



Highlights of GAO-07-1124T, a testimony before the Committee on Small Business and Entrepreneurship, U.S. Senate

SMALL BUSINESS ADMINISTRATION

Response to the Gulf Coast Hurricanes Highlights Need for Enhanced Disaster Preparedness

Why GAO Did This Study

The Small Business Administration (SBA) helps individuals and businesses recover from disasters such as hurricanes through its Disaster Loan Program. SBA faced an unprecedented demand for disaster loan assistance following the 2005 Gulf Coast hurricanes (Katrina, Rita, and Wilma), which resulted in extensive property damage and loss of life. In the aftermath of these disasters, concerns were expressed regarding the timeliness of SBA's disaster assistance.

GAO initiated work and completed two reports under the Comptroller General's authority to conduct evaluations and determine how well SBA provided victims of the Gulf Coast hurricanes with timely assistance. This testimony, which is based on these two reports, discusses (1) challenges SBA experienced in providing victims of the Gulf Coast hurricanes with timely assistance, (2) factors that contributed to these challenges, and (3) steps SBA has taken since the Gulf Coast hurricanes to enhance its disaster preparedness.

GAO visited the Gulf Coast region, reviewed SBA planning documents, and interviewed SBA officials.

What GAO Recommends

GAO recommends that SBA take several steps to improve its disaster preparedness, and SBA agreed with these recommendations.

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To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

GAO identified several significant system and logistical challenges that SBA experienced in responding to the Gulf Coast hurricanes that undermined the agency's ability to provide timely disaster assistance to victims. For example, the limited capacity of SBA's automated loan processing system—the Disaster Credit Management System (DCMS)—restricted the number of staff who could access the system at any one time to process disaster loan applications. In addition, SBA staff who could access DCMS initially encountered multiple system outages and slow response times in completing loan processing tasks. SBA also faced challenges training and supervising the thousands of mostly temporary employees the agency hired to process loan applications and obtaining suitable office space for its expanded workforce. As of late May 2006, SBA processed disaster loan applications, on average, in about 74 days compared with its goal of within 21 days.

While the large volume of disaster loan applications that SBA received clearly affected its capacity to provide timely disaster assistance to Gulf Coast hurricane victims, GAO's two reports found that the absence of a comprehensive and sophisticated planning process beforehand likely limited the efficiency of the agency's initial response. For example, in designing the capacity of DCMS, SBA primarily relied on historical data such as the number of loan applications that the agency received after the 1994 Northridge, California, earthquake—the most severe disaster that the agency had previously encountered. SBA did not consider disaster scenarios that were more severe or use the information available from disaster simulations (developed by federal agencies) or catastrophe models (used by insurance companies to estimate disaster losses). SBA also did not adequately monitor the performance of a DCMS contractor or completely stress test the system prior to its implementation. Moreover, SBA did not engage in comprehensive disaster planning prior to the Gulf Coast hurricanes for other logistical areas, such as workforce planning or space acquisition, at either the headquarters or field office levels.

While SBA has taken steps to enhance its capacity to respond to potential disasters, the process is ongoing and continued commitment and actions by agency managers are necessary. As of July 2006, SBA officials said that the agency had completed an expansion of DCMS's user capacity to support a minimum of 8,000 concurrent users as compared with 1,500 concurrent users supported for the Gulf Coast hurricanes. Further, in June 2007, SBA released a disaster plan. While GAO has not evaluated the process SBA followed in developing its plan, consistent with recommendations in GAO reports, the plan states that SBA is incorporating catastrophe models into its planning process, an effort which appears to be at an early stage. GAO encourages SBA to actively pursue the use of catastrophe models and other initiatives that may further enhance its capacity to better respond to future disasters.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the Small Business Administration's (SBA) response to the 2005 Gulf Coast hurricanes (Katrina, Rita, and Wilma), which caused more than 1,400 deaths and more than \$80 billion of estimated property damages. While SBA is generally known for the financial support it provides to small businesses, the agency also plays a critical, if less publicized role, in assisting the victims of natural and other disasters. Specifically, SBA provides financial assistance through its Disaster Loan Program to help homeowners, renters, and businesses of all sizes recover from disasters such as earthquakes, hurricanes, and terrorist attacks. Due to the damage associated with the Gulf Coast hurricanes, SBA faced unprecedented demand for its disaster loan services and, 9 months following the hurricanes, had approved nearly 150,000 such loans totaling nearly \$10 billion. However, concerns have been expressed that SBA's response to the hurricanes was slow, leaving many disaster victims without the timely assistance that they needed.

