



**Testimony of the U.S. Small Business Administration
Inspector General, Peggy E. Gustafson, Before the
Senate Ad Hoc Subcommittee on Disaster Recovery and
Intergovernmental Affairs (March 17, 2011)**

Chairman Pryor, Ranking Member Ensign, and distinguished members of the Subcommittee, thank you for this opportunity to testify.

As the Inspector General for the Small Business Administration, I head an independent office established to deter and detect waste, fraud, abuse and inefficiencies in SBA programs and operations. My testimony today focuses on several audits my office recently conducted regarding duplicate benefits in the SBA disaster loan program. This program provides low-interest, long-term loans for physical damage to homes and businesses caused by a disaster.

Under SBA's disaster loan program, borrowers are not entitled to obtain loans for losses covered by insurance, grants and other sources. SBA enforces this restriction on duplication of benefits, which I will occasionally refer to as DOB, by either reducing the amount of the loan that a borrower can obtain by any duplicate benefits at the time of loan processing, closing or disbursing, or by requiring borrowers that have received disaster loans, and the loan is in a servicing stage, to assign any insurance benefits they receive to SBA to pay down the balance of their loans.

A proper DOB analysis minimizes risk to SBA and benefits the Disaster program in several ways: First, a DOB analysis should reduce the overall outstanding debt owed to the Government by reducing the amount of loans made. This, in turn, reduces the cost to the taxpayer because disaster loans are taxpayer subsidized. Second, the DOB analysis maximizes the impact of Federal disaster funds by directing those funds away from losses that are compensated by insurance and other benefits, and towards disaster victim needs.

The SBA OIG recently conducted three audits that reviewed the effectiveness of SBA's decisions to reduce duplicate benefits in the disaster loan program. The most recent audit, completed in February 2011, determined whether disaster servicing centers had adequate and effective systems for processing insurance recovery checks to avoid a duplication of benefits. The other two audits, completed in October 2009, and July 2009, determined whether SBA was adequately checking for insurance benefits when it was processing and disbursing Gulf Coast Disaster Loans and Disaster Loans for the Midwest Floods of 2008, respectively.

The February 2011 audit found that SBA did not have effective procedures in place to avoid duplicate benefits when it received checks for borrowers from insurance companies. In fact, one SBA servicing center made inaccurate DOB decisions approximately 47 percent of the time by sending the checks on to the borrowers rather than using the money to pay down the loan; a second center erred on 23 percent of its DOB decisions regarding insurance checks. Projecting our sample to the entire universe of checks the two centers processed in fiscal years 2008 and 2009, we estimate that SBA erroneously returned more than 4.1 million dollars in duplicate benefits to the borrowers.

The good news is that SBA agreed with our recommendations and is now working to implement corrective action. For example, the Agency has now designated and trained staff in servicing centers to assess whether insurance checks they receive represent duplicate benefits and has taken steps to ensure that information related to the DOB analysis is captured in SBA records. SBA has also worked to improve its communication with insurance companies and other agencies that provide disaster assistance. Additionally, SBA is in the process of attempting to recover the duplicate benefits from the borrowers.

The audits we conducted in 2009 also identified errors in SBA's DOB analysis. The majority of the errors occurred because loan officers did not check with insurance companies to determine the amount of insurance that had been paid prior to disbursing the disaster loans, as they were required to do. In response to our audits, SBA undertook procedural changes to improve its DOB determinations. As one such change, in response to the Gulf Coast Disaster Loan audit, SBA began checking for duplicate benefits between six months and one year after the final disbursement of a disaster loan.

In summary, SBA – and, indeed, all agencies that provide disaster assistance -- must exercise diligence and must develop effective internal controls to ensure that recipients of Federal assistance do not obtain duplicate benefits.

Thank you for the opportunity to testify on this important topic, and I would be happy to answer any questions.