandy RISE Act loans. The disbursed amount of these loans totaled $23.7 million as of June 30, 2017. We audited a statistically valid sample of 26 of these loans to determine whether the borrowers were eligible based on statute, regulation, and Agency policy. Our review of the 26 sampled loans disclosed 5 loans with ineligible disbursements totaling $1,714,110.

This occurred because loss verifiers and loan officers did not diligently examine documents and borrower assertions supporting loan eligibility, in order to detect errors and wrongful acts by borrowers. The following paragraphs summarize the loans that loan officers did not identify as ineligible, and loans in which fraud was suspected.

- A renter received a $17,500 RISE Act personal property loan that included $2,010 for property the renter did not own. The loss verification report for the renter's loan included amounts for a washer, dryer, refrigerator, and stove. When loss verification reports for tenant applicants include items typically associated with the owner of the dwelling, SBA SOP 50 30 8 requires loan officers to establish ownership of those items to establish eligibility. The loan officer did not ask the tenant applicants whether they owned the appliances. We determined that the landlord had previously received a disaster business loan that included $2,600 to replace the washer, dryer, refrigerator, and stove.

- A borrower received a $12,100 RISE Act personal property loan after he reported to SBA that he used $17,800 in loan proceeds from a previously approved Hurricane Sandy loan for an unauthorized purpose. The borrower informed an SBA loan officer that he had used prior Sandy loan proceeds to pay his daughter's college tuition.[4] The borrower also allowed his Federal flood insurance coverage for the prior SBA loan to expire, rendering the borrower ineligible for further disaster loan assistance.[5] When interviewed, loan officers admitted to overlooking the borrower's admission of unauthorized use of loan proceeds. As a result of the misapplication of loan proceeds, this borrower is potentially liable to SBA for $26,700—one and a half times the misused amount.

- A borrower received a $10,000 RISE Act working capital loan even though the business had no unmet needs from the Hurricane Sandy disaster. This sole proprietor taxi business was ineligible because the taxi business had returned to normal profitability in 2014. By 2015, prior to application for the Hurricane Sandy RISE Act loan, the business was earning approximately $1 million, and had no unmet working capital needs related to Sandy. In fact, the borrower stated that he was seeking a loan to expand his operations. The sole purpose of an Economic Injury Disaster Loan is to help small businesses meet their working capital requirements during the disaster-affected period until normal operations resume.

[4] 15 U.S.C. § 636(b), codified at 13 CFR §123.9 provides for a penalty of one and one half times the loan amount disbursed for wrongfully misapplied loan proceeds. SBA has defined wrongful misapplication as the willful use of any loan proceeds without SBA approval contrary to the loan authorization.

[5] 13 CFR §123.101 stipulates that recipients of prior SBA loans who do not maintain required Federal flood insurance on the disaster damaged property are not eligible for any further SBA disaster loan assistance for damage caused by flooding.

### Investigative Referrals

We referred one loan in our sample to the OIG Investigations Division for potential fraud and questioned the $1,665,000 disbursed because the borrower claimed damages for structures that did not exist at the time of Hurricane Sandy. We referred another loan in our sample for misuse of prior loan proceeds and questioned the $12,100 loan amount. In addition, ODA referred a loan in our sample to the OIG Investigations Division because of overstated repair costs; we questioned the $25,000 disbursed.

### Recommendations

We recommend that the Associate Administrator for Disaster Assistance:

2. Implement controls, such as refresher training to loan officers and loss verifiers, to ensure thorough examination of loan documentation to detect fraud and to prevent loans to ineligible borrowers or for ineligible purposes, such as business expansion.

### Analysis of Agency Response

SBA management agreed with our recommendations and plans full implementation by July 2, 2018. Management also provided additional comments regarding the six loans identified in Finding 1. Specifically, they stated: "The audit identified a limited number of cases that were used to support its recommendation to increase documentation obtained at the initial verification inspection for those loans processed under the Sandy RISE Act reopening – an exceptional situation where the disaster survivors applied for disaster loan assistance 3 years after the damage occurred."

Appendix I of this report explains that the OIG used a statistically valid sampling methodology to select loans for review. Statistical sampling, which is commonly used in auditing, allows us to project the results to the universe, and supports the validity of our conclusions and recommendations. Further, SBA management stated in their comments that they agreed that controls to verify eligible disaster damages should be strengthened for situations similar to the Sandy RISE Act reopening, and that they agreed to implement both recommendations provided in this report. The Agency's response is included in its entirety in Appendix V.

### Summary of Actions Necessary to Close the Recommendations

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

1. **Resolved.** SBA management agreed with our recommendation to obtain a written certification or documentation from borrowers to support verified total loss amounts for loans covering damages that have been fully or partially repaired for loans where the application was received 1 year or more since the original application filing period has closed, similar to Sandy RISE Act reopening. This recommendation can be closed when management provides evidence that it has implemented this requirement in the loss verification process.

