# THE DISASTER LOSS VERIFICATION PROCESS

***Report Number: 08-15***

***Date Issued: June 20, 2008***

**Prepared by the**
**Office of Inspector General**
**U. S. Small Business Administration**

U.S. Small Business Administration
Office of Inspector General

# Memorandum

To: Herbert L. Mitchell
Associate Administrator for Disaster Assistance

Date: June 20, 2008

/s/ **Original Signed**

From: Debra S. Ritt
Assistant Inspector General for Auditing

Subject: Report on the Disaster Loss Verification Process
Report No. 08-15

This is the second report resulting from the Office of Inspector General's review of the Small Business Administration's (SBA) Disaster Loss Verification Process. Loss verification refers to the process of evaluating the cause and extent of property damages, and is a key step in establishing borrower eligibility and the size of disaster assistance loans approved by SBA. As of July 2006, SBA's Office of Disaster Assistance (ODA) had conducted 315,000 loss verifications associated with the Gulf Coast hurricanes and had performed quality assurance reviews on a random sample of 777 of them. The objectives of the review were to determine whether: (1) loss verifications were accurate; (2) ODA provided adequate direction to verifiers to ensure that losses were adequately verified; and (3) SBA exercised the proper level of oversight of the loss verification process.

To assess the accuracy of loss verifications, we statistically sampled 65 of the 777 loss verification reports that underwent a Quality Assurance Review (QAR) by ODA. We focused our review on real property losses as we could not verify personal property losses, which were based strictly on borrower claims. Of the 65 sampled loss verification reports, 47 involved real property. We performed on-site inspections of properties in Florida, Mississippi, and Louisiana associated with 30 of the 47 loss verifications we sampled that involved real property. We also interviewed loss verifiers about the training provided to them and reviewed the results of ODA's September 2006 *Disaster Loss Verification Evaluation Report*. To determine whether SBA provided adequate direction to verifiers to ensure that losses were properly verified, we interviewed loss verifiers and ODA managers about the direction provided to SBA employees. We also reviewed SBA's *Loss Verifier Training Manual*.

To determine whether SBA exercised the proper level of oversight, we evaluated the adequacy of the quality assurance process used by ODA to review loss verifications. We also assessed SBA's compliance with the oversight provisions in its Letter of Obligation, which specified performance requirements for ODA employees designated to perform the loss verifications. Finally, we interviewed officials at ODA, the Loan Processing Center in Fort Worth, Texas, and the East and West Field Operation Centers.

We conducted the review between November 2006 and November 2007. A more detailed description of our scope and methodology is provided in Appendix I.

## BACKGROUND

SBA helps victims to recover from disasters and rebuild their lives by providing disaster assistance loans to homeowners, renters, and businesses of all sizes and to nonprofit organizations. Before processing applications for disaster loans, ODA conducts on-site inspections, called loss verifications, to determine the estimated cost of repair or replacement of the damaged real, personal, and business property. Loss verifications for disasters that occur within the continental United States are handled by employees assigned to ODA. In February 2005, a group of employees assigned to ODA was determined to be the Most Efficient Organization[1] (MEO) of an A-76 competition[2] and on July 7, 2005 was awarded a 5-year contract to conduct the initial loss verifications.

To guide the loss verification process, ODA issued a *Loss Verifier Training Manual*. The manual outlines ODA's methodology for verifying property losses and determining current replacement costs for personal property, real property, and business losses associated with non-real property. ODA may choose to either itemize personal property of borrowers or use standard allowances to assess personal property damages. For instance, based on standard allowances listed in the *Loss Verifier Training Manual*, borrowers may receive up to $15,000 for damages to their living rooms and family rooms. However, the maximum allowance for personal property damages is $40,000.

Under the terms of the A-76 award, which is explained in SBA's Letter of Obligation, SBA is required to prepare and implement a Quality Assurance Surveillance Plan to monitor the MEO's performance and to conduct formal performance meetings during the first year of the contract. To meet these

[1] The Most Efficient Organization is the staff the Agency identifies to provide the needed services detailed in a contract solicitation.

[2] Office of Management and Budget Circular A-76 establishes Federal policy requiring that commercial activities performed by the government be subject to competition.

requirements, in June 2006, ODA established a QAR team, consisting of loss verifiers from its Loan Processing and Field Operations Centers, to evaluate the MEO's performance. The ODA review team concluded that the MEO exceeded performance requirements.

