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SBA DISASTER LOAN PROGRAM

Accounting Anomalies Resolved but Additional Steps Would Improve Long-Term Reliability of Cost Estimates

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-05-409, a report to congressional requesters

Why GAO Did This Study

In response to a January 2003 GAO report that identified significant anomalies in the Small Business Administration's (SBA) disaster loan accounts and raised serious concerns about its ability to account for loan sales and estimate program costs, SBA conducted an extensive analysis to identify causes of the anomalies and implemented a number of corrective actions. In light of SBA's actions, GAO undertook a follow-up review to (1) describe the nature of the deficiencies SBA identified, (2) determine whether its corrective actions resolved the deficiencies, and (3) assess whether its procedures provide a reasonable basis for future credit estimates.

What GAO Recommends

GAO is making five recommendations to SBA to help ensure that future subsidy cost estimates are reliable. GAO is also making two recommendations to OMB to help ensure that agencies make correct interest calculations for financing accounts.

SBA stated that our recommendations were appropriate and that it already has work underway to address several of them. OMB agreed with our recommendations and stated that it would work with agencies to correct interest transactions with Treasury.

www.gao.gov/cgi-bin/getrpt?GAO-05-409.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Linda Calbom at (202) 512-9508 or calboml@gao.gov.

What GAO Found

SBA took prompt action with a comprehensive review of its financial records and systems to identify the deficiencies related to accounting for its disaster loans and loan sale program. SBA's review found (1) the cash flow model used to estimate the cost of the disaster loan program was unreliable and underestimated the cost, (2) the model used to determine whether sales were beneficial had errors and incorrectly indicated that loans were sold at gains, (3) incorrect loan values used to calculate the results of loan sales led to inaccurate reporting in SBA's financial statements, and (4) incomplete tools provided by OMB to calculate interest payments on borrowings from Treasury resulted in excess payments to Treasury and an insufficient balance in SBA's financing account and subsidy allowance.

To resolve these deficiencies, SBA implemented a number of corrective actions during fiscal years 2003 and 2004. To address the first three, SBA developed a new cash flow model to estimate the costs and loan values for the disaster loan program. This improved the agency's ability to prepare more reliable cost estimates and determine the gain or loss on prior loan sales. To address the fourth deficiency, SBA analyzed its interest payments to Treasury and found that it had overpaid by about $134 million. SBA included this amount in its reestimates for the disaster loan program to correct prior interest payments and also implemented a different approach to update or "reestimate" its cost estimates, which will adjust its transactions with Treasury going forward. However, until OMB updates its tools for computing these interest payments, other credit agencies may also be over- or underpaying interest to Treasury.

Further, SBA improved its policies and procedures to help ensure that future loan program cost estimates will be reasonable. For example, SBA implemented new standard operating procedures for calculating reestimates and prepared documentation to support the rationale and basis for key aspects of the cash flow model. However, because of the complexities associated with estimating loan program costs, additional actions by SBA would help improve the long-term reliability of cost estimates. These include (1) further documentation of the model and disaster data to readily provide for knowledge transfer between staff and contractors to help ensure proper maintenance, updating, and running of the model; (2) periodic assessments of the model's ability to predict loan performance; and (3) additional procedures to ensure the disaster data used in the model are tested to verify and document that they are reliable. In addition, there may be opportunities to improve the model with additional variables, such as financial strength of borrowers, as well as revisions to simplify the estimation process that warrant further consideration by SBA.