2. **Resolved.** SBA management plans to implement refresher training to loan officers and loss verifiers, to ensure thorough examination of loan documentation to detect fraud and to prevent loans to ineligible borrowers or for ineligible purposes. This recommendation can be closed when management provides evidence that it has revised training materials and provided refresher training to the appropriate staff.

## Appendix I: Objectives, Scope, and Methodology

Our audit objectives were to (1) assess SBA controls for ensuring disaster loan applicant eligibility under Section 1101 of the RISE Act and (2) determine whether only eligible recipients received loans under the RISE Act.

To answer our objectives, we interviewed ODA officials at headquarters and the Processing and Disbursement Center in Fort Worth to discuss the implementation of controls and interpretation of RISE Act requirements. Further, we reviewed applicable laws, regulations, and implementing guidance governing the Hurricane Sandy RISE Act loans. We also reviewed SBA's standard operating procedures (SOPs), including SOP 50 30 8, and other ODA operating and training guidance.

To test the eligibility of Hurricane Sandy RISE Act loans, we selected a statistically valid sample of 26 loans totaling $1,115,900 from a universe of 640 loans totaling $18 million that had received at least one disbursement as of May 31, 2016. Due to subsequent disbursements, by June 30, 2017, the disbursed value of the loans in our sample and universe had increased to $2,458,800 and $23.7million, respectively. Our loan reviews tested loss verification and application processing controls to determine whether loss verifiers, team lead loan officers, supervisory loan officers, and higher level officials complied with Federal regulations, SBA SOPs, ODA Memorandums, processing guidelines, and RISE Act training materials.[6]

We also met with SBA officials and staff to gain an understanding of new policies and procedures for determining applicant eligibility established in response to the RISE Act, the risks these new policies and procedures were intended to mitigate, and the processes and steps taken by ODA to mitigate these risks.

We conducted this performance 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 information from SBA's Mainframe Loan Accounting System and documentation in the Disaster Credit Management System for approved and disbursed Sandy RISE Act loans. During a prior audit, we conducted data reliability testing that included the identified data elements of these computer systems and found no material discrepancies.[7] We relied on that testing to conclude that the information is sufficiently reliable to support our audit findings and conclusions.

### Review of Internal Controls

SBA's internal control systems SOP provides guidance on implementing and maintaining effective internal control systems, as required by OMB Circular A-123.[8] [9] OMB Circular A-123 provides

[6] SBA implemented processing guidelines for Sandy RISE Act loans that are collectively known as RISE Act Notes.
[7] SBA OIG 16-18, *Early-Defaulted Hurricane Sandy Disaster Loans* (August 15, 2016).
[8] SOP 00 02, *Internal Control Systems* (January 1986).
[9] OMB Circular A-123, *Management's Responsibility for Internal Control* (December 21, 2004).

guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal controls.

We assessed the controls SBA used to underwrite and approve Hurricane Sandy RISE Act loans. To perform our assessment, we interviewed ODA management, loss verifiers, and loan officers responsible for approving these loans. We also reviewed SBA training materials, and operating policies and procedures. In addition we reviewed individual loan files. Overall, we found that most internal controls were operating effectively. However, we identified deficiencies in loans that we have reviewed and weaknesses in SBA procedures and oversight, as noted in this report.

## Appendix II: Average Disaster Processing Times

| Disaster Event | Applications Processed | Loans Approved | Home Average Days | Business Average Days | Economic Injury Disaster Loan Average Days |
|---|---|---|---|---|---|
| Hurricane Sandy[10] | 91,862 | 36,918 | 29 | 45 | 37.5 |
| 2016 Louisiana Floods | 39,011 | 17,318 | 9 | 12 | 10.5 |
| Hurricane Matthew | 19,816 | 7,374 | 6 | 12 | 11.5 |
| RISE Act Hurricane Sandy | 2,960 | 1,141 | 8.5 | 11 | 10.5 |

Source: Office of Disaster Assistance DCMS Activity Reports.

[10] SBA OIG 14-14, *Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations*, found average approval times of 37 days for home loans, 60 days for business loans, and 51 days for economic injury disaster loans.

# Appendix III: Sample Exceptions

| Sample Number | Disbursed Loan Amount | Exception Amount |
|---|---|---|
| 1 | $2,100 | — |
| 2 | 3,600 | — |
| 3 | 5,300 | — |
| 4 | 6,000 | — |
| 5 | 12,100 | 12,100 |
| 6 | 13,100 | — |
| 7 | 13,600 | — |
| 8 | 13,800 | — |
| 9 | 18,200 | — |
| 10 | 25,000 | — |
| 11 | 30,700 | 7,000 |
| 12 | 36,000 | 28,100 |
| 13 | 39,800 | — |
| 14 | 39,800 | 8,300 |
| 15 | 40,000 | — |
| 16 | 45,500 | 6,200 |
| 17 | 25,000 | 20,000 |
| 18 | 142,100 | — |
| 19 | 63,800 | — |
| 20 | 131,300 | — |
| 21 | 25,000 | 25,000 |
| 22 | 1,665,000 | 1,665,000 |
| 23 | 10,000 | 10,000 |
| 24 | 16,600 | 4,000 |
| 25 | 17,500 | 2,010 |
| 26 | 17,900 | — |
| **Totals** | **$2,458,800** | **$1,787,710** |

Source: Generated from audit results.

## Appendix IV:  Questioned Cost Summary

| | Improperly Verified Losses | Ineligible Applicants | Total |
|---|---|---|---|
| **Number Of Loans** | 63 | 5 | - |
| | | | |
| **Questioned Costs** | $415,579 | $1,714,110 | $2,129,689 |

Source:  Sampling results and calculations by OIG Statistician.

## Appendix V: Agency Comments

U.S. SMALL BUSINESS ADMINISTRATION
Washington, DC 20416

| | |
|---|---|
| Date: | January 8, 2018 |
| To: | Hannibal "Mike" Ware<br>Acting Inspector General |
| From: | James E. Rivera<br>Associate Administrator<br>Office of Disaster Assistance |
| Subject: | OIG Draft Report – Audit of RISE Act Eligibility Controls<br>(Project No. 16802) |

We have reviewed the OIG Draft Report. The objectives of this audit were to 1) assess SBA controls for ensuring disaster loan applicant eligibility under Section 1101 of the Recovery Improvements for Small Entities After Disaster Act of 2015 (RISE Act), and 2) determine whether only eligible recipients received loans under the RISE Act. Thank you for the opportunity to respond to the Draft Report.

The mission of the SBA Disaster Loan Program is to help businesses of all sizes, private non-profit organizations, homeowners and renters recover from disasters and rebuild their lives by providing affordable and timely financial assistance. Consistent with the mission to provide affordable and expedient disaster assistance, SBA remains committed to providing disaster loan assistance quickly and effectively which was the basis for reopening the Hurricane Sandy application deadline for a one-year period.

***The Sandy RISE Act reopening was a unique and unprecedented occurrence that provided disaster survivors an opportunity to apply for disaster loan assistance more than 3 years after the damage occurred.***

Hurricane Sandy was declared on October 30, 2012. In response to the original Sandy declaration, SBA approved a total of 36,918 disaster loans for nearly $2.5 billion.

Three years later, as a result of the 2015 RISE Act, SBA reopened the application period for Hurricane Sandy. As mandated by the RISE Act, ODA reopened the application period for one year (December 2, 2015 through December 1, 2016) and approved an additional 1,173 disaster loans for a total of over $60 million. In order to address situations where new applicants had partially or fully repaired the damaged property, ODA established guidance for the Loss Verifiers to follow when determining the scope of loss as a result of damage caused by Hurricane Sandy.

The audit report identified six SBA disaster loans processed under the Sandy RISE Act reopening and concluded that (1) loss verifiers did not obtain all the required documentation to support real estate damage claims; and (2) may have been provided to potentially ineligible applicants. The audit identified a limited number of cases that were used to support its recommendation to increase documentation obtained at the initial verification inspection for those loans processed under the Sandy RISE Act reopening – an exceptional situation where the disaster survivors applied for disaster loan assistance 3 years after the damage occurred.

SBA agrees that controls to verify eligible disaster damages should be strengthened, for situations similar to the Sandy RISE Act reopening where original applications were accepted years after the damage occurred resulting in a greater number of partially/fully repaired properties. For all other declarations under normal circumstances, SBA's controls to verify damage property are sufficient.

**OIG Recommendations and Agency Response**

1) *OIG recommends that ODA require loss verifiers to obtain documents such as paid receipts, invoices, contracts, estimates, insurance claim documentation, and proposals from the borrowers at initial loss verification inspection for placement into the DCMS loan file to support SBA's verified total loss amount and ensure borrower eligibility for loans covering damages that have been fully or partially repaired; if such documentation is not available, obtain written certification from borrowers to support damage repair costs.*

   **ODA Response:** ODA agrees with the recommendation to obtain a written certification or documentation, such as paid receipts, invoices, contracts, estimates, insurance claim documentation, proposals, etc., from borrowers to support verified total loss amounts for loans covering damages that have been *fully or partially* repaired for loans where the application was received one year or more since the original application filing period has closed, i.e. similar to Sandy RISE Act reopening.

2) *OIG recommends that ODA implement controls, such as refresher training to loan officers and loss verifiers, to ensure thorough examination of loan documentation to detect fraud and to prevent loans to ineligible borrowers or for ineligible purposes, such as business expansion.*

   **ODA Response:** ODA agrees to implement refresher training to loan officers and loss verifiers, to ensure thorough examination of loan documentation to detect fraud and to prevent loans to ineligible borrowers or for ineligible purposes after a substantial amount of time has passed since the damage occurred, similar to the Sandy RISE Act reopening.