

MANAGEMENT ADVISORY REPORT ON
THE RECORDS MANAGEMENT AND
DOCUMENTATION PROCESS AT THE DISASTER
LOAN SERVICING CENTERS

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**Prepared by the
Office of Inspector General
U.S. Small Business Administration**



U.S. Small Business Administration
Office Inspector General

Management Advisory

To: John A. Miller
Director, Office of Financial Program Operations
/s/ Original Signed
Date: March 29, 2011

From: Peter L. McClintock
Deputy Inspector General

Subject: Management Advisory Report on the Records Management and Documentation Process at the Disaster Loan Servicing Centers

The purpose of this report is to inform you of issues identified during three recent audits, (1) OIG Report 10-01, *Monitoring of Insurance Coverage for Disaster Loan Recipients*¹, (2) OIG Report 11-07, *Processing of Recovery Checks at the Disaster Loan Servicing Centers*², and (3) *Release of Collateral by Loan Servicing Centers*³ conducted at both the Birmingham and the El Paso Disaster Loan Servicing Centers. We noted that the servicing centers were not retaining all of the records necessary to ensure adequate and proper documentation for a complete audit trail, or providing justification for many actions taken. Additionally, the electronic recordkeeping system was missing many records associated with active loans and lacked the capability to easily locate and retrieve records.

For this report, we evaluated the issues noted above to determine whether they were systemic. Additionally, we interviewed officials from the Denver Finance Center and the Disaster Loan Servicing Centers. Because the nature and brevity of this assessment precluded the use of our normal audit protocols, 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.

BACKGROUND

According to 36 CFR, the head of each Federal agency must make and preserve records containing adequate and proper documentation. The regulation defines *adequate and proper documentation* as "a record of the conduct of Government business that is complete and accurate to the extent required to document the organization, functions, policies, decisions, procedures, and essential transactions of the agency and that is designed to furnish the information necessary to protect the legal and financial rights of the Government and of persons directly affected by the agency's activities.

¹ Final report issued October 20, 2009.

² Final report issued February 10, 2011.

³ Audit initiated in July 2010 and is ongoing.

The National Archives and Records Administration (NARA) Management Guide provides Federal agencies with guidance on the management of records and other types of documentary materials accumulated by Federal agencies and officials. The guide is intended to assist in creating and maintaining accurate and complete records of an agency's functions and activities and in ensuring the authorized, timely, and appropriate disposition of documentary materials that are no longer needed to conduct business. Federal agencies are responsible for establishing and maintaining a records management program that complies with NARA regulations and guidance.

The term “records” has a specific meaning which differentiates official Federal documents from other types of materials. As defined in 44 U.S.C. 3301, “records” means documentary materials made or received by a Federal agency in connection with the transaction of Government business. The NARA guide explains that records should be maintained by the agency to document the materials that contain information of value to the agency.

In establishing recordkeeping requirements, according to the NARA guide, Federal agencies should determine which documentary materials need to be identified as records and preserved to ensure complete and accurate documentation. Without formal recordkeeping requirements, records that should be preserved because they contain evidence of agency activities or information of value to the agency may not be systematically maintained. The NARA guide also states that the practice of ensuring “adequate and proper documentation” contributes to efficient and economical agency operations by guaranteeing that information is documented in official files, including electronic recordkeeping systems, where it will be accessible to all authorized staff that may need it.

Also, 36 CFR, Subpart 1220, the NARA Code of Federal Regulations, specifies that agencies are required to integrate records management and archival requirements into the design, development, and implementation of electronic information systems. Agencies must establish records management controls to ensure that Federal records in electronic information systems can provide adequate and proper documentation of agency business for as long as the information is needed, according to 36 CFR, Subpart 1236. Some of the record management controls required include reliability, authenticity, integrity and usability controls. Reliability controls ensure a full and accurate representation of transactions and activities. Authenticity controls protect against unauthorized addition, deletion, alteration, use, and concealment of records. Integrity controls, such as audit trails, ensure records are complete and unaltered. Usability controls are defined as mechanisms to ensure records can be located, retrieved, presented, and interpreted.

Standard Operating Procedure (SOP) 00 41, Records Management Program, provides records retention requirements for the Agency, including disaster loans. The SOP specifically includes material on 7(b) *loan applications received* from persons, business

firms, and institutions. However, the SOP does not clearly indicate the retention requirements for material received or created once the loan is in servicing.

RESULTS

Complete Records Needed for Adequate and Proper Documentation of Agency Actions were not Retained

During three recent audits, we found that the servicing centers were not retaining all records associated with loan servicing actions. While performing a site visit during the audit, *Monitoring of Insurance Coverage for Disaster Loan Recipients*, we noted that hundreds of borrower insurance documents received by the servicing center were scheduled to be destroyed. One particular box contained renewal policies, policy expiration notices, cancellation notices, amended policy declarations, and miscellaneous documents. Without these records, servicing center staff were unable to determine whether borrowers were maintaining flood or hazard insurance in accordance with the Loan Authorization Agreement, ensuring that the rights of the government were being protected.

Similarly, during our audit, *Processing of Recovery Checks at the Disaster Loan Servicing Centers*, we noted that the servicing centers did not always retain records pertaining to the duplication of benefits analysis performed for insurance checks. Specifically, they did not always retain a copy of the insurance check and the worksheet used to determine whether duplicate benefits existed. Therefore, the Agency did not always have adequate and proper documentation supporting its decisions to return insurance checks to borrowers or apply checks to the outstanding loan balance.

Also, during OIG's audit in progress, *Release of Collateral by Loan Servicing Centers*, the servicing centers were often unable to provide all requested documents, such as settlement statements for the sale of properties, release of mortgages, release requirement letters, property valuations, and title reports. This documentation was necessary to support the validity of the servicing center's decision to release loan collateral and to demonstrate that the legal and financial rights of the Government or persons directly affected by the Agency's activities were protected.

Although SOP 00 41 specifies retention requirements for received materials pertaining to loan applications, it does not provide the servicing centers with specific record designation or retention requirements for documentation received and created for loans while in servicing. Therefore, some records that are essential to ensure adequate and proper documentation were not being retained. To overcome this deficiency, the servicing centers should develop record designation and retention requirements for all documents and coordinate with the Office of Management & Administration to incorporate this guidance into SOP 00 41. The requirements should specify which documents should be designated as records, and therefore retained, and for how long.

Servicing Actions were not Always Supported with Adequate and Proper Documentation

The servicing centers did not always provide justification to support the decisions made related to servicing actions. The SBA Form 327, *Modification or Administrative Action*, is the only documentation that the servicing centers are required to prepare to indicate the basis of their decision to return an insurance check to a borrower. According to SOP 50 52, this form should contain all of the information pertinent to the request or problem, including a summary of the request, evaluation of the supporting documentation, and recommendation for approval or denial. However, during our audit, *Processing of Recovery Checks at the Disaster Loan Servicing Centers*, we found that the SBA Form 327 actions prepared by the servicing centers did not always provide proper support for the determination made. Important details such as the insurance check purpose, date of loss associated with the check, borrower's remaining eligibility, and the total insurance recoveries were not always recorded.

Additionally, SOP 50 52 does not require an SBA Form 327 to be completed if the insurance check is being returned to the borrower and is less than \$10,000. The majority of the statistical sample of insurance checks we reviewed during our audit, *Processing of Recovery Checks at the Disaster Loan Servicing Centers*, did not exceed \$10,000, thus, in most cases there was no evidence of the justification for returning or retaining insurance checks.

While performing the audit, *Release of Collateral by Loan Servicing Centers*, we found that many justifications for collateral releases were unsubstantiated. In these instances, the SBA Form 327 indicated that there was sufficient collateral coverage when, in fact, the servicing centers did not obtain appraisals necessary to make this determination. The servicing centers indicated that the SOP did not require a current appraisal, however, without a current appraisal, it is impossible to determine whether there was sufficient remaining collateral coverage.

When the servicing centers did document their decisions for servicing actions, they generally did not provide the analysis supporting the decision. In order to ensure adequate and proper documentation for all servicing actions, the servicing centers should document their analysis. Designating this analysis as a record and retaining it will contribute to efficient and economical agency operations by guaranteeing that information is accessible to all authorized staff that may need it.

The Electronic Recordkeeping System Did Not Capture a Full and Accurate Representation of All Transactions

The electronic recordkeeping system did not ensure that records would provide adequate and proper documentation of agency business. The existing electronic recordkeeping system did not ensure that the record of transactions was reliable and authentic, or ensure that records were complete as required by 36 CFR, Subpart 1236.

During the audit, *Release of Collateral by Loan Servicing Centers*, we noted some documents provided by the servicing centers were not copies of the original signed letters sent to the borrower. Instead, the servicing centers retained an unsigned template and therefore, could not verify that the documents were actually executed. Additionally, when the stored documents were retrieved, the dates of the documents were automatically defaulted to the current date. As a result, borrower requirements letters were not an accurate representation of the transaction. Records management controls are necessary to ensure that the Federal records contained in the electronic recordkeeping system provide adequate and proper documentation of Agency business.

In our audit, *Processing of Recovery Checks at the Disaster Loans Servicing Centers*, we noted that it is not possible to query a loan for all SBA Form 327 actions related to insurance checks. We also noted that it is not possible to query by the document date or by a specific transaction type. The electronic recordkeeping system is primarily designed to query by loan number and its capabilities beyond this are limited. We recommend that the system be further refined to improve its retrieval capabilities. Ideally, all records of a specific type, such as insurance checks for example, could be retrieved simultaneously. This would facilitate the ease of locating and retrieving specific records for servicing center staff and auditors. Enhanced retrieval capability would result in more efficient operations.

Summary

The servicing centers lack a clearly defined records management and documentation process, and therefore, did not consistently make and preserve records containing adequate and proper documentation as required by 44 U.S.C. 3301. Records that should have been preserved because they contained evidence of agency activities, or information of value to the agency, were not systematically maintained. Additionally, the electronic recordkeeping system did not contain all of the controls specified in 36 CFR Subpart 1236. The deficiencies in the servicing center records management and documentation process create a risk that the Agency may be unable to furnish information necessary to protect the legal and financial rights of the Government and of persons directly affected by the Agency's activities. These deficiencies undermine the Agency's ability to operate efficiently and economically.

RECOMMENDATIONS

We recommend that the Director, Office of Financial Program Operations, take the following actions:

1. Develop record designation and retention requirements for all loan servicing documents and incorporate this guidance into SOP 50 52. The requirements should specify which documents should be designated as records, and therefore retained, and for how long.

2. Revise SOP 50 52 to include a requirement to preserve the analyses performed to conduct all servicing actions. A summary of the analysis should be present on the Form 327 and the detail of the analysis should accompany the SBA Form 327 action. The analysis should include sufficient detail to permit an outside party, not connected with the transaction, to verify the accuracy of the decision.
3. Refine the electronic recordkeeping system to facilitate usability so that all documents of a specific type and for a specific range of dates can be located and retrieved.
4. Develop written procedures pertaining to the electronic recordkeeping system and specify that all documents associated with active loans are to be included in the electronic recordkeeping system.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

On March 15, 2011, we provided the Office of Financial Program Operations (OFPO) with the draft report for comment. On March 25, 2011, OFPO submitted its formal response which is contained in Appendix I. Management agreed with our findings and concurred with three of our four recommendations. Management provided an alternate resolution for the remaining recommendation. A summary of management's comments and our response is as follows.

Recommendation 1

Management Comments

OFPO partially concurred with this recommendation. OFPO state it would consider appropriate changes to develop guidance to advise on which documents should be designated as records and provide guidance on how to retain and for how long. However, OFPO proposed this guidance be incorporated into SOP 50 52, instead of SOP 00 41. The new draft of SOP 50 52 will be placed into the agency clearance process by August 31, 2011.

OIG Response

Management's comments are responsive to the recommendation. The proposal to incorporate the changes into SOP 50 52 instead of SOP 00 41 is acceptable. We changed the recommendation to reflect SOP 50 52.

Recommendation 2

Management Comments

OFPO concurs with this recommendation. OFPO stated that it had already notified the

DLS Center staff that they must retain the supporting transaction justification documents and work products. SOP 50 52 was currently undergoing revision. OFPO will consider appropriate changes to include instructions in the revision on retaining documentation that supports the analysis and final decision in the transaction record.

OIG Response

Management's comments are responsive to the recommendation.

Recommendation 3

Management Comments

OFPO concurred with this recommendation. It stated it would make every effort to include a robust search function in the recordkeeping system. OFPO will provide a status update to the OIG no later than September 30, 2011.

OIG Response

Management's comments are responsive to the recommendation.

Recommendation 4

Management Comments

OFPO concurs with this recommendation. It will develop written procedures for the electronic recordkeeping system and will specify that moving forward, all documents associated with active loans are to be included. Additionally, OFPO will train personnel on the system. The written procedures will be developed by August 31, 2011.

OIG Response

Management's comments are responsive to the recommendation.

ACTIONS REQUIRED

Please provide your management decision for each recommendation on the attached SBA Forms 1824, Recommendation Action Sheet, within 30 days from the date of this report. Your decision should identify the specific action(s) taken or planned for each recommendation and the target date(s) for completion.

We appreciate the courtesies and cooperation of the Office of Disaster Assistance during the audit. If you have any questions regarding this report, please contact me at (202) 205-6586 or Craig Hickok, Director, Disaster Assistance Group, at (817) 684-5341.

APPENDIX I. MANAGEMENT COMMENTS



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

MEMORANDUM
March 25, 2011

To: Peter L. McClintock
Deputy Inspector General

From: John A. Miller [FOIA ex. 6]
Director, Office of Financial Program Operations (OFPO)

Subject: Response to draft Management Advisory on the Records Management and Documentation at Disaster Loan Servicing Centers. Project No. 11801

Thank you for the opportunity to review the draft Management Advisory. We appreciate the role that the Office of Inspector General (OIG) plays in assisting management in ensuring that OFPO programs are effectively managed. The OIG's main concerns in this review reflected that SBA's disaster loan servicing centers in Birmingham, Alabama and El Paso, Texas (collectively, the DLS Centers) did not retain records necessary to ensure adequate and proper documentation of certain DLS Center activities.

The OIG's recent audits at the DLS Centers have focused on (1) Monitoring of Insurance Coverage for Disaster Loan Recipients, (2) Processing of Recovery Checks at the Disaster Loan Servicing Centers, and (3) Release of Collateral by Disaster Loan Servicing Centers. OFPO and the OIG have been working closely and communicating frequently during the disaster loan servicing audit and review processes. Through this close contact with OIG as well as site visits by OFPO, we became aware of records management and documentation issues at the DLS Centers. In response, OFPO has instituted significant improvements. DLS Center staff is now including transaction justification documents and work papers in the loan file without exception. In addition, since December, OFPO issued an email requiring that DLS Center staff capture duplication of benefits or collateral release transactions in the Disaster Credit Management System "chron log" to accurately reflect the current status of the loan. Additionally, DLS Center staff now utilizes calculation worksheets to record transaction analyses in the loan file. These improvements were put in place prior to the issuance of the OIG Management Advisory on Records Management and Documentation and reflect our serious commitment to address these issues.

In February 2011, OFPO held a process improvement workshop on DLS in El Paso, Texas. Center staff from Birmingham, El Paso and Santa Ana, California gathered together with partners from the Processing and Distribution Center (PDC), the Union, and Headquarters OFPO staff. The workshop focused on how DLS Centers currently operate and how to improve

APPENDIX I. MANAGEMENT COMMENTS

efficiency, effectiveness, and consistency. As a result of this two day workshop, teams will evaluate and propose DLS process improvements. One focus of the teams' efforts is to improve records management and documentation practices and controls while taking into consideration the information provided by the OIG and industry best practices.

OFPO is providing specific responses to the OIG recommendations as follows:

1. Develop a record designation and retention requirements for all loan servicing documents and coordinate with the Office of Management & Administration to incorporate this guidance into SOP 00 41. The requirements should specify which documents should be designated as records, and therefore retained, and for how long.

OFPO partially concurs with this recommendation. OFPO will consider appropriate changes to develop guidance to advise on which documents should be designated as records and provide guidance on how to retain and for how long. However, OFPO proposes this guidance be incorporated into SOP 50 52, instead of the aforementioned SOP 00 41. SOP 50 52 is currently undergoing revision. OFPO will address record designations and retention with the new draft of SOP 50 52. The new draft will be placed into the agency clearance process by August 31, 2011.

2. Revise SOP 50 52 to include a requirement to preserve the analyses performed to conduct all servicing actions. A summary of the analysis should be present on the Form 327 and the detail of the analysis should accompany the SBA Form 327 action. The analysis should include sufficient detail to permit an outside party, not connected with the transaction, to verify the accuracy of the decision.

OFPO concurs with this recommendation. As noted above, OFPO has already notified the DLS Center staff that they must retain the supporting transaction justification documents and work products. The SOP 50 52 is currently undergoing revision. OFPO will consider appropriate changes to include instructions in the revision on retaining documentation that supports the analysis and final decision in the transaction record.

3. Refine the electronic recordkeeping system to facilitate usability so that all documents of a specific loan type and for a specific range of dates can be located and retrieved.

OFPO concurs with this recommendation and will make every effort to include a robust search function in the recordkeeping system. OFPO will provide a status update to the OIG no later than September 30, 2011.

4. Develop written procedures pertaining to the electronic recordkeeping system and specify that all documents associated with active loans are to be included in the electronic recordkeeping system.

APPENDIX I. MANAGEMENT COMMENTS

OFPO concurs with this recommendation and will develop written procedures for the electronic recordkeeping system and will specify that moving forward, all documents associated with active loans are to be included. Additionally, OFPO will train personnel on the system. The written procedures will be developed by August 31, 2011.

Again, thank you for the opportunity to review the draft Management Advisory. OFPO appreciates the continued collaboration with the OIG to address concerns at the disaster loan servicing centers.