



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

ADVISORY MEMORANDUM

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To: Herbert P. Mitchell
Assistant Administrator,
Office of Disaster Assistance

From: /S/ **Original Signed**
Robert G. Seabrooks
Assistant Inspector General for Auditing

Subject: Problems with Processing a Number of Disaster Loan Application
Declines within the Disaster Credit Management System

The purpose of this memorandum is to inform SBA of the lack of timely resolution and correction of a number of potentially erroneous disaster loan applications processed within the Disaster Credit Management System (DCMS). The unprocessed applications have the effect of delaying available benefits to disaster victims who may be eligible for such benefits from SBA or the Federal Emergency Management Agency (FEMA).

The Fort Worth, Texas Processing and Distribution Center (PDC) identified 646 disaster loan applications which had potentially erroneous address information either contained within the applications, or the addresses were input into DCMS incorrectly. The disaster applications were then processed as declines by DCMS and uploaded to the FEMA National Emergency Management Information System (NEMIS). This situation was identified based upon a number of applicant complaints to both FEMA and SBA that disaster loan rejection notices referenced incorrect addresses.

We interviewed officials with both SBA and FEMA who were aware of the situation. We identified that if either a loan applicant mistakenly includes their temporary residence on the disaster loan application where the permanent address should be entered, or the information is entered erroneously during data entry into DCMS; the application may be declined due to a status code 36, Damaged Property not Primary Residence or Qualified Rental Property.

The identified status "code 36" designated applications were reported to the DCMS Operations Center (OC) in Herndon, Virginia on November 30, 2005 with the

request that an analysis be performed to determine how many of the applications had potentially erroneous address information. On December 19, 2005 the situation was elevated within Herndon OC.

The Fort Worth PDC subsequently performed a preliminary analysis of the status “code 36” disaster applications and found that 368 were processed incorrectly. As of January 26, 2006 these 368 have been reported to the Herndon OC to be corrected within DCMS. However, Fort Worth has not been able to determine if the corrected information has been uploaded into DCMS and then reported to the FEMA NEMIS system.

This situation was discussed with the Herndon OC. According to the Herndon OC Deputy Director, the proper procedure would be for the applicants to request a “reconsideration” of their loan application with corrected information. However, we believe that the request for “reconsideration” should be avoided and SBA should make every effort to ascertain the correct address before a decline “code of 36” is issued for any disaster loan application.

The result of non-timely error correction of these 368 erroneous applications is that disaster loan applicants may qualify for SBA loan assistance or FEMA “Other Needs Assistance” (ONA) grants. However, in either situation the applications were in limbo and the victims benefits under either program have been delayed.

Recommendations:

We recommend that SBA:

1. Continue with its analysis of DCMS code 36 issues and implement corrective measures for those disaster loan applications which were potentially processed in error. This review would identify:
 - Those disaster loan applications which were incorrectly processed with code 36; and would therefore be reconsidered for SBA Disaster Loan Assistance.
 - Those disaster loan applications which were incorrectly processed with code 36, however would not qualify for SBA Disaster Loan Assistance and should be referred back to FEMA for potential ONA assistance.

In either instance, the FEMA NEMIS system should be updated with the correct SBA status code.

2. In the future, SBA representatives should contact disaster loan applicants with the “code 36” processing designation to determine if the applicants addresses are correct in the DCMS system prior to those applications being actually declined.

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Our review was conducted in conjunction with the President's Council on Integrity and Efficiency (PCIE) as part of its examination of relief efforts provided by the Federal government in the aftermath of Hurricane Katrina and Rita. As such, a copy of

the report has been forwarded to the PCIE Homeland Security Working Group which is coordinating Inspectors General review of this important subject. The nature and brevity of this assessment precluded the use of our normal audit protocols; therefore, 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.

Please advise the OIG by February 16, 2006 of the actions taken or the action planned and the target completion dates for any planned actions. If you have any questions, please contact Jeff Brindle, Director Information Technology and Financial Management Audit Group at (202) 205-7490.

Cc: Stephen D. Galvan, Acting Deputy Administrator