My statement today is based on two reports that we issued under the Comptroller General's authority to initiate reviews of federal programs. The first report, which was released in July 2006, discussed SBA's planning for and implementation of the Disaster Credit Management System (DCMS), which the agency uses to process disaster loan applications.¹ The second report, which was released in February, discusses SBA's disaster planning for other logistical areas, such as hiring and training a capable workforce and acquiring necessary office space.² I note that these reports are part of a larger effort by GAO to assist Congress in assessing the response of federal, state, and local agencies to the Gulf Coast hurricanes and to identify steps that such organizations could take to improve the provision of assistance and services to the victims of future disasters.³

In my testimony, I will discuss (1) challenges SBA experienced in providing victims of the Gulf Coast hurricanes with timely assistance, (2)

¹GAO, *Small Business Administration: Actions Needed to Provide More Timely Disaster Assistance*, GAO-06-860 (Washington, D.C.: July 28, 2006).

²GAO, *Small Business Administration: Additional Steps Needed to Enhance Agency Preparedness for Future Disasters*, GAO-07-114 (Washington, D.C.: Feb. 14, 2007).

³See, for example, GAO, *Catastrophic Disasters: Enhanced Leadership, Capabilities, and Accountability Controls Will Improve the Effectiveness of the Nation's Preparedness, Response, and Recovery System*, GAO-06-618 (Washington, D.C.: Sept. 6, 2006).

factors that contributed to these challenges, and (3) steps SBA has taken since the Gulf Coast hurricanes to enhance its disaster preparedness.

To address these objectives, we visited the Gulf Coast region, reviewed documents related to SBA's acquisition and implementation of DCMS, reviewed reports that discuss disaster planning, analyzed relevant SBA planning documentation, and interviewed disaster planning experts and SBA officials in headquarters and field offices. We conducted the work on our reports from November 2005 through January 2007 and in accordance with generally accepted government auditing standards.

In summary:

- We identified several significant system and logistical challenges SBA experienced in responding to victims of the Gulf Coast hurricanes that compromised the agency's ability to provide timely disaster assistance. First, due to DCMS's limited capacity, the number of staff who could concurrently access the system to process disaster loans was restricted. Further, SBA staff who were able to access DCMS often encountered system outages and slow response times. Second, SBA faced challenges in training and supervising thousands of mostly temporary employees hired to process loan applications and encountered difficulties in obtaining suitable office space for the expanded workforce. As a result of these and other challenges, SBA averaged about 74 days to process disaster loan applications, as of late May 2006, compared with the agency's goal of processing applications within 21 days.
- While the unprecedented volume of disaster loan applications clearly affected SBA's capacity to provide timely assistance to Gulf Coast hurricane victims, the absence of a comprehensive and sophisticated planning process beforehand likely limited the efficiency of the agency's initial response. For example, in designing the maximum user capacity of DCMS, SBA primarily relied on historical data such as the number of loan applications that it received after the 1994 Northridge, California, earthquake—the most severe disaster that the agency had previously encountered. SBA did not consider any disaster scenarios that were more severe or use the information available from disaster simulations or

catastrophe models to help design DCMS's capacity.⁴ SBA also did not adequately monitor a DCMS contractor or completely stress test DCMS prior to its implementation. Moreover, SBA did not engage in comprehensive disaster planning for other logistical issues, such as workforce or space acquisition planning, prior to the Gulf Coast hurricanes at either the headquarters or field office levels.

