



**U.S. SMALL BUSINESS ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL  
Washington, DC 20416**

<b>AUDIT REPORT</b>
<b>ISSUE DATE: FEBRUARY 15, 2001</b>
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**TO:** Herbert L. Mitchell, Associate Administrator,  
Office of Disaster Assistance  
Jane P. Butler, Associate Administrator, Office of Financial Assistance  
Theodore R. Wartell, Director, Office of Policy

**FROM:** Robert G. Seabrooks,  
Assistant Inspector General for Auditing

**SUBJECT:** Final Audit Report - Results Act Performance Measurement for  
the Disaster Assistance Program

Attached is a copy of the final audit report. The report contains one finding and four recommendations. Management replies were responsive to three of the four recommendations. Management responses are synopsised in the report and included verbatim as Attachment C.

The findings in this report are the conclusion of the Office of the Inspector General Auditing Division based upon the auditors testing of the auditee's operations. The finding and recommendations are subject to review and implementation of corrective action by your office in accordance with existing Agency procedures for audit follow-up and resolution.

Please provide your management response to the recommendations within 30 days from the date of this report on the attached SBA Forms 1824, Recommendation and Action Sheet.

Should you or your staff have any questions or wish to discuss the issues further, please contact Garry Duncan, Director, Credit Programs Group at 202-205-7732.

**AUDIT REPORT**  
**RESULTS ACT**  
**PERFORMANCE MEASUREMENT**  
**FOR THE**  
**DISASTER ASSISTANCE PROGRAM**  
**AUDIT REPORT NUMBER 1-06**

**February 15, 2001**

**The findings in this report are the conclusion of the OIG's Auditing Division based on testing of SBA operations. The findings and recommendations are subject to review, management decision, and corrective action in accordance with existing Agency procedures for follow-up and resolution. This report may contain proprietary information subject to the provisions of 18 USC 1905 and must not be released to the public or another agency without permission of the Office of Inspector General.**

**AUDIT REPORT  
RESULTS ACT PERFORMANCE MEASUREMENT  
FOR THE  
DISASTER ASSISTANCE PROGRAM**

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## Summary

In late 1998, Congressional leaders requested that Inspectors General review how effectively their agencies were measuring performance under the Government Performance and Results Act of 1993 (Results Act) and the reliability of the underlying data. In response to these requests, the Office of the Inspector General initiated a series of audits to evaluate the performance indicators the Small Business Administration (SBA) developed for its major programs.

This report assesses whether SBA effectively implemented the performance measurement requirements of the Results Act for the disaster assistance program. In enacting the Results Act, Congress intended to improve the efficiency and effectiveness of Federal programs by establishing a system to set goals for program performance and to measure results. To implement the Results Act, agencies must prepare multiyear strategic plans, annual performance plans that include performance indicators, and performance reports. Our audit objective was to determine if SBA effectively implemented the performance measurement requirements of the Results Act for the disaster assistance program. To answer this objective, we determined if: (1) program goals and performance indicators were aligned with the mission, (2) the performance indicators focused on the results of the program in terms of efficiency and effectiveness, and (3) reliable supporting data existed.

We found that SBA had not fully implemented the performance measurement requirements of the Results Act for the disaster assistance program. Specifically, the program did not have performance indicators to determine the extent to which it accomplished its mission under the Small Business Act. Furthermore, disaster home loan currency and delinquency rates were misleading since they excluded a large portion of disaster loans and the indicator for effective field presence was not consistently applied. As a result, program officials could not measure the extent the program helped businesses and families recover from disasters, and whether the products and services were cost effectively delivered.

We recommend that the Associate Administrator for Disaster Assistance, in coordination with the Office of Policy, (i) develop an outcome indicator to measure results aligned with the statutory mission, (ii) develop an indicator to gauge program delivery costs, and (iii) consistently report disaster field staff presence. In addition, the Associate Administrator for Financial Assistance should revise the disaster loan currency/delinquency performance indicator.

SBA management replies were responsive to three of our recommendations. Their response included both short-term and long-term plans to implement the recommendations. The action management proposed for recommendation 1D was not fully responsive. The evaluation of auditee comments section of the report includes the actions SBA needs to take before recommendation 1D is considered responsive.

## INTRODUCTION

### A. Background

In 1993, Congress passed the Results Act with the objective to improve Federal program effectiveness and public accountability by promoting a new focus on results, service quality, and customer satisfaction. The Results Act is intended to improve the efficiency and effectiveness of Federal programs by establishing a system to set both long-term strategic and annual goals for program performance and to measure results. Performance indicators are contained within annual plans and are an integral part of annual reports. The Results Act also requires agencies to prepare annual reports on their performance for the previous fiscal year.

The SBA Disaster Assistance Program implements the Small Business Act, Public Law 85-536, as amended. The purpose of the program is to help businesses and families recover from disasters. SBA serves as the Federal government's disaster bank. The Office of Disaster Assistance (ODA) assesses the extent of damage, approves the loans, and disburses loan proceeds. Once the loan is fully disbursed, the Office of Financial Assistance (OFA) services the loan. Disaster loans requiring liquidation services are then transferred to a SBA District office or a liquidation center.

The ODA plans, directs, and administers the Agency's disaster assistance program. Since the inception of the program in 1953, SBA has approved 1.5 million disaster loans for over \$27 billion. In FY 1999 the program approved 36,000 loans while responding to 189 disasters. ODA implements the program through a headquarters' and four area offices.

The OFA services SBA's disaster home and business loans through six servicing centers. In addition, a contract loan agent handles servicing for 30 percent of the disaster home loans. At the end of FY 1999, the disaster loan portfolio was comprised of 270,000 loans with an outstanding loan balance of \$6.8 billion.

### B. Objectives and Scope

The objective of the audit was to determine if SBA effectively implemented the performance measurement requirements of the Results Act for the disaster assistance program. To fulfill this objective, we sought answers to three basic questions. Do the program's goals and performance indicators align with its mission? Do the performance indicators show the results of the program in terms of efficiency and effectiveness? How reliable is the supporting data?

To answer the mission alignment question, we reviewed SBA's strategic plan, the Fiscal Year 1999 and 2000 Annual Performance Plan and draft 2001 Performance Plan. A logic model was developed to identify the relationship between the mission and purpose of the disaster assistance program, its core business processes, key products, and desired program outcomes (see Appendix A). To evaluate the extent to which the performance indicators aligned with the statutory mission, we compared the indicators to the mission to ensure that each was addressed. If there was not a performance indicator for an aspect of the mission, this was considered an area for improvement.

To determine whether the performance indicators addressed the Results Act requirements (program effectiveness and efficiency), we segregated the performance indicators into the following categories:

- i) Outcomes
- ii) Customer satisfaction
- iii) Portfolio status
- iv) Cost
- v) Output/process

If a category did not have at least one performance indicator, we considered this an area for improvement.

To determine whether disaster assistance indicators were supported by reliable data, we traced reported performance measurement data back to original source documents located in the disaster loan files at Disaster area offices. In addition, we reviewed and relied upon the audit work done by SBA's independent financial statement auditors to determine the reliability of disaster loan balances and payment dates. We tested the reliability and analyzed the underlying data to determine whether it was sufficient, accurate, objective, and relevant.

Fieldwork was performed from October 1999 through August 2000. The audit was performed in accordance with generally accepted Government Auditing Standards. The outside consulting firm, Results, Inc., was retained to assist us in the audit.

## RESULTS OF AUDIT

### **FINDING Disaster Assistance Program Performance Indicators Need to be Established or Revised**

#### **Performance indicators did not measure disaster victim recovery**

Performance indicators should measure whether the disaster assistance program helps businesses and families recover from disasters. Such indicators would measure program outcome. In addition, program indicators should measure the cost of program delivery. Yet, the indicators reviewed measured only program activities and the status of the disaster loan portfolio. The indicators reviewed were:

- SBA field presence within 3 days of disaster declaration
- Loans processed within 21 days
- Home loan currency rate
- Home loan delinquency rate

The disaster program has indicators measuring program efficiency e.g., establishing field presence within 3 days of the disaster, and processing loan applications in 21 days. While we agree these output activity measures are valuable for monitoring day-to-day operations, the indicators do not measure the extent to which businesses and families were helped during disasters. The indicators also do not measure the cost of delivering loan products and services to disaster victims.

Program officials stated that many factors contribute to post disaster end outcomes, i.e., spurring employment and stabilizing the tax base. Such factors include business and homeowner insurance, assistance from the Federal Emergency Management Agency and local governments and changes in general economic conditions. We agree measuring SBA's contribution to spurring employment and stabilizing the tax base is not practical given these converging factors. In our opinion, developing intermediate outcomes are a more suitable alternative. During the audit we developed some potential intermediate outcomes that should be considered to gauge the ultimate success of the disaster program. These intermediate outcomes are presented in the Framework for Implementing the Results Act as shown in Appendix A.

A recent GAO report evaluating SBA's FY 2000 Annual Performance Plan faulted the plan's continuing focus on outputs rather than outcomes.<sup>1</sup> Our analysis reached conclusions similar to GAO's finding. The Results Act offers an alternative when program goals cannot be expressed in objective, quantifiable and measurable form. Agencies may obtain authorization from the Office of Management and Budget to use an alternative of expressing performance goals or state why it is not feasible or practical to express a performance goal in any form. SBA did not pursue these alternatives.

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<sup>1</sup> Managing for Results- Opportunities for Continued Improvement in Agencies' Performance Plans, (GAO/GGD/AIMD-99-215, July 1999)

## Need for a unit cost indicator to measure program cost

The Senate Governmental Affairs Committee wrote that, whenever possible, agencies should include performance indicators that correlate program activity with program costs. One performance indicator that draws such a correlation is cost per unit of output. OMB Circular A-11 in its general guidelines states that agencies should strive to include goals or indicators for unit costs even if only approximate costs can be estimated. Program officials have not developed a program delivery unit cost because they are unable to predict activity levels and costs required to service an unknown number and amount of disaster loans. Without a cost indicator, program management can not balance program delivery requirements against program costs.

Since program officials stated that program activity depends upon the number and the extent of disasters declared, they do not believe targeted unit cost can be achieved. However, a program unit cost calculation would provide the SBA and Congress a concise picture of program delivery cost.

The Results Act affords program officials the opportunity to explain the reasons for not achieving designated goals. As such, we believe variances from one period to another could be documented and used for future planning. Accordingly, management should develop a fixed and variable cost analysis based on historical experience.

### ➤ Illustrative example of a unit cost indicator

Following is an OIG developed illustrative example of how a unit cost base line associated with the processing of disaster loans could be used as an indicator. This example uses net applications processed as the production activity unit. Net applications processed are defined as applications received less screening and accelerated and processing declines.

Fiscal Year	Unit Cost per Net Application Processed
1994	\$752
1995	1,398
1996	1,158
1997	1,034
1998	1,227
1999	935
<b>Average</b>	<b>\$1,084</b>

The above chart illustrates unit cost variability for disaster loan processing. For Fiscal Year 1994, the year of the Northridge Earthquake, \$752 represented the program's lowest unit cost for the 1994-99 timeframe. During this period, program costs were spread over the largest number of processed applications (228,000). In contrast, for Fiscal Year 1998, only 64,000 applications were processed at a unit cost of \$1,227. This resulted in the second highest unit cost reported. Each year's disaster activity level as well as other operational factors would impact program unit cost. Accordingly, these additional factors should become a part of the unit cost story. This example illustrates how a loan processing unit cost indicator could be developed.



## **Data supporting the field presence indicator is not reported consistently**

The Senate Governmental Affairs Committee emphasizes the success of the Results Act depends on the reliability of the data. The SBA disaster field presence indicator (staff at disaster scene within 3-days of a declaration) did not consistently measure whether loan services were delivered to disaster victims in a timely manner. We found the field presence indicator was measurable, however, the underlying data was not reliable because SBA's field presence was not adequately defined nor consistently applied by disaster area offices. Without reliable and measurable data, program officials do not have the information needed to improve performance.

For FY 1999, we reviewed disaster declaration files at three of the four disaster area offices for 18 of the 69 disasters declared that required a SBA field presence. The review showed that field presence was not consistently reported because the area offices did not report field presence in the same way. Two area offices defined field presence as the date they arrived at the disaster scene, while one area office defined field presence as the date they were available to assist disaster victims. Each area office independently interpreted field presence because a definition of field presence was not provided. As a result, the indicator does not consistently measure SBA's accomplishment of the field presence goal.

## **The currency/delinquency indicators need revision**

Although program officials stated that currency and delinquency rates reflect the quality of disaster loans, the measurement of this indicator was misleading. The indicator excludes many disaster loans made by SBA. OFA officials excluded two loan categories when measuring currency and delinquency, e.g. disaster loans not serviced in SBA servicing centers and all business loans. OFA officials told us that the disaster home loan indicator included only home loans where OFA directly supervised operations. Therefore, the indicator reported only disaster home loans serviced by the four home loan servicing centers (59 percent) excluding all contract service centers and SBA District Office serviced loans. In addition, all disaster business loans (52 percent of the loan dollars) were not included in the indicator computation. Because these loans were excluded, the currency rate was overstated by 5.7 percent (95.4 versus 89.7) and the delinquency rate was understated by 1.7 percent (1.2 versus 2.9).

## **Recommendations**

We recommend that the Associate Administrator for Disaster Assistance in coordination with the Director, Office of Policy:

- 1.A** Develop program outcome indicators that measures mission results. Potential intermediate outcomes presented in the Framework for Implementing the Results Act in Appendix A should be considered.
- 1.B** Develop a fixed and variable cost analysis based on historical experience to gauge program delivery costs.
- 1.C** Consistently report field staff presence at disaster sites.

We recommend that the Associate Administrator for Financial Assistance in coordination with the Director, Office of Policy:

- 1.D** Revise the disaster loan currency/delinquency indicator to include all disaster loans.

### **Auditee Comments**

The Office of Disaster Assistance stated they are taking steps to establish specific performance indicators to measure program outcomes. In addition, they have developed a draft Activity Report that reflects expenditures (obligations) and loan production to derive a “unit cost” which represents an analysis of program costs. They have also developed a draft definition of “an effective field presence” and will be sharing this definition with the Area Directors” at the next Area Director’s meeting.

The Office of Financial Assistance stated they are in the process of proposing new performance measures which should be more reflective of activity than current agency measures. Specifically:

- disaster business loans serviced in the commercial loan servicing centers will be measured by the existing Currency and Delinquency Rate standard.
- disaster home loans serviced in the home loan servicing centers will be measured by the existing Currency and Delinquency Rate standard.
- all disaster home and commercial loans serviced by district offices should be measured separately by a currency and delinquency standard established by the Office of Field Operations.
- disaster home loans serviced by the private sector contractor (ACS) should not be measured using the same standard that is applied to SBA centers. In contrast, they believe ACS’s performance should be measured by compliance with their contract with SBA, as measured through audits, site visits, and reviews.

### **Evaluation of Auditee Comments**

ODA agreed with our finding and their planned actions are responsive to recommendations 1A, 1B, and 1C.

OFA’s planned actions for disaster loans serviced in commercial and home loan servicing centers are responsive to recommendation 1D.

OFA's response that the Office of Field Operations should develop standards for field offices and that ACS performance should be measured through audits, site visits, and reviews is not fully responsive to recommendation 1D. The OIG will consider the reply responsive if the following actions are taken:

- OFA coordinates with the Office of Field Operations to ensure appropriate standards are developed.

- The contractor's performance is measured in the same manner that SBA's performance is measured. The contract does not require measurement of currency/delinquency. The contract needs to be modified to require a comparable currency and delinquency standard as established for SBA loans. The only difference between home loans serviced by a service center and those serviced by the contractor is that contractor serviced loans are no longer under OFA control; however, the same performance measures should apply to the loans. OFA still has the responsibility to report on the currency and delinquency rates for these disaster loans. See Appendix C for the complete text of the management responses.

## **OTHER MATTERS**

### **Planned underwriting compliance indicator**

The underwriting compliance indicator (annual quality assurance review) was not objective. This review measured annual underwriting compliance based on an analysis of 400 loans, i.e., 100 loans from each of the four disaster area offices. To test the appropriateness of using this review as a Results Act performance indicator, we selected 24 of 300 loans included in the FY 1999-quality assurance review. At our request, four experienced disaster loan officers reevaluated the selected loans for underwriting compliance deficiencies. The FY 1999 quality assurance review showed that 15 underwriting errors were made for these loans. The reevaluation found 48 errors were made for the same loans. Therefore, we question whether the quality assurance review is sufficiently precise for planned use as an effective performance indicator.

### **Planned customer satisfaction indicator**

Another planned performance indicator (customer satisfaction survey) will measure satisfaction with services and products delivered through the disaster loan program. For the planned indicator to be effectively used, the following areas need strengthening.

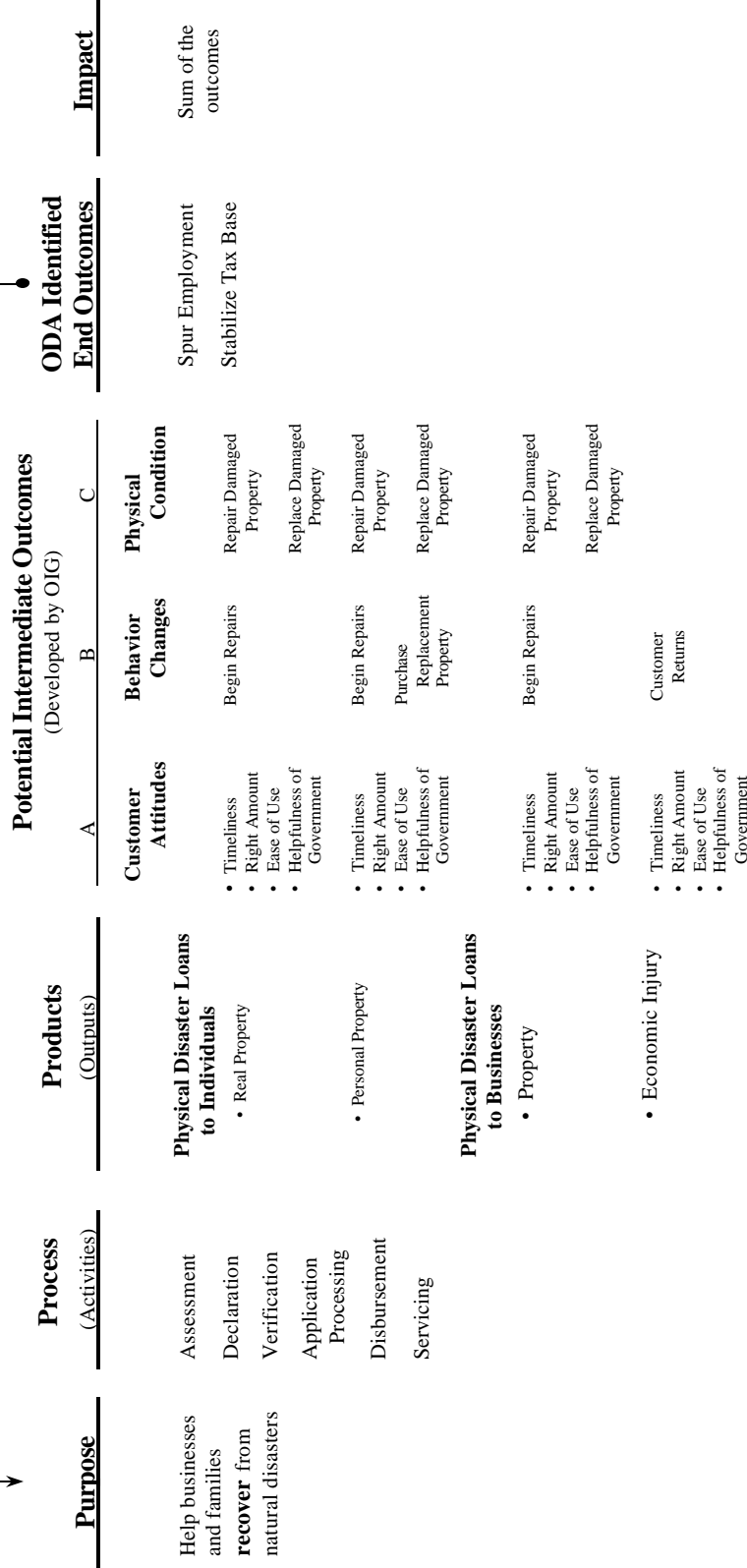
- Send the customer satisfaction survey to all disaster loan applicants instead of the current practice of sending it to only borrowers whose payments are current.
- Focus questions on customer satisfaction with the delivery of program products and services.
- Measure the degree of importance customers place on disaster loan products and services.
- Allow participants to express degrees of dissatisfaction as well as satisfaction with program services or products.

# A Framework for Implementing the Government Performance and Results Act

## Disaster Assistance Program

Needs to tie back to purpose. (When end outcomes are difficult to identify or are not cost efficient, shift to intermediate outcomes.)

These are the areas where program performance is evaluated.



Areas where **efficiency** (relative to cost, time, labor hours) is measured.

Areas where **effectiveness** is measured (Has the mission been accomplished).

## Definitions

***Outcomes*** - the measured results of a program activity compared to its intended purpose.

***Intermediate Outcomes*** - identifying program accomplishment by measuring customer attitudes, behavior, and physical changes.

***Outputs*** - the tabulation, calculation, or recording of activity or effort and can be expressed in a quantitative or qualitative manner.

***Performance goal*** - a target level of performance expressed as a tangible, measurable objective against which actual achievement can be compared, including a goal expressed as a quantitative standard, value, or rate.

***Performance indicator*** - a particular value or characteristic used to measure processes, outputs or outcomes.

***Verification*** - an assessment of data reliability considering data completeness, accuracy, consistency, timeliness and the related control practices.

***Validation*** - the process for ensuring that measured values adequately represent performance related to the achievement of the agency program goals.



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

Date: Feb 9 2001

To: Robert G. Seabrooks  
Assistant Inspector General for Auditing

From: Herbert L. Mithcell  
Associate Administrator  
for Disaster Assistance

Subject: Draft Audit Report – Results Act Performance Measurement for The Disaster Assistance Program

We have reviewed the findings and recommendations of your report. I would like to present the actions we are taking to address the recommendations made in the Draft Audit Report.

**Recommendation 1.A** – *Develop program outcome indicators that measures mission results. Potential intermediate outcomes presented in the Framework for Implementing the Results Act in Appendix A should be considered.* We are taking steps to establish specific performance indicators to measure program outcomes. Many of the “Intermediate Outcomes” recommended in Appendix A of the audit report can be measured by evaluating responses in our existing customer service survey. However, we are revising our existing survey questionnaire to insure that we can address the issues in your report and adequately identify and measure all relevant program outcomes.

**Recommendation 1.B** – *Develop a fixed and variable cost analysis based on historical experience to gauge program delivery costs.* We have developed a draft Activity Report that reflects Expenditures (Obligations) and loan production to derive at a “unit cost” which represents an analysis of program costs. As we develop this model, we intend to measure current fiscal year activity and expenses to historical activity and expenses and identify and elaborate on any variations.

**Recommendation 1.C** *Consistently report field staff presence at disaster sites.* We have developed a draft definition of “an effective field presence” and will be sharing this definition with the Area Directors at the next Area Director’s meeting. The definition should remove any inconsistency in interpretation of this goal.

**Other Matters: Planned underwriting compliance indicator.** *Therefore, we question the quality assurance review is sufficiently precise for planned use as an effective performance indicator.* We implemented quality assurance reviews several years ago in part to review the quality of underwriting in the disaster loan making function. We are in the process of reviewing this function and we will update you on any changes we make.

We still believe that the Quality Assurance review is an effective tool in measuring the level of compliance with the disaster loan making underwriting standards. While we agree that the results may vary by using different loan officers, we have attempted to mitigate this by having a second level of review by a team leader who makes recommendations to the Associate Administrator on the findings that will be included in the final report to the Area Director. We have concluded that this tool is an effective performance measure and serves to identify training needs or policy changes.

Other Matters: Planned customer satisfaction indicator. We reviewed the Draft Audit Report and are addressing the specific issues raised in the audit report. We will update you on any changes we make. We have also requested the comments from the Office of Communications and Public Liaison, their comments are attached.



Herbert L. Mitchell



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

**Date:** February 9, 2001

**To:** Robert G. Seabrooks  
Assistant Inspector General for Auditing

**From:** *Jane Palsgrove Butler*  
Jane Palsgrove Butler  
Associate Administrator  
for Financial Assistance

**Subject:** Draft Audit Report – Results Act Performance Measurement for Disaster Assistance Program.

This is in response to Recommendation 1D “Revise the disaster loan currency/delinquency indicator to include all disaster loans”. This also is a follow up to the Office of Financial Assistance’s (OFA) initial response to this draft audit, dated December 11,2000 (attached).

Your draft audit contains the findings that currency/delinquency rates for disaster loans used as performance indicators under the “GPRA” process overstate the currency rate by 5.7% and understate the delinquency rate by 1.7% on disaster loans. This inaccuracy arises, according to the report, because the indicator only includes disaster home loans serviced in our home loan servicing centers and, therefore, excludes all disaster business loans, all disaster loans serviced by district offices, and all loans serviced by the servicing contractor (ACS). Your recommendation is that we include all disaster loans in a single performance indicator.

OFA is in the process of proposing new performance measures which we feel will be more reflective of OFA activity than current agency measures. For example, using aggregate loan volume as a performance indicator does not necessarily measure either the effectiveness of OFA activity or agency outcomes (impact). Consistent with this approach, OFA recommends using the following GPRA performance indicators for agency disaster loans:

- All disaster business loans serviced in our commercial loan servicing centers will be measured by the existing Currency and Delinquency Rate standard, and
- All disaster home loans serviced in our home loan servicing centers will be measured by the existing Currency and Delinquency Rate standard.

All disaster home and commercial loans serviced by district offices should be measured separately by a Currency and Delinquency standard established by the Office of Field Operations. Disaster home loans serviced by the private sector contractor (ACS) should not be measured using the same standard we apply to our centers, as per the December 11<sup>th</sup> memo



referenced above. ACS's performance is measured by its compliance with their contract with SBA, as measured through audits, site visits and reviews.

We welcome any joint activities between OFA and OIG to develop new, more useful GPRA performance indicators for FY 2002. If you have any further questions, please contact Gregory Diercks, Assistant Administrator for Financial Program Operations, at 205-7538.

**Audit Report Distribution**

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