In July 2007, we reported[3] that QARs conducted of disaster loss verifications were altered, which allowed the MEO to meet performance requirements. Further, we reported that because ODA both managed the MEO and performed the QAR, and would also incur penalties for non-performance, it lacked the independence needed to fairly evaluate the MEO's performance.

## RESULTS IN BRIEF

The audit determined that 11, or 17 percent, of the 65 loss verifications reviewed inaccurately reported the repair or replacement value of real property damages**.** Of the 11 inaccurate reports, 7 overstated the repair or replacement value of real property damages by an average of 42 percent, while 4 understated the value of damages by an average of 16 percent. Projecting these results to the universe of loans, we estimate that 16,272 of the 315,000 Gulf Coast loss verification reports completed as of July 2006 overstated losses by at least $367 million, and that another 6,709 of the 315,000 Gulf Coast loss verification reports understated losses by at least $4 million.[4]

Real property damages were not accurately estimated because loss verifiers incorrectly calculated the square footage of the damaged property. This occurred because loss verifiers did not always meet applicants at the disaster site to inspect the damaged property or enter all required information into SBA's Disaster Credit Management System (DCMS) when estimating losses. Loss verifiers also had difficulty determining how to measure square footage when the property was totally destroyed and the *Loss Verifier Training Manual* did not instruct verifiers on how to determine square footage when the property was totally destroyed.

ODA also did not effectively monitor the quality of the 315,000 loss verifications completed between October 1, 2005, and March 31, 2006, as required by SBA's Letter of Obligation with ODA, which was serving as the MEO. Furthermore, since ODA managed the MEO, it lacked the independence needed to fairly evaluate the MEO's performance.

In addition, between October 2005 and March 2006, ODA spent $10.3 million for 88,692 loss verifications on loan applications that were never approved. These

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[3] *Quality Assurance Reviews of Loss Verifications*, Report Number 07-29, July 23, 2007.
[4] Estimates of inaccurate loss verification reports are based on a 95-percent confidence level, using the lower limit instead of the midpoint estimate.

applications were declined during pre-processing of the applications either because the applicants' creditworthiness was questionable or they lacked repayment ability.

To improve real property damage estimates, we recommended that ODA reinforce the requirement for loss verifiers to meet the applicants at the location of the damaged property, note the dates they met the applicant in DCMS, and ensure that future QARs verify that applicants were met by loss verifiers. ODA should also incorporate database completeness checks when upgrading DCMS to ensure that the data entered into DCMS is complete, and provide additional training on the loss verification module. We also recommended that ODA revise the *Loss Verifier Training Manual* to instruct loss verifiers to use tax assessments, insurance information, or other appropriate sources, as the basis for estimating square footage of property that has been completely destroyed. Finally, ODA should consider using loss verifiers from the Field Operation Centers to monitor the MEO's performance and instruct loan officers not to assign loans declined during pre-processing to loss verifiers for assessment.

ODA did not agree with our sampling methodology and questioned the validity of our projections. They stated that the data extrapolated covers damages occurring during eight separate disaster declarations occurring over a nine month period and that the disasters covered 6 states and 147 primary counties. They also disagreed with 13 of our initial 16 errors identified in the report. Finally, ODA did not agree with our assessment of its Pre-Processing Decline procedures and questioned our position that loss verifications conducted on 88,692 files were declined during pre-processing of applications. ODA stated that we did not properly review the status of each decline and, therefore, it was inaccurate to represent the entire pre-processing decline population as containing one set of variables, resulting in a projected $10.3 million in expenditures for these loss verifications.

Our sampling methodology was reviewed by a professional statistician, who agreed with our methodology and projections. The size of the universe and the size of the sample are statistically considered within the bounds of the sample appraisal. While this particular sample of 31 may not have generated tight boundaries, it was still a valid sample. In addition, we used the lower limit when making our projections, which resulted in projections showing the least number of errors. We met with ODA in an attempt to reach agreement on the number of errors, which resulted in us revising the report to show 11 errors instead of 16. However, ODA still took issue with 3 of the 11 errors because the loss verifier retired and was unavailable for discussion on them. We believe our position is valid because our conclusions were based on on-site visits to damaged properties. Finally, our analysis of the pre-processing decline codes did take into consideration the full range of reason codes. We extracted all reason codes that were not associated with pre-processing declines in an attempt to evaluate the impact of ODA's pre-processing decline procedures on loss verification resources.

