Performance Audit Report

Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations

Final Report
For Official Use Only

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June 30, 2014 **Report Number 14 14**

U.S. Small Business Administration
Office of Inspector General
Washington, D.C. 20416

FINAL REPORT TRANSMITTAL
REPORT NO. 14-14

DATE: JUNE 30, 2014

TO: James Rivera, Associate Administrator
Office of Disaster Assistance

SUBJECT: Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations

This report presents the results of our audit of the Small Business Administration's disaster loan processing times. The objectives of our audit were to determine whether the SBA met its processing time goals for disaster loans published in its Congressional Budget Justification and Annual Performance Report and whether the published goals were attainable.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and 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.

We appreciate the courtesies and cooperation of the SBA extended to the staff during this audit. Please direct any questions to me at (202) 205-6587 or Andrea Rambow, Acting Director, Credit Programs Group at (202) 205-4428.

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/s/
Robert A. Westbrooks
Deputy Inspector General

Executive Summary

Improving Accuracy of Performance Reporting
To Better Manage Disaster Loan Processing Time Expectations

Report Number 14-14

What the OIG Reviewed

This report presents the results of our audit of the SBA's disaster loan processing times. The audit was conducted due to longer than normal disaster loan processing times experienced during Hurricane Sandy.

The objectives of our audit were to determine whether the SBA met its processing time goals for disaster loans published in its Congressional Budget Justification and Annual Performance Reports (CBJs) and whether the published goals were attainable.

To achieve these objectives, we evaluated the processing time data for all disaster loan applications with a loan approval or denial decision from October 1, 2008, to December 31, 2013. We performed our own computation of the total time elapsed from the date of application acceptance to the decision date, including the time between each reacceptance and withdrawal of the application, if any. Additionally, we performed site visits at the Fort Worth Processing and Disbursement Center and interviews with Loan Officers and Senior Loan Officers who processed Hurricane Sandy disaster loans. Finally, we interviewed key officials from the Office of Disaster Assistance regarding processing standards and goals for Hurricane Sandy, and for fiscal years prior to Hurricane Sandy.

What the OIG Found

We determined that the SBA was generally unable to attain its disaster loan processing time performance goals unless it included applications that were automatically declined or quickly rejected before loss verification. The SBA's reported average processing time—as published in its Congressional Budget Justification and Annual Performance Reports—included the processing time for these two types of declinations. However, the SBA's computation did not include all of the processing time for applications previously submitted and withdrawn, but later reaccepted. In such instances, the SBA only used the days elapsed between the last reacceptance and the decision date.

Because of the methodology it used to compute processing time for disaster loan applications, the SBA's reported performance did not accurately communicate to eligible applicants and oversight officials how long it took staff to process loan applications. We also found that processing time performance standards were generally not attainable beyond certain application volume levels.

OIG Recommendations

The OIG recommended that the SBA report the processing time for automatically declined applications and pre-loss verification declined applications separately from applications that require more extensive processing, rather than continue averaging these processing times together. Additionally, the OIG recommended that the SBA establish disaster loan processing time goals based on actual average processing times, net of automatic declinations and quick rejections performed prior to loss verification. Further, we recommended that the established goals also consider the full processing time for all applications with withdrawals that had reacceptances.

Finally, the OIG recommended that the SBA establish processing time standards for different application volumes based on historical performance and include anticipated processing time standards for a range of possible application volumes in the annual Congressional Budget Justification and Annual Performance Report.

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Introduction

This report presents the results of our audit of the Small Business Administration's (SBA) disaster loan processing times. The audit was conducted due to longer than normal disaster loan processing times experienced following Hurricane Sandy. The objectives of our audit were to determine whether the SBA met its processing time goals for disaster loans and whether its published goals were attainable.

The scope of the audit was limited to a review of the accuracy and attainability of disaster loan processing time goals from FY 2008 to FY 2013, as published in the annual Congressional Budget Justification and Annual Report (CBJ). To answer the audit objectives, we obtained raw data containing all disaster loan applications with a loan approval or denial decision from January 1, 2007, to December 31, 2013. We used the data from FY 2007 to determine the beginning inventory of loans as of October 1, 2008. We performed our own computation of the total time elapsed from the date of application receipt to the decision date, including the time between each reacceptance and withdrawal of the application, if any. Additionally, we visited the Fort Worth Processing and Disbursement Center and interviewed loan officers and senior loan officers who processed Hurricane Sandy disaster loans. Finally, we interviewed key officials from the Office of Disaster Assistance regarding processing standards and goals for Hurricane Sandy and for fiscal years prior to Hurricane Sandy.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and 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.

Background

The SBA provides long-term disaster recovery loans to homeowners, renters, businesses of all sizes, and nonprofit organizations who are victims of a declared disaster. The four major disaster loans programs are: (1) home and personal property loans, (2) business physical disaster loans, (3) economic injury disaster loans (EIDLs) disaster business loans and, (4) Military Reservist EIDL loans. As of March 2013, the SBA had provided nearly two million disaster loans totaling $52 billion. For the past 10 years, the SBA provided disaster loans totaling, on average, approximately $1.1 billion per year and has an active portfolio of approximately $8 billion in disaster loans.

On October 29, 2012, Hurricane Sandy made landfall in southern New Jersey. The massive storm affected several states along the east coast. Subsequently, the President issued thirteen major disaster declarations for Hurricane Sandy. The SBA processed 122,798 disaster loan applications in FY 2013, with approximately 85,000 applications (70 percent) related to Hurricane Sandy. This was more than double the number of applications processed in each of the preceding three years.

According to a May 2013 report by Ranking Member Nydia M. Velázquez (D-NY) of the House Committee on Small Business, "homeowners and businesses impacted by Sandy experienced processing delays of 30 days and 46 days, respectively." According to this report, business loan approval rates were also down compared to previous disasters.

The SBA sets annual disaster loan application processing time standards. These standards are intended to convey to Congress and other stakeholders the expected length of time to process a disaster loan with the requested budgetary funding. These standards may also create service-level expectations in the minds of applicants, inform staffing level decisions in response to volume surges, and create performance expectations for program oversight officials. The target operating standards, as noted in the CBJ, are listed below.

Table 1 CBJ Target Operating Standards for Disaster Loan Processing

Application Type	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Home	10 days	14 days	14 days	14 days	18 days	27 days
Business Physical	16 days	18 days	18 days	18 days	21 days	30 days
EIDL	16 days	18 days	18 days	18 days	21 days	30 days

Source: FY 2013 Congressional Budget Justification and FY 2011 Annual Performance Report

As reported in the Congressional Budget Justification, the SBA's goal was to process 85 percent of applications within the target operating standards noted above. The SBA reported that it met its disaster loan processing time goals from FY 2008 through FY 2013, except for business loans and EIDLs in FY 2009, and all loan types in FY 2013. We noted, however, that the SBA calculated its actual performance against a 14-day standard for home loan applications and an 18-day standard for business and EIDL for FY 2012 and FY 2013, rather than the standards specified in the CBJ.