- While SBA has taken steps to enhance its capacity to respond to potential disasters, the process is ongoing and continued commitment and actions by agency managers are necessary. As of July 2006, SBA officials said that the agency had completed an expansion of DCMS's user capacity to support a minimum of 8,000 concurrent users as compared with 1,500 concurrent users supported for the Gulf Coast hurricanes. Further, in June 2007, SBA released a disaster plan. While we have not evaluated the process SBA followed in developing its plan, consistent with recommendations in our reports, the plan states that SBA is incorporating catastrophe models into its planning process, an effort that appears to be at an early stage. SBA's plan also anticipates using 400 staff who are not normally involved in disaster assistance programs to provide back-up support in an emergency. SBA officials said about half of these individuals will be trained as of the end of this month with the remainder trained by this Fall. We encourage SBA to actively pursue this and other initiatives that may further enhance its capacity to better respond to future disasters, and we will monitor SBA's efforts to implement our recommendations.

Background

SBA was established by the Small Business Act of 1953 to fulfill the role of several agencies that previously assisted small businesses affected by the Great Depression and, later, by wartime competition. SBA's stated purpose is to promote small business development and entrepreneurship through business financing, government contracting, and technical assistance programs. In addition, SBA serves as a small business advocate, working with other federal agencies to, among other things, reduce regulatory burdens on small businesses.

⁴Federal agencies and other organizations have developed assessments of the potential destructive consequences of varying disaster scenarios, which are intended to help federal, state, and local agencies enhance their disaster planning. Moreover, many insurance companies and state entities that provide catastrophe insurance coverage currently use computer programs offered by several modeling firms to estimate the financial consequences of various natural catastrophe scenarios.

SBA also provides low-interest, long-term loans to individuals and businesses to assist them with disaster recovery through its Disaster Loan Program—the only form of SBA assistance not limited to small businesses. Homeowners, renters, businesses of all sizes, and nonprofit organizations can apply for physical disaster loans for permanent rebuilding and replacement of uninsured or underinsured disaster-damaged property. Small businesses can also apply for economic injury disaster loans to obtain working capital funds until normal operations resume after a disaster declaration. SBA's Disaster Loan Program differs from the Federal Emergency Management Agency's (FEMA) Individuals and Households Program (IHP). For example, a key element of SBA's Disaster Loan Program is that the disaster victim must have repayment ability before a loan can be approved whereas FEMA makes grants under the IHP that do not have to be repaid.⁵ Further, FEMA grants are generally for minimal repairs and, unlike SBA disaster loans, are not designed to help restore the home to its predisaster condition.

In January 2005, SBA began using DCMS to process all new disaster loan applications. SBA intended for DCMS to help it move toward a paperless processing environment by automating many of the functions staff members had performed manually under its previous system. These functions include both obtaining referral data from FEMA and credit bureau reports, as well as completing and submitting loss verification reports from remote locations.

DCMS's Limited Capacity and Difficulties in Other Logistical Areas Impeded SBA's Response to the Gulf Coast Hurricanes

Our July 2006 report identified several significant limitations in DCMS's capacity and other system and procurement deficiencies that likely contributed to the challenges that SBA faced in providing timely assistance to Gulf Coast hurricane victims as follows:

- First, due to limited capacity, the number of SBA staff who could access DCMS at any one time to process disaster loans was restricted. Without access to DCMS, the ability of SBA staff to process disaster loan applications in an expeditious manner was diminished.
- Second, SBA experienced instability with DCMS during the initial months following Hurricane Katrina, as users encountered multiple outages and slow response times in completing loan processing tasks. According to

⁵FEMA grants are also not available to businesses.

SBA officials, the longest period of time DCMS was unavailable to users due to an unscheduled outage was 1 business day. These unscheduled outages and other system-related issues slowed productivity and affected SBA's ability to provide timely disaster assistance.

- Third, ineffective technical support and contractor oversight contributed to the DCMS instability that SBA staff initially encountered in using the system. Specifically, a DCMS contractor did not monitor the system as required or notify the agency of incidents that could increase system instability. Further, the contractor delivered computer hardware for DCMS to SBA that did not meet contract specifications.

In the report released in February, we identified other logistical challenges that SBA experienced in providing disaster assistance to Gulf Coast hurricane victims. For example, SBA moved urgently to hire more than 2,000 mostly temporary employees at its Ft. Worth, Texas disaster loan processing center through newspaper and other advertisements (the facility increased from about 325 staff in August 2005 to 2,500 in January 2006). SBA officials said that ensuring the appropriate training and supervision of this large influx of inexperienced staff proved very difficult. Prior to Hurricane Katrina, SBA had not maintained the status of its disaster reserve corps, which was a group of potential voluntary employees trained in the agency's disaster programs. According to SBA, the reserve corps, which had been instrumental in allowing the agency to provide timely disaster assistance to victims of the September 11, 2001 terrorist attacks, shrank from about 600 in 2001 to less than 100 in August 2005.⁶

Moreover, SBA faced challenges in obtaining suitable office space to house its expanded workforce. For example, SBA's facility in Ft. Worth only had the capacity to house about 500 staff whereas the agency hired more than 2,000 mostly temporary staff to process disaster loan applications. While SBA was able to identify another facility in Ft. Worth to house the remaining staff, it had not been configured to serve as a loan processing center. SBA had to upgrade the facility to meet its requirements. Fortunately, in 2005, SBA was also able to quickly

⁶SBA's disaster reserve corps consists of individuals, including retirees and students, who have backgrounds in the agency's disaster assistance programs (e.g., finance and customer support) and who are willing to work on a temporary basis for the agency in an emergency situation. Such individuals must agree to relocate within 40 hours of notification of a disaster situation where their services are required by SBA.

reestablish a loan processing facility in Sacramento, California, that had been previously slated for closure under an agency reorganization plan. The facility in Sacramento was available because its lease had not yet expired, and its staff was responsible for processing a significant number of Gulf Coast hurricane related disaster loan applications.

As a result of these and other challenges, SBA developed a large backlog of applications during the initial months following Hurricane Katrina. This backlog peaked at more than 204,000 applications 4 months after Hurricane Katrina. By late May 2006, SBA took about 74 days on average to process disaster loan applications, compared with the agency's goal of within 21 days.

Unprecedented Loan Application Volume and SBA's Limited Disaster Planning Contributed to Challenges in Providing Timely Assistance to Hurricane Victims

As we stated in our July 2006 report, the sheer volume of disaster loan applications that SBA received was clearly a major factor contributing to the agency's challenges in providing timely assistance to Gulf Coast hurricane victims. As of late May 2006, SBA had issued 2.1 million loan applications to hurricane victims, which was four times the number of applications issued to victims of the 1994 Northridge, California, earthquake, the previous single largest disaster that the agency had faced. Within 3 months of Hurricane Katrina making landfall, SBA had received 280,000 disaster loan applications or about 30,000 more applications than the agency received over a period of about 1 year after the Northridge earthquake.

However, our two reports on SBA's response to the Gulf Coast hurricanes also found that the absence of a comprehensive and sophisticated planning process contributed to the challenges that the agency faced.⁷ For example, in designing DCMS, SBA used the volume of applications received during the Northridge, California, earthquake and other historical data as the basis for planning the maximum number of concurrent agency users that the system could accommodate. SBA did not consider the likelihood of more severe disaster scenarios and, in contrast to insurance companies and some government agencies, use the information available from catastrophe models or disaster simulations to enhance its planning process. Since the number of disaster loan applications associated with

⁷The report we issued in February (GAO-07-114) discusses the need for federal agencies and other organizations to engage in comprehensive disaster planning based on previous GAO work, reports by other investigative organizations, and the views of disaster planning experts.

the Gulf Coast hurricanes greatly exceeded that of the Northridge earthquake, DCMS's user capacity was not sufficient to process the surge in disaster loan applications in a timely manner.

Additionally, SBA did not adequately monitor the performance of a DCMS contractor or stress test the system prior to its implementation. In particular, SBA did not verify that the contractor provided the agency with the correct computer hardware specified in its contract. SBA also did not completely stress test DCMS prior to implementation to ensure that the system could operate effectively at maximum capacity. If SBA had verified the equipment as required or conducted complete stress testing of DCMS prior to implementation, its capacity to process Gulf Coast related disaster loan applications may have been enhanced.

In the report we issued in February, we found that SBA did not engage in comprehensive disaster planning for other logistical areas—such as workforce or space acquisition planning—prior to the Gulf Coast hurricanes at either the headquarters or field office levels. For example, SBA had not taken steps to help ensure the availability of additional trained and experienced staff such as (1) cross-training agency staff not normally involved in disaster assistance to provide backup support or (2) maintaining the status of the disaster reserve corps as I previously discussed. In addition, SBA had not thoroughly planned for the office space requirements that would be necessary in a disaster the size of the Gulf Coast hurricanes. While SBA had developed some estimates of staffing and other logistical requirements, it largely relied on the expertise of agency staff and previous disaster experiences—none of which reached the magnitude of the Gulf Coast hurricanes—and, as was the case with DCMS planning, did not leverage other planning resources, including information available from disaster simulations or catastrophe models.

SBA Has Taken Steps to Better Prepare for Disasters, but Continued Commitment and Actions Are Necessary

In our July 2006 report, we recommended that SBA take several steps to enhance DCMS, such as reassessing the system's capacity in light of the Gulf Coast hurricane experience and reviewing information from disaster simulations and catastrophe models. We also recommended that SBA strengthen its DCMS contractor oversight and further stress test the system. SBA agreed with these recommendations. I note that SBA has completed an effort to expand DCMS's capacity. SBA officials said that DCMS can now support a minimum of 8,000 concurrent agency users as compared with only 1,500 concurrent users for the Gulf Coast hurricanes. Additionally, SBA has awarded a new contract for the project management and information technology support for DCMS. The contractor is

responsible for a variety of DCMS tasks on SBA's behalf including technical support, software changes and hardware upgrades, and supporting all information technology operations associated with the system.

In the report released in February, we identified other measures that SBA had planned or implemented to better prepare for and respond to future disasters. These steps include appointing a single individual to coordinate the agency's disaster preparedness planning and coordination efforts, enhancing systems to forecast the resource requirements to respond to disasters of varying scenarios, redesigning the process for reviewing applications and disbursing loan proceeds, and enhancing its long-term capacity to acquire adequate facilities in an emergency.⁸ Additionally, SBA had planned or initiated steps to help ensure the availability of additional trained and experienced staff in the event of a future disaster. According to SBA officials, these steps include cross-training staff not normally involved in disaster assistance to provide back up support, reaching agreements with private lenders to help process a surge in disaster loan applications, and reestablishing the Disaster Active Reserve Corps, which had reached about 630 individuals as of June 2007.

While SBA has taken a variety of steps to enhance its capacity to respond to disasters, I note that these efforts are ongoing and continued commitment and actions by agency managers are necessary. In June 2007, SBA released a plan for responding to disasters. While we have not evaluated the process SBA followed in developing its plan, according to the SBA plan, the agency is incorporating catastrophe models into its disaster planning processes as we recommended in both reports. For example, the plan states that SBA is using FEMA's catastrophe model, which is referred to as HAZUS, in its disaster planning activities. Further, based on information provided by SBA, the agency is also exploring the use of models developed by private companies to assist in its disaster planning efforts.⁹ These efforts to incorporate catastrophe models into the disaster planning process appear to be at an early stage.

⁸As described in the report we issued in February (GAO-07-114), SBA faced a significant backlog in disbursing the funds associated with approved disaster loans in July 2006. SBA has redesigned the loan review and disbursement process in such a way that agency officials believe disbursement performance has been improved significantly.

⁹U.S. Small Business Administration letter to the Honorable Henry Waxman, dated Jun. 1, 2007.

SBA's plan also anticipates further steps to ensure an adequate workforce is available to respond to a disaster, including training and using 400 non-disaster program office staff to assist in responding to the 2007 hurricane season and beyond. According to SBA officials, about 200 of these staff members will be trained in reviewing loan applications and providing customer service by the end of this month and the remainder will be trained by this Fall. We encourage SBA to actively pursue initiatives that may further enhance its capacity to better respond to future disasters, and we will monitor SBA's efforts to implement our recommendations.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions at this time.

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Acknowledgments**

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