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Testimony

Before the Committee on Small Business,
House of Representatives

For Release on Delivery
Expected at 10:00 a.m. EST
Wednesday, February 14, 2007

**SMALL BUSINESS
ADMINISTRATION**

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

Statement of William B. Shear, Director
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Highlights of [GAO-07-484T](#), a testimony before the Committee on Small Business, House of Representatives

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.

www.gao.gov/cgi-bin/getrpt?GAO-07-484T.

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.

SMALL BUSINESS ADMINISTRATION

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

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.

In the aftermath of the Gulf Coast hurricanes, SBA has planned or initiated several measures that officials said would enhance the agency's capacity to respond to future disasters. For example, SBA has completed an expansion of DCMS's user capacity to support a minimum of 8,000 concurrent users as compared with just 1,500 for the Gulf Coast hurricanes. Additionally, SBA initiated steps to increase the availability of trained and experienced disaster staff and redesigned its process for reviewing loan applications and disbursing funds. However, SBA has not established a time line for completing key elements of its disaster management plan, such as cross-training agency staff not typically involved in disaster assistance to provide back up support in an emergency. SBA also has not (1) assessed whether its disaster planning process could benefit from the supplemental use of disaster simulations or catastrophe models and (2) developed a long-term strategy to obtain suitable office space for its disaster staff. While SBA agreed with GAO's report recommendations to address these concerns, it remains to be seen how comprehensive the agency's final disaster plan will be and how the agency will respond to a future disaster.

Madam Chairwoman and Members of the Committee:

I am pleased to have the opportunity 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 is being released today, 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

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).

In my testimony, I will discuss (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.

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.

- In the aftermath of the Gulf Coast hurricanes, SBA has planned or initiated several measures that officials said would enhance the agency's capacity to respond to future disasters. For example, SBA officials said that the agency has 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. Additionally, SBA initiated measures or established plans to address the logistical challenges that it faced in responding to the disasters, such as taking steps to increase the availability of trained and experienced disaster staff. However, we have also identified several apparent limitations in SBA's disaster planning process, including that the agency has not established time lines for completing key elements of the plan, assessed whether the supplemental use of simulations and models would enhance the planning process, and developed a long-term strategy to obtain suitable office space in a disaster situation.

We recommended in our July 2006 report that SBA take several actions to enhance DCMS, such as reassessing the system's maximum user capacity in light of information available from catastrophe risk modeling firms and disaster simulations. As I discussed earlier, SBA officials said that DCMS's capacity has been enhanced. We also recommended that SBA strengthen its DCMS contractor oversight and further stress test the system. In the report we are releasing today, we recommended, among other things, that SBA develop time frames for completing key elements of its disaster management plan. SBA agreed with these recommendations. However, it remains to be seen how comprehensive the agency's final disaster management plan will be and how it will help SBA respond to a future disaster.

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.

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.

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.

⁵FEMA grants are also not available to businesses.

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 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 that we are releasing today, 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 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.

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.

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 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.

⁷The report we are issuing today ([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.

In the report we are releasing today, 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 Future Disasters, but Their Effectiveness Remains to Be Seen

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 we are releasing today, we identified other measures that SBA has 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, and redesigning the process for

reviewing applications and disbursing loan proceeds.⁸ Additionally, SBA has 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 reserve corps with 750 individuals as of January 2007.

However, the report also discusses apparent limitations we found in SBA's disaster planning processes. For example, SBA has not established a time line for completing the key elements of its disaster management plan, such as cross-training nondisaster staff to provide back up support. In addition, SBA has not assessed whether the agency could leverage outside resources to enhance its disaster planning and preparation efforts, such as information available from disaster simulations and catastrophe models.⁹ Finally, SBA had not established a long-term process to help ensure that it could acquire suitable office space to house an expanded workforce to respond to a future disaster.

To strengthen SBA capacity to respond to a future disaster, the report recommends that SBA

- develop time frames for completing key elements of the disaster management plan (and a long-term strategy for acquiring adequate office space); and
- direct staff involved in developing the disaster plan to continue assessing whether the use of disaster simulations or catastrophe models would enhance the agency's overall disaster planning process.

SBA agreed to implement each of these recommendations. However, it remains to be seen how comprehensive SBA's final disaster management plan will be and how effectively the agency will respond to a future disaster.

⁸As described in the report we are issuing today ([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.

⁹SBA has contacted FEMA for more information about a catastrophe model that FEMA has developed.

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

GAO Contact and Staff Acknowledgments

For further information on this testimony, please contact William B. Shear at (202) 512- 8678 or Shearw@gao.gov. Contact points for our Offices of Congressional Affairs and Public Affairs may be found on the last page of this statement. Individuals making key contributions to this testimony included Wesley Phillips, Assistant Director; Marshall Hamlett; Barbara S. Oliver; and Cheri Truett.

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