The pre-loss verification (LV) process identifies applications having a very low likelihood of being approved based on the applicant's credit, repayment ability or other eligibility restrictions. Sometimes an applicant's credit history indicates a credit decline decision is obvious, therefore, the disaster credit management system automatically declines these applications. These files initially bypass the LV process. Applications that are not automatically declined or routed to the pre-LV review queue are submitted for regular processing.

Initially, we began this audit to determine whether approval rates for Hurricane Sandy were consistent with other major disasters and whether processing times for Hurricane Sandy met established standards. We modified the objective of this audit in the survey phase after our preliminary work indicated that Hurricane Sandy approval rates exceeded the approval rates from previous large disasters. We also modified the objective in an effort to coordinate and avoid duplication with the Government Accountability Office who is conducting an audit of approval times and rates and other issues relating to disaster business loans.

Nature of Limited or Omitted Information

No information was omitted due to confidentiality or sensitivity, nor were there limitations to information on this audit.

Review of Internal Controls

The Office of Management and Budget (OMB) Circular A-123[1] provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal controls.

[1] OMB Circular A-123, *Management's Responsibility for Internal Control*, December 21, 2004.

The scope of this audit was limited to a review of disaster loan processing time standards, goals, and the SBA's ability to meet them. Therefore, we limited our assessment of internal controls to an evaluation of the controls governing disaster loan processing time performance. We attempted to identify internal controls governing the achievement of desired processing time standards and goals. However, we determined that there were limited internal controls in place to ensure timely disaster loan processing, to ensure adherence to the processing time standards, or to implement specific planned corrective actions when the SBA began to miss its defined processing time goals. The existing controls were not operating as intended and were, therefore, unsuccessful in facilitating timely loan processing.

Results

According to our analysis, the SBA was generally unable to meet its disaster loan processing time performance goals. However, the methodology the SBA used to compute processing time led Agency officials to believe it had met most of the processing time performance goals between FY 2008 and FY 2013. This occurred because it included applications that were automatically declined or quickly rejected before loss verification based on the applicant's credit or repayment ability or the property eligibility. Our analysis identified that these applications represented approximately 40 percent of the total application volume received between FY 2008 and FY 2013. The SBA did not recognize that by including these applications, it was distorting the average processing time for the 60 percent of applications that had to be fully processed.

Further, the SBA's reported processing time did not include time spent on applications that were previously submitted and withdrawn, and later reaccepted by the SBA for processing. In such instances, the SBA only used the days elapsed between the last reacceptance and the decision date. By employing this methodology, the SBA's reported performance did not clearly communicate to applicants, Congress, and other oversight officials how long it took staff to process the majority of the disaster loan applications received. Although the SBA believed it had accurately captured the average processing time for all disaster applications received, the reported performance was distorted by the 40 percent of applications requiring limited processing. Eligible applicants and oversight officials lack a realistic estimate of how long it takes staff to process loan applications because of this methodology and it leads to criticism about program performance when loan application processing takes longer than anticipated. We also found that processing time performance goals were generally not achieved beyond certain application volume levels.

Finding 1: The SBA Generally Did Not Meet Its Disaster Loan Processing Time Goals for Business Loans and EIDLs

The SBA reported that it met its disaster loan processing time goals from FY 2008 through FY 2012, except for business loans and EIDLs in FY 2009 and all loan types in FY 2013. Our analysis, however, found that the SBA generally did not meet its processing time goals for business loans and EIDLs for the entire period of fiscal years 2008 through 2013. The primary reason for the difference between what the SBA reported and what the OIG determined was the methodology used to compute actual processing time. When automatically declined and pre-LV declined applications were included and the full processing time for reaccepted applications was not included in the calculation, the SBA appeared to meet its processing time goals some of the time. However, we determined that with the exception of one fiscal year in which the SBA met its processing time goal for EIDLs, the SBA missed its goals by as much as 62 percent for both business loans and EIDLs. Our analysis did show, however, that the SBA met its goals for home loans in three of the six fiscal years.[2]

The Government Performance and Results Modernization Act (GPRA) requires that the SBA review the success of achieving its performance goals each fiscal year. The Agency is also required to explain and describe where a performance goal has not been met, why the goal was not met, the plans for achieving the established goal, and if the performance goal is impractical or infeasible, why that is the case, and what action is recommended. Further, OMB Circular A-129 requires Federal agencies to submit timely and accurate financial management and performance data to OMB and Treasury, to support evaluation of the Government's credit management and debt collection programs and policies.

To comply with these performance reporting requirements, the SBA incorporates its performance into its annual Congressional Budget Justification. The SBA's performance goal for disaster loan processing time, as stated in its FY 2015 CBJ, was to process 85 percent of applications received within the established time standards. These time standards are based upon the number of days the SBA needs to complete application processing in all four of the following loan processing departments: application intake, loss verification,[3] processing, and legal review.

Table 2 Estimated Processing Days per Department

Department	Home Loan Applications	Business Loan Applications
Application Intake	2	2
Loss Verification	4	5
Loan Officer Processing	6	9
Legal Review	2	2
TOTAL	**14**	**18**

Source: Information provided by the SBA Processing and Disbursement Center

We found that the methodology used by the SBA did not result in an accurate reflection of the amount of time it took to process a disaster loan. When calculating disaster loan processing times, the SBA included applications that were automatically declined by the Disaster Credit Management System (DCMS) as a result of the applicant's lower than acceptable credit score. It also included applications that were rejected by SBA staff based on the applicant's credit or repayment ability, or ineligible property. These applications were rejected prior to loss verification, processing, and legal review, which can account for approximately 86 percent of home loan processing time and 89 percent of business and economic injury loan processing time.

According to DCMS data, for the six-year period from FY 2008 through FY 2013, the average processing time for an automatically declined application was 1.92 days.[4] The average processing time for applications declined before loss verification was 2.39 days.[5] These two types of declined applications accounted for approximately 40 percent of the disaster loan applications the SBA processed in the six year period from FY 2008 through FY 2013. The SBA considered it appropriate to include these applications in its processing time computation because the applications were processed to a decision.

[2] We determined the SBA met its processing time goals for home loans FY 2010, FY 2011, and FY 2012. We also determined the SBA did not meet its goals for home loans for FY 2008, FY 2009, or FY 2013.
[3] Loss Verification is the process during which an SBA representative physically inspects the applicant's damaged property and verifies the amount needed to repair or replace disaster-damaged property.
[4] The figure is an average for the period and is not a weighted average.
[5] The figure is an average for the period and is not a weighted average.

However, by including these minimally processed applications, the average processing time appeared to be significantly less and therefore, the SBA presented an average processing time in the annual CBJ that was unattainable for the majority of disaster loans it processed.

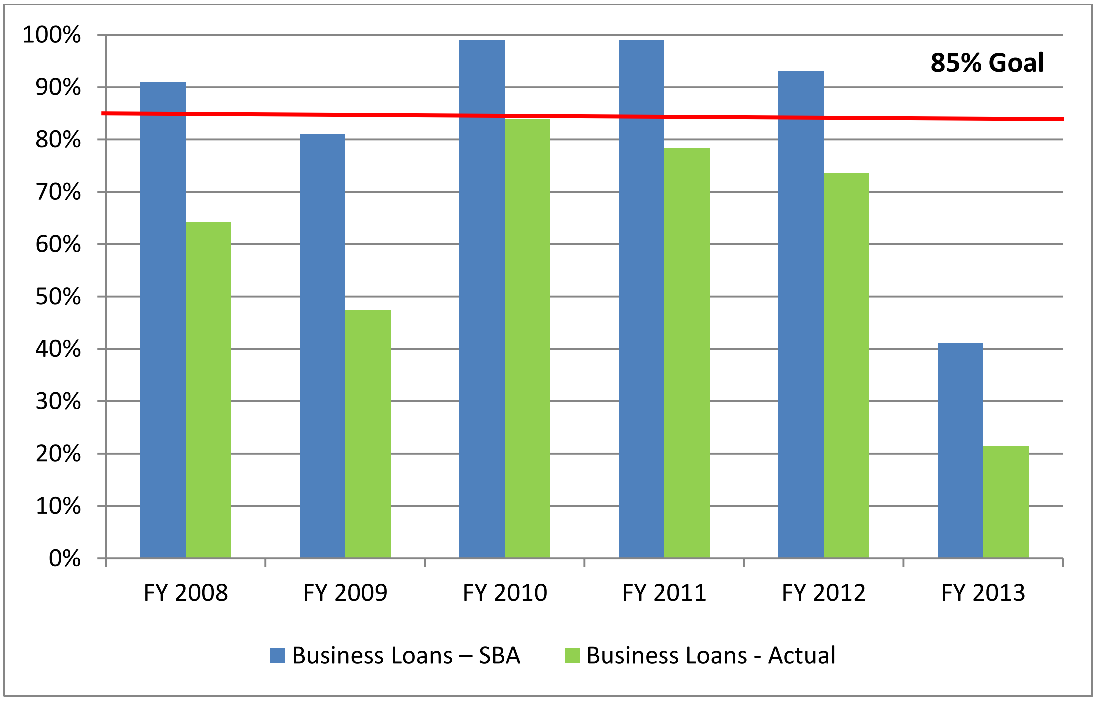
The SBA did not need to apply its goal of processing 85 percent of applications received within various standard processing times to the auto and pre-LV declined applications. Historically, between FY 2008 and FY 2013, these types of decisions took between 1.92 days and 2.39 days to process. The SBA's standard processing time for home loan applications fluctuated between 10 and 27 days from FY 2008 to FY 2013. Its standard processing time for business and EIDL applications fluctuated between 16 and 30 days during this period. Because the average processing time for automatically declined and pre-LV declined decisions was approximately two days, the goal to process 85 percent of applications within the standard processing times was not relevant to these types of decisions.

Standard loan processing took significantly longer than applications automatically declined or those rejected prior to loss verification. We believe the SBA was successful in increasing program efficiency through the use of automatic declinations and rejections prior to loss verification. However, including the processing time for these minimally processed applications in its average processing times distorted the actual time needed to fully process the majority of disaster loan applications. As a result, eligible applicants and oversight officials did not have a realistic estimate of how long it would take staff to perform standard processing for loan applications. Reporting the processing time for applications automatically declined or rejected prior to loss verification separately from applications that required standard processing, provides a more accurate indication of processing time performance for applications that require standard processing.

The SBA's reported processing time also did not include all the time spent on an application that had been previously submitted and withdrawn, but later reaccepted. In such instances, the SBA only used the time elapsed between the last reacceptance and the decision date. This methodology did not account for all staff hours spent processing the same loan application; therefore, in our view it is not an accurate representation of the true processing time.

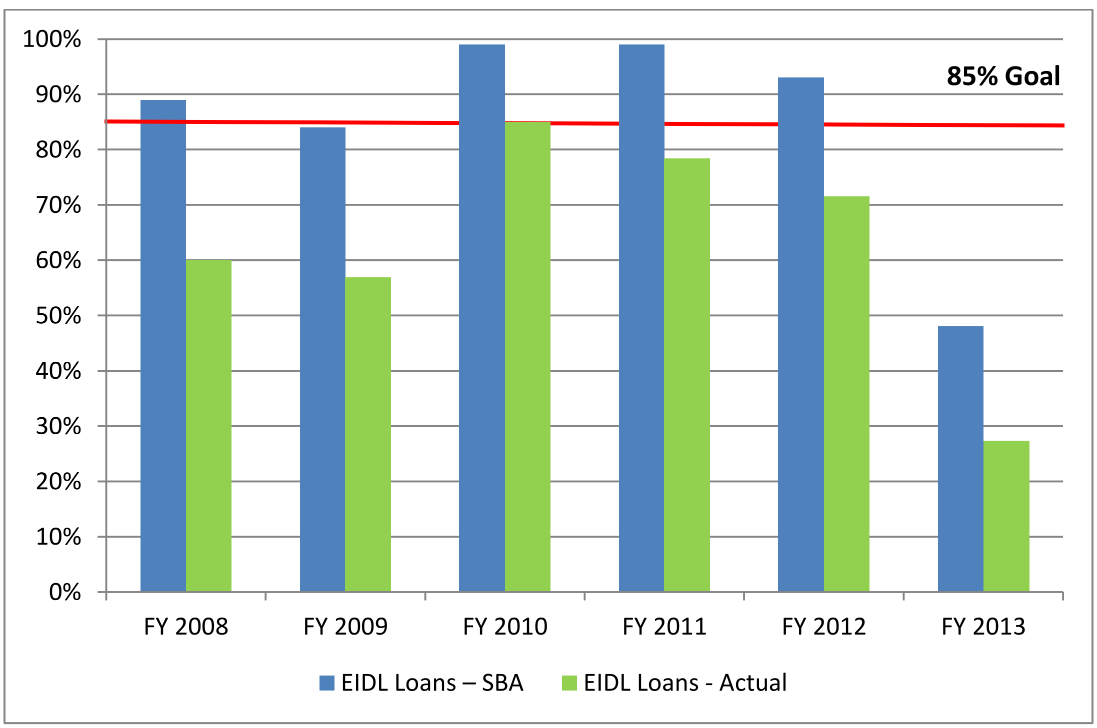
As shown in the graphs below, the SBA's processing time goal attainment reported in the FY 2015 CBJ compared to actual goal attainment, as computed by the OIG, differed significantly for each type of loan.

Graph 1 - Reported vs. Actual Processing Times - Business Loans



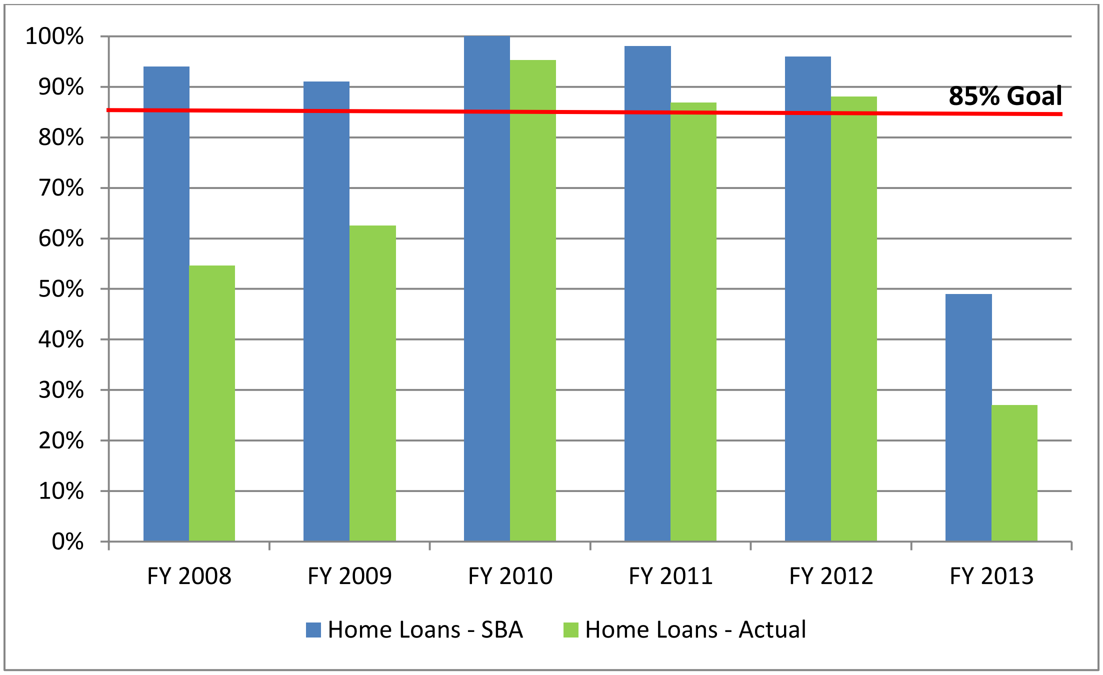
Source(s): (1) FY 2015 Congressional Budget Justification and FY 2013 Annual Performance Report
(2) OIG calculation of processing time performance based upon disaster loan application data extracted from DCMS.

Graph 2 - Reported vs. Actual Processing Times - EIDLs



Source(s): (1) FY 2015 Congressional Budget Justification and FY 2013 Annual Performance Report
(2) OIG calculation of processing time performance based upon disaster loan application data extracted from DCMS.

Graph 3 - Reported vs. Actual Processing Times – Home Loans



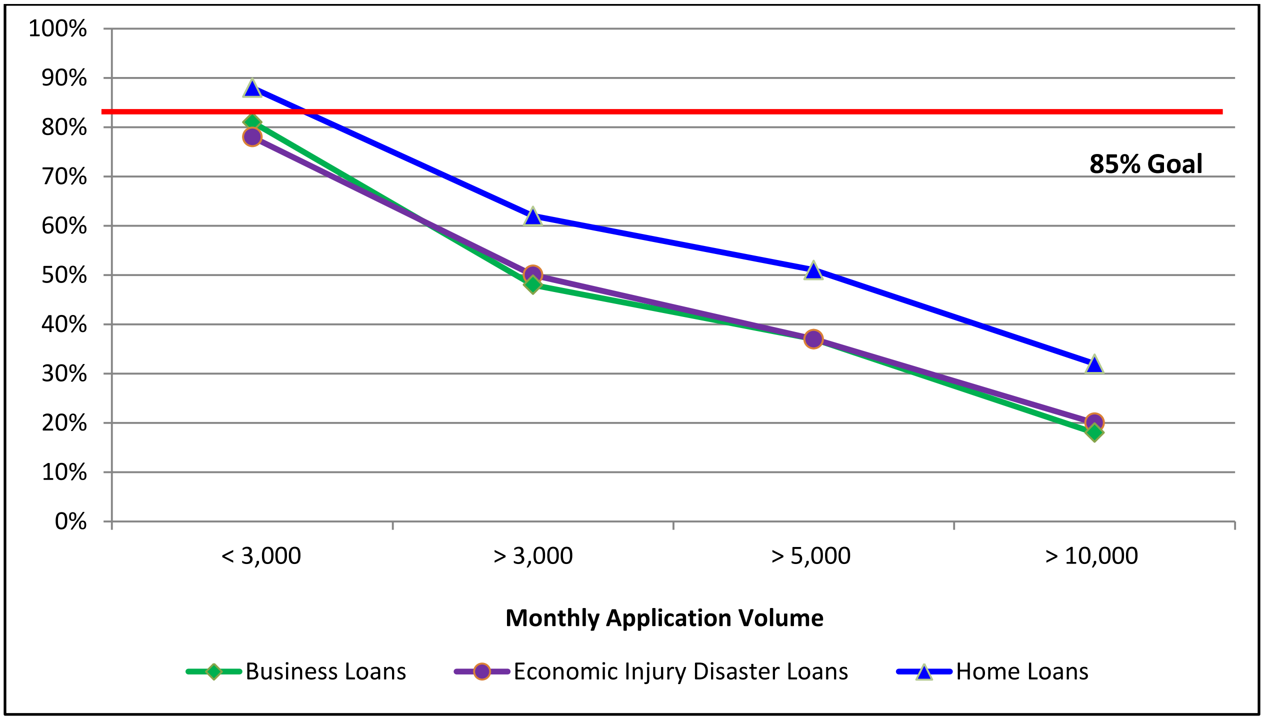
Source(s): (1) FY 2015 Congressional Budget Justification and FY 2013 Annual Performance Report
(2) OIG calculation of processing time performance based upon disaster loan application data extracted from DCMS.

Finding 2: The SBA's Processing Time Goals Were Not Always Achieved during Periods of High Application Volume

For FY 2013, the SBA set processing time standards of 27 days for home loan applications and 30 days for business loans and EIDLs. The SBA's goal was to process 85 percent of the disaster loan applications within these standards. These standards were included in the agency's CBJ and Annual Performance Report. In its FY 2013 Disaster Preparedness and Recovery Plan, the SBA reported that it could process up to 100,000 disaster loan applications using its "routine on-board strength, operations processes, and infrastructure capacity within its performance goal of 21 days (from receipt of the application to decision)." While the two documents provided different processing time standards, the SBA generally did not meet its goals for business loans and EIDLs for either time standard.

We also found that the SBA's processing time goals were not always attainable during periods of high application volume. Based upon our analysis, from FY 2008 to 2013, when the SBA received over 3,000 applications per month, it began to significantly fall short of its processing time goals. We adjusted the processing times by removing applications automatically declined by DCMS as a result of the applicant's lower than acceptable credit score and those quickly rejected through an abbreviated manual review or due to ineligible property. We also included the full processing time for applications with withdrawals and reacceptances. When we calculated the final processing times, the higher the application volume rose, the less frequently the SBA met its processing time goals as seen in the graph below.

Graph 4 - Processing Time Goal Attainment at Various Application Volumes



Source: Disaster loan applications received and processed to a decision between FY 2008 and FY 2013, extracted from DCMS, excluding automatically declined and pre-loss verification declined applications and including all processing time for loans withdrawn and reaccepted.

The SBA did not consider potential increases in loan application volumes when establishing its disaster loan processing time standards. Rather, the Agency established one standard in its CBJ for each loan type, regardless of application volume. However, our analysis found that application volume significantly impacted the amount of time the SBA needed to fully process loan applications. The SBA cannot anticipate the volume of disaster activity that may occur, however, disaster loan processing time is highly dependent upon application volume. Therefore, if the SBA were to provide estimated processing standards based upon various levels of disaster activity, stakeholders would have more realistic estimates of anticipated disaster loan processing time. Providing only one standard for processing time, regardless of the application volume, does not inform users of the expected processing time when a higher volume of applications is received as a result of greater disaster activity.

Because the SBA did not consider the impact of loan application volume when creating its disaster loan processing time standards, it was unable to provide accurate estimates of anticipated loan processing time to disaster victims, Congress, and the public. Agency officials stated that they recognize the need to improve the ability to provide more realistic expectations regarding disaster loan application processing time when it receives higher than normal loan application volumes.

Conclusion

The SBA generally did not meet its processing time goals for disaster loans and its methodology of calculating application processing time did not provide eligible applicants and oversight officials with a realistic estimate of how long it would take staff to process loan applications. Additionally, the SBA's processing time goals were not always attainable during periods of high application volume, as the SBA was generally unable to meet its processing time goals when the application volume exceeded 3,000 applications per month. We believe the SBA could better manage the expectations of disaster victims and other stakeholders by revising its methodology for computing disaster loan processing times to more accurately reflect the time needed to fully process a disaster loan to a final decision. Providing anticipated processing times for various application volumes would also contribute to managing expectations of those who rely upon the SBA to accurately estimate and report disaster loan processing times.

Recommendation(s)

1) Report the processing time for automatically declined applications and pre-loss verification declined applications separately from applications that require more extensive processing, rather than continue averaging these processing times together.

2) Establish and report disaster loan processing time goals based on actual average processing times, net of automatically declined and pre-loss verification declined applications. Additionally, we recommend the established goals also consider the full processing time for all applications with withdrawals that had reacceptances.

3) Establish processing time standards for different application volumes based on historical performance, and include anticipated processing time standards for a range of possible application volumes in the annual Congressional Budget Justification and Annual Performance Report.

Agency Comments and OIG Response

On May 21, 2014, we provided a draft copy of this report to SBA management for comment. On June 19, 2014, SBA management provided a formal response, which is included in its entirety in Appendix II. A summary of management's comments and our response follows.

The SBA agreed with one recommendation, partially agreed with one recommendation and disagreed with one recommendation. The SBA management stated it has already established approximate processing time standards for a range of possible application volumes, which are included in the most recent update of ODA's Disaster Playbook and will be included in the 2014 Disaster Preparedness and Recovery Plan. Furthermore, management agreed to work with OCFO to include those standards in the Congressional Budget Report and Annual Performance Plan.

The SBA management partially agreed with the OIG recommendation to establish and report disaster loan processing time goals based on actual average processing times. The SBA management agreed to explore whether there is a way to consider "reaccepted withdrawals" without double counting time already spent on the application. However, management did not agree to establish and report average processing time goals net of auto and pre-LV decline actions. Management stated the auto and pre-LV decline actions represent a key portion of ODA's loan volume; therefore, removing them would result in a misrepresentation of ODA's actual performance outputs, outcomes and overall efficiency of operations.

The Agency management disagreed with the OIG recommendation to report the processing time for automatically declined applications and pre-loss verification declined applications separately from applications that require more extensive processing, rather than continue averaging these processing times together. Management stated that ignoring the processing time for auto and pre-LV decline actions would present an incomplete picture of ODA's performance. The ODA will continue its consistent reporting of average processing times for applications, including auto and pre-LV declined applications.

Recommendation 1 - **Report the processing time for automatically declined applications and pre-loss verification declined applications separately from applications that require more extensive processing, rather than continue averaging these processing times together.**

Management Comments (*Verbatim)*

ODA disagrees with this recommendation. We believe it is important to continue to include all processed applications when calculating and reporting average processing times. The methodology used by OIG to arrive at its recommendation to exclude auto and pre-LV declines from the average processing time calculation is flawed because it would result in an inaccurate representation of ODA's full performance. ODA places great importance on the collection and analysis of disaster-related data and on the integrity of that data. The methodology applied is based on the time it takes to process an approval, decline or withdrawal action, which involves one or more of the following loan processing functions: application intake, loss verification, processing and legal review. Ignoring the processing time for auto and pre-LV decline actions would present an incomplete picture of ODA's performance. ODA will continue its consistent reporting of average processing times for applications, including auto and pre-LV declined applications.

As an alternative to the OIG recommendation, ODA would agree to make available upon request the processing times of auto declines, pre-LV declines, and all other applications processed. ODA also will continue to enhance its communications efforts to disaster survivors and stakeholders to ensure awareness of estimated processing times.

OIG Response

The SBA's FY 2015 Congressional Budget Justification and Annual Performance Report included a strategic goal to ensure disaster assistance could be deployed quickly, effectively, and efficiently in order to preserve jobs and help return small businesses to operation. The SBA's processing time goals are intended to ensure that the SBA quickly, effectively and efficiently provides disaster loans. We recognize the efficiencies realized with auto and pre-LV declines; however, we believe including them in average processing times does not present a realistic estimate for qualified applicants.

The SBA is using the auto and pre-LV decline to quickly process applications submitted by unqualified applicants within approximately two to three days. It is the remainder of the applicant population, however, who would benefit from a more accurate estimate of the anticipated processing time. Including the auto and pre-LV declined applications distorts the average processing time for the qualified applicants.

Management's comments were not responsive to recommendation one. The alternative the ODA suggested, which is to make available, upon request, the processing times of auto declines, pre-LV declines, and all other applications processed, does not satisfy the need to accurately measure and report its processing time performance, relative to the established processing time goals. This recommendation is unresolved and open.

Recommendation 2 - Establish and report disaster loan processing time goals based on actual average processing times, net of automatically declined and pre-loss verification declined applications. Additionally, we recommend the established goals also consider the full processing time for all applications with withdrawals that had reacceptances.

Management Comments *(Verbatim)*

ODA partially agrees with this recommendation. ODA agrees to explore whether there is a way to consider "reaccepted withdrawals" without double counting time already spent on the application.

ODA does not agree to establish and report average processing-time goals net of auto and pre-LV decline actions. The auto and pre-LV decline actions represent a key portion of ODA's loan volume; therefore, removing them would result in a misrepresentation of ODA's actual performance outputs, outcomes and overall efficiency of operations.

OIG Response

Management's response did not address the OIG's recommendation for the SBA to develop processing time goals based upon historical performance and actual average processing times. If the SBA's current processing time goal is, in fact, 27 days for home loan applications and 30 days for business loan applications, these goals should be based upon historical performance. During the audit, we requested an explanation of the basis of the processing time performance goals; however, SBA management did not provide written support for how these goals were established. These goals did not appear to be based upon historical performance. We believe, in the absence of other factors, historical performance should be used as the basis for establishing future goals.

We understand that the SBA does not wish to report average processing times for auto-declines and pre-LV declines separately from overall average processing time. However, as stated in our response to management's comments to recommendation number one above, in order for the SBA to measure and report its success in delivering quick, efficient disaster assistance, we believe that the average time to automatically decline applications must be segregated from the time to successfully process applications that ultimately provide disaster assistance.

Management's comments were only partially responsive to recommendation two. This recommendation is unresolved and open.

Recommendation 3 - Establish processing time standards for different application volumes based on historical performance and include anticipated processing time standards for a range of possible application volumes in the annual Congressional Budget Justification and Annual Performance Report.

Management Comments *(Verbatim)*

ODA agrees with this recommendation. ODA has already established approximate processing time standards for a range of possible application volumes, which are included in the most recent update of ODA's Disaster Playbook and will be included in the 2014 *Disaster Preparedness and Recovery Plan*. ODA agrees to work with OCFO to include those standards in the CBJ and APR.

OIG Response

Management's comments were responsive to recommendation three. This recommendation is resolved and will remain open until the newly established processing time standards are included in the Congressional Budget Justification and Annual Performance Report. The agency's anticipated target date for final action is December 31, 2014.

Appendix I: Scope and Methodology

The scope of the audit was limited to a review of the accuracy and attainability of disaster loan processing time goals from FY 2008 to FY 2013, as published in the annual Congressional Budget Justification and Annual Performance Reports.[6] To achieve the audit objectives, we obtained raw data from the Disaster Credit Management System (DCMS) Operations office. The data contained a comprehensive list of all disaster loan applications with a loan approval or denial decision between January 1, 2007, and December 31, 2013. We used the data from FY 2007 to determine the beginning inventory of loans as of October 1, 2008, by identifying the decision date for each application and eliminating applications that were processed to a decision prior to October 1, 2008. We then computed the average monthly and annual processing times for each of the three primary types of disaster loans: home, business and EIDL, based upon the date each application was received.

We computed the total monthly and annual processing time for each of the three loan types excluding the processing time for applications automatically declined by DCMS and for applications quickly rejected prior to loss verification. In addition, for applications previously withdrawn and reaccepted, we added all of the time the SBA had the loan available for processing each time the loan was reaccepted. We determined the average processing time for the loans based upon the date the application was originally accepted by the SBA. We compared the SBA's actual performance related to achieving processing time goals as stated in the SBA's annual Congressional Budget Justification and Annual Performance Report to its performance as we calculated it based upon our revised methodology.

We also computed the average annual processing time for applications that were automatically declined and those that were quickly rejected prior to loss verification.

Additionally, we sorted the data containing the list of applications based upon monthly application volume received and determined the average processing time for various application volumes. We then compared the average processing time at various application volumes to the applicable goal and identified whether or not the SBA met its goal for specific application volumes.

During our audit survey work, we performed site visits at the Fort Worth Processing and Disbursement Center and interviews with Loan Officers and Senior Loan Officers who processed Hurricane Sandy disaster loans. Finally, we interviewed key officials from the Office of Disaster Assistance regarding processing standards and goals for Hurricane Sandy and for fiscal years prior to Hurricane Sandy.

Use of Computer-Processed Data

We relied on data provided by the DCMS Operations office that was generated from DCMS. The DCMS Operations office identified the disaster loan applications received between January 1, 2007, and December 31, 2013, which were processed to a final loan decision. We believe the information is reliable for the purposes of this audit.

[6] We reviewed the FY 2013, FY 2014 and FY 2015 Congressional Budget Justification and Annual Performance Reports, which collectively, included targeted and actual standards and goals for processing-time performance for FY 2008 through FY 2013.

Prior Coverage

U.S. Government Accountability Office Audit Reports

Report GAO-06-860, Small Business Administration, *Additional Actions Are Needed to Provide More Timely Disaster Assistance*, issued July 2006.

Report GAO-07-114, Small Business Administration, *Additional Steps Needed to Enhance Agency Preparedness for Future Disasters*, issued February 2007.

Report GAO-07-1124T, Small Business Administration, *Response to the Gulf Coast Hurricanes Highlights Need for Enhanced Disaster Preparedness,* issued July 25, 2007.

Report GAO-09-755, Small Business Administration *Additional Steps Should Be Taken to Address Reforms to the Disaster Loan Program and Improve the Application Process for Future Disasters*, issued July 2009.

Report GAO-10-735T, Small Business Administration *Continued Attention Needed to Address Reforms to the Disaster Loan Program*, issued May 19, 2010.

Small Business Administration-Office of Inspector General Reports

Audit Report 13-10, *The Small Business Administration Did Not Effectively Assess Disaster Assistance Staffing Requirements, Availability, and Readiness,* issued January 25, 2013.

Appendix II: Management Comments

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

Date:	June 19, 2014
To:	Robert A. Westbrooks Deputy Inspector General
From:	James E. Rivera Associate Administrator Office of Disaster Assistance
Subject:	OIG Draft Report – Improving Accuracy of Performance Reporting to Better Manage Disaster Loan Processing Time Expectations (Project No. 13801)

We have reviewed the OIG Draft Report. The objectives of this audit were to determine whether the SBA met its processing time goals for disaster loans and whether the published goals were attainable.[7] Thank you for the opportunity to respond to the Draft Report.

The mission of the SBA Disaster Loan Program is to help disaster survivors recover from disasters and rebuild their lives by providing affordable and timely financial assistance to businesses, homeowners and renters. Consistent with the mission to provide affordable and expedient disaster assistance, SBA remains committed to providing assistance quickly and effectively, in recognition of the significant stress and other challenges the disaster communities and survivors are experiencing at the time.

The audit report concludes that (1) *The SBA Generally Did Not Meet Its Disaster Loan Processing Time Goals for Business Loans and EIDLS* and (2) *The SBA's Processing Time Goals Were Not Always Achieved During Periods of High Application Volume*. As discussed in greater detail below, SBA's Office of Disaster Assistance (ODA) disagrees with OIG's conclusions and the underlying assumptions and methodologies used to reach those conclusions.

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[7] The original objective of this audit was to determine whether the approval rates for Superstorm Sandy were consistent with other major disasters. However, this objective was changed after the OIG determined that ODA's Superstorm Sandy approval rates exceeded approval rates for other major disasters.

The SBA Generally Did Not Meet Its Disaster Loan Processing Time Goals for Business Loans and EIDLS

We strongly disagree with the OIG's conclusion that the SBA generally did not meet its disaster loan processing time goals from FY 2008 to FY 2013. Furthermore, we believe the OIG report misrepresents SBA's performance and overall efficiency of operations.

SBA places great importance on the collection and analysis of disaster-related data and on the integrity of that data. The methodology currently employed by SBA in its calculation of disaster loan processing times, which includes auto and pre-LV declined applications, provides a complete and accurate reporting to Congress and other oversight officials of loan processing performance. The methodology applied is based on the time it takes to process an approval, decline or withdrawal action, which involves one or more of the following loan processing functions: application intake, loss verification, processing and legal review. Under that methodology, SBA generally did meet its disaster loan processing time goals from FY 2008 through FY 2012.

We are concerned that the methodology used by the OIG to determine average processing time fails to recognize the processing time for auto and pre-LV declined applications. SBA does not omit auto and pre-LV declines when measuring loan processing time goals because doing so would result in an incomplete and inaccurate representation of SBA's full performance. While auto and pre-LV declined applications require less time to reach a loan decision and do not advance to loss verification, they are a fundamental part of the overall process. The loan processing performance metric measures how well the entire process is performing; it is not limited to select loan processing functions.

Further, we strongly disagree with the OIG report when it states that standard processing times were not relevant to these types of decisions (auto and pre-LV declines). These types of applications represent loan volume and go through the application intake process and advance either to pre-LV (auto-decline or review), loss verification or to loan processing. The pre-LV review process requires a Supervisory Loan Officer (SLO) to review applications, make needed data corrections that may overcome the decline code(s), and confirm or override the decline if warranted. Auto and pre-LV declines are processed faster and the streamlined decisions result in less work for the applicant and minimize unnecessary file aging. Streamlined decisions enable ODA to accomplish its mission to provide affordable and expedient disaster assistance while managing costs and expediting declined applicant referrals to grant providers. We believe removing auto and pre-LV declines from SBA's performance reporting would substantially distort ODA's performance outputs and outcomes.

Processing time performance goals were generally not achieved beyond certain application volume levels

We strongly disagree with OIG's assertion that SBA "began to significantly fall short of its processing time goals" when we received over 3,000 applications per month. The OIG analysis is incomplete and misleading because it omits a significant portion of loan volume in auto and pre-

LV declines where SBA exceeds the performance standards. It should also be noted that OIG's report is misleading when it claims "the SBA did not consider the impact of loan application volume when creating its disaster loan processing time standards." OIG neglected to use SBA's performance standards which were adjusted to account for increased loan volume. OIG calculations are based on a 14 and 18 day standard for home and business loan processing, respectively; however, we advised OIG during their audit field work that SBA adjusted its FY 2013 standards to 27 and 30 days due to the high application volume generated by Superstorm Sandy. The *FY 2015 Congressional Budget Justification (CBJ) and FY 2013 Annual Performance Report*, referenced in OIG's report, clearly explains that the 14 and 18 day standards are based on a normal year's activity of 40,000 home, 10,000 business and 2,000 EIDL loan applications; however, in FY 2013 we processed over 96,000 home, 15,500 business and 3,200 EIDL loan applications.

SBA is committed to improving communication to disaster survivors. We believe, however, that OIG's recommendation to include anticipated processing time standards for a range of possible application volumes in the CBJ in order to provide more accurate estimates to disaster survivors is misguided. This approach would require that disaster survivors know the volume of applications SBA is currently processing before looking up the corresponding number of days to process. Publishing volume-based processing time standards in performance reports as a way to communicate expected processing times to disaster survivors is not an effective solution. Instead, SBA has made improvements to communication with disaster survivors using a more focused and targeted approach. We recently implemented a new "Three Step Process" messaging strategy that communicates to disaster survivors that, for most disasters, it may take up to 2-3 weeks to reach a loan decision. The new messaging strategy allows for flexibility to accommodate fluctuating application volume.

Internal Controls

We strongly disagree with the OIG's assertion that there were limited internal controls in place to ensure timely disaster loan processing, to ensure adherence to the processing-time standards or to implement specific planned corrective actions when the SBA began to miss its defined processing-time goals.

As discussed with the OIG on several occasions, ODA did identify weaknesses in the management of disaster loan processing related to meeting established time standards and addressed those weaknesses throughout the Superstorm Sandy response by making adjustments to its processes through corrective actions. In fact, it was because of the internal controls already in place (e.g., monitoring of daily production reports, daily meetings with the PDC management to discuss production, staffing, and technical issues, bi-weekly meetings with all Center Directors to discuss cross organizational issues) that ODA was able to identify weaknesses early on.

To address the challenges we experienced during Superstorm Sandy, and in an effort to continually improve efficiency and effectiveness for future disasters, we developed and implemented process improvements. The following significant improvements were implemented soon after we determined that adjustments needed to be made to our processes:

- We created distinct processing tracks for home and business loans, including routing loan applications eligible for RAPID processing.
- We improved the workflow for receiving Electronic Loan Applications.
- We developed new or improved metrics for all frontline positions that affect file aging, including application intake, loss verification, and loan processing.
- We established new processes to identify and mitigate system performance issues in Disaster Credit Management System.

We also identified and addressed through regulatory changes additional process improvements as follows:

- We amended SBA regulations to increase the unsecured loan limits from $14,000 to $25,000 on physical damage loans in Presidential-IA disaster declarations and up to $25,000 on EIDL loans for all declarations.
- We amended SBA regulations to allow for an expedited approval process (RAPID) for both home and business loans.

These process improvements were developed and implemented by cross organizational teams and will significantly improve the delivery of services to disaster survivors.

We have the following technical comments on statements in the Draft Report:

<u>Draft Report – Comments</u>

Page 2, Paragraph 5
"On October 29, 2012, Hurricane Sandy made landfall in southern New Jersey. The massive storm affected several states along the east coast. Subsequently, the President issued thirteen major disaster declarations for Hurricane Sandy. The SBA processed 122,798 disaster loan applications in FY 2013, with approximately 85,356 applications (70 percent) related to Hurricane Sandy. This was more than double the number of applications processed in each of the preceding years."

Agency Response: The above statement is not accurate. In connection with Superstorm Sandy, the President issued major disaster declarations for individual assistance for four states and SBA issued five additional Agency declarations. Furthermore, to correct the numbers in the Draft Report, please reflect that SBA processed 115,057 disaster loan applications in FY 2013, not 122,798, with approximately 85,356 applications (74 percent) related to Superstorm Sandy.

Page 2, Paragraph 6
"According to a May 2013 report by Ranking Member Nydia M. Velázquez (D-NY) of the House Committee on Small Business, 'homeowners and businesses impacted by Sandy experienced processing delays of 30 days and 46 days, respectively' According to this report, business loan approval rates were also down compared to previous disasters."

Agency Response: The report referenced is based on loan activity through March 2013 and is being compared to past disasters, but the physical deadlines for Superstorm Sandy ended on April 13, 2013 for New York and on May 1, 2013 for New Jersey. The low business approval rates referenced in the above referenced report rose from 24 percent, at the time of the report, to 42 percent, which would rank Superstorm Sandy as one of the highest when compared to past disasters…the exact opposite of what is stated in the report.

Page 4, Paragraph 1
"According to our analysis, the SBA was generally unable to meet its disaster loan processing time performance goals."

Agency Response: We strongly disagree with the OIG finding that SBA was generally unable to meet its disaster loan processing time performance goals from FY 2008 through FY 2012. As discussed above, OIG may not agree with the methodology ODA uses to calculate processing times; however, ODA has been consistent as to that methodology and it is not appropriate for OIG to create a new methodology and measure ODA's performance against it retroactively.

Page 4 Paragraph 1- last sentence
"Averaging the short processing time for auto and pre-LV declined applications together with the longer processing times distorted the average processing time for 60 percent of loan applications that were subjected to standard processing."

Agency Response: We do not omit auto and pre-LV declines from our average processing or cycle time calculation because doing so would result in an incomplete and inaccurate representation of SBA's full performance. SBA's performance measure takes into account all types of processing decisions regardless of whether they are faster auto decline decisions or longer, more complex loan processing decisions.

Page 4 Paragraph 2
"By employing this methodology, the SBA's reported performance did not clearly communicate to applicants, Congress, and other oversight officials how long it took to process the majority of the disaster loan applications received."

Agency Response: We strongly disagree with OIG. We have been consistent and transparent in our communications to applicants, Congress and other oversight officials. The methodology currently employed by SBA in its calculation of disaster loan processing times, which includes auto and pre-LV declined applications, provides an accurate report of ODA's loan processing performance. Our methodology is based on the time it takes to process an approval, decline or withdrawal action, which involves one or more of the following loan processing functions: application intake, loss verification, processing and legal review. While auto and pre-LV declines require less time to reach a loan decision and do not advance to loss verification, SBA still incorporates these actions in its reporting to Congress and oversight officials in order to report our full performance accurately.

With regard to disaster survivors, SBA firmly believes that consistent messaging through direct communications and targeted outreach is the best strategy to effectively communicate how long it will take to process disaster loan applications. Regular performance reports to Congress and other oversight officials are used to report SBA's past performance; they are not an effective tool for communicating "expected" cycle times to disaster survivors. In response to the lessons learned during Superstorm Sandy, SBA launched a new "Three-Step Process" communications strategy that communicates a consistent message to the public. SBA communicates to applicants, either directly or indirectly through traditional news media and online channels, that it could take up to 2-3 weeks to reach a loan decision for most disasters. The new communication strategy allows for more flexibility during times of higher loan volume.

OIG Recommendations and Agency Response

1) *Report the processing time for automatically declined applications and pre-loss verification declined applications separately from applications that require more extensive processing, rather than continue averaging these processing times together.*

ODA Response: ODA disagrees with this recommendation.
We believe it is important to continue to include all processed applications when calculating and reporting average processing times. The methodology used by OIG to arrive at its recommendation to exclude auto and pre-LV declines from the average processing time calculation is flawed because it would result in an inaccurate representation of ODA's full performance. ODA places great importance on the collection and analysis of disaster-related data and on the integrity of that data. The methodology applied is based on the time it takes to process an approval, decline or withdrawal action, which involves one or more of the following loan processing functions: application intake, loss verification, processing and legal review. Ignoring the processing time for auto and pre-LV decline actions would present an incomplete picture of ODA's performance. ODA will continue its consistent reporting of average processing times for applications, including auto and pre-LV declined applications.

As an alternative to the OIG recommendation, ODA would agree to make available upon request the processing times of auto declines, pre-LV declines, and all other applications processed. ODA also will continue to enhance its communications efforts to disaster survivors and stakeholders to ensure awareness of estimated processing times.

2) *Establish and report disaster loan processing-time goals based on actual average processing times, net of automatically declined and pre-loss verification declined applications. Additionally, we recommend the established goals also consider the full processing time for all applications with withdrawals that had reacceptance.*

ODA Response: ODA partially agrees with this recommendation.
ODA agrees to explore whether there is a way to consider "reaccepted withdrawals" without double counting time already spent on the application.

ODA does not agree to establish and report average processing-time goals net of auto and pre-LV decline actions. The auto and pre-LV decline actions represent a key portion of ODA's loan volume; therefore, removing them would result in a misrepresentation of ODA's actual performance outputs, outcomes and overall efficiency of operations.

3) *Establish processing-time standards for different application volumes based on historical performance and include anticipated processing time standards for a range of possible application volumes in the annual Congressional Budget Justification and Annual Performance Report.*

ODA Response: ODA agrees with this recommendation.
ODA has already established approximate processing time standards for a range of possible application volumes, which are included in the most recent update of ODA's *Disaster Playbook* and will be included in the 2014 *Disaster Preparedness and Recovery Plan*. ODA agrees to work with OCFO to include those standards in the CBJ and APR.