## RESULTS

### 17 Percent of Reviewed Loss Verifications Inaccurately Reported Real Property Losses

Eleven of the 65 loss verifications reviewed involving real property, or 17 percent, inaccurately reported the replacement cost of damages. Seven of the 11 loss verification reports overstated the value of damages to real property by an average of 42 percent. Projecting these results to the universe, we estimate that 16,272 of the 315,000 Gulf Coast loss verification reports overstated losses by at least $367 million, resulting in SBA potentially awarding loans in excess of the cost needed to restore the properties to their pre-disaster condition. In some cases, real property losses were overstated by as much as 92 percent. For example, two loss verifiers erroneously estimated losses for borrowers of $240,000 and $122,200, respectively, who were not eligible because the applicants were renters instead of owners of the damaged properties. In one case, the applicant was approved for the loan, and in the other case ODA caught its error and did not approve the loan for real property losses.

The remaining 4 loss verifications understated real property losses by an average of 16 percent. Consequently, we estimate that at least 6,709 of the 315,000 Gulf Coast loss verification reports understated losses by at least $4 million, which resulted in borrowers being approved for smaller loans than were needed to repair their properties. For example, in one instance the loss verifier estimated that repairs would cost $66,783. However, upon re-verification the property damage was assessed at $83,174.

### Inaccurate Estimates of Real Property Damages Resulted from Errors in Calculating the Square Footage of Damaged Properties

Both under-and overstatements of property damages were largely attributable to errors in calculating the square footage of the damaged property because loss verifiers either did not:

- Always meet with borrowers to assess the damaged properties to accurately determine the size of the damaged properties or extent of the damage;

- Enter all required information in DCMS; or

- Accurately determine square footage when the property was totally destroyed.

**Properties Were Not Inspected According to SBA's Letter of Obligation**

According to SBA's Letter of Obligation, which specified how loss verifications were to be performed, the MEO:

> "…was to conduct a complete verification, which included entry into the location to determine cause and extent of interior damages. The MEO was to be compensated for completed verifications without entry to a specified location only when the location had been destroyed, suffered major structural damage (jeopardy to safe entry), or was inaccessible for verification due to standing water, landslide, or similar unsafe situation.". At least one visit with the applicant or their representative present was to be made to verify the exterior when the location was accessible for exterior verification."

However, a review of DCMS data and interviews with borrowers disclosed that loss verifiers did not always meet with borrowers on-site to assess the square footage and amount of damages to the property. For example, one borrower told us that she was in Atlanta when the loss verifier conducted the loss verifications and that the verifier reported damage to the upstairs living room and kitchen when the living room and kitchen were downstairs. In three other examples, documentation within DCMS disclosed that loss verifiers spoke to borrowers by phone to get permission to visit the damaged properties. However, there was no indication that loss verifiers scheduled or conducted follow-up visits to meet applicants on-site.

ODA officials told us that because many of the borrowers had relocated and were no longer in the disaster area, it waived the requirement for loss verifiers to meet with borrowers on-site. To ensure that loss verifiers at least make all possible attempts to contact and/or meet with applicants to assess the properties they are evaluating, ODA should reinforce these requirements for loss verifiers, whenever possible, and ensure that its QAR process evaluates whether attempts were made to conduct these meetings.

**All Required Information Was Not Entered into DCMS**

Loss verifiers did not always enter all required information into DCMS. Within DCMS, there are 14 screens that prompt loss verifiers to enter data on the composition of the dwelling, square footage of the interior rooms and exterior, and the extent of physical property damage. Using this information, DCMS calculates the estimated value of damages. However, DCMS does not contain mandatory fields that must be completed before allowing loss verifiers to move to subsequent screens. Consequently, loss verifiers can skip critical information, such as whether interior insulation, electrical wiring, garages, unfinished basements, siding or porches need to be replaced. If DCMS were programmed to perform completeness checks, it would highlight missing information and prevent loss verifiers from proceeding without fully completing each data screen. These checks should be incorporated into future upgrades of DCMS.

Loss verifiers may not have been sufficiently trained on how to use the system's loss verification module. Generally, loss verifiers received only one week of training, which provided a brief overview of several topics, such as operating a personal laptop computer, the structure of ODA's Disaster Credit Management System, the *Loss Verifier Training Manual*, general employee conduct, travel policy, and sexual harassment. Because this training covered a variety of subjects, the amount of time devoted to DCMS was limited.

*No Guidance Was Provided to Loss Verifiers on Calculating the Square Footage of Property that was Completely Destroyed*

According to ODA's *Loss Verifier Training Manual,* the loss verifier must determine the cost to reconstruct the property based on an estimate of the square footage. However, reconstructing property that has been completely destroyed is difficult because the loss verifier cannot walk the length of the rooms or the perimeter of the foundation or structure to measure them. The guidance also provides no alternative ways of measuring the property square footage. As a result, the loss verifier must guess the size of the structure based on the size of the lot.

We believe that when there is no structure on the property being evaluated, loss verifiers should be instructed to use tax assessments or other official property documents as the basis for estimating the square footage. This practice would be comparable to that used by insurance companies. While all tax assessments may not have square footage information, they would contain a description and estimate of the land and structures on the property. Alternatively, if the applicant had homeowner's insurance, the insurance documents could also provide information on the property size, value and replacement cost.

**SBA Did Not Exercise Proper Oversight of the Loss Verification Process**

SBA's Letter of Obligation required ODA to develop a Quality Assurance Surveillance Plan and designate a representative who would routinely monitor the performance of the MEO. Performance was to be monitored through a review of a random sample of loss verification reports, and as needed, field observations. ODA also had the discretion to conduct formal performance evaluation meetings to discuss MEO performance at any time.

Despite the provisions of the Letter of Obligation, ODA had drafted, but not implemented a Quality Assurance Surveillance Plan. Also, while ODA designated a person to monitor the performance of the MEO, the individual had other full-time duties to perform. Consequently, the individual could not effectively monitor the quality of the over 300,000 loss verifications completed by the MEO between October 1, 2005, and March 31, 2006. Additionally, the number of loss verifiers increased, bringing the total number of loss verifiers to approximately 1,000 by January 2006. Subsequently, in March 2007, ODA assigned a full-time person to monitor the MEO's performance. While this was a step in the right direction, the significant volume of loss verifications and increase in loss verifiers made it difficult for one individual to monitor loss verifier performance without additional resources.

Our previous report on the *Quality Assurance Review of Loss Verifications* noted that nearly 30 percent of the QARs were materially altered by a senior official, allowing ODA to avoid penalties and retain the work under the A-76 contract it had been awarded. Moreover, during the QAR conducted by ODA, it did not find inaccurate repair or replacement values for damaged property because reviews of the loss verifier reports were limited. Specifically, ODA simply conducted desk reviews without site visits to damaged properties, and did not include assessments on whether the repair or replacement values for damaged properties were accurately estimated by MEO loss verifiers.

Further, because the MEO was housed within ODA, it lacked the independence needed to assess the MEO's performance and had no incentive to find deficiencies within its own organization that would cause termination of the contract. As a result, we recommended that the QAR function be assigned to an organization outside of ODA. ODA management agreed with this recommendation and conducted another QAR in late August 2007. However, at that time, SBA had not reassigned the QAR function to an organization outside of ODA, and the QAR was overseen by ODA's Designated Government Representative, who lacked independence.

Results of the August 2007 QAR showed that the work completed by the Field Inspection Team was within the guidelines in the Letter of Obligation. Based on its review of a sample of 315 loss verification reports, and a random sampling of the files completed by the Field Inspection Team, the QAR found that the reports were 98.58 percent accurate, and noted 1 erroneous loss verification report resulting in a payment of approximately $2,300. Since the last QAR was conducted, the Office of Human Capital Management agreed to assume the QAR responsibilities, in response to our recommendations that the QAR function be assigned to an organization outside of ODA. That office also agreed to develop new QAR guidance as we recommended.

Finally, although not expressly required by the Letter of Obligation, ODA did not conduct formal performance evaluation meetings with the MEO to discuss its performance. We believe performance evaluation meetings should have been conducted on a consistent basis to monitor the MEO's performance, especially with significant increases in staff. Further, without a performance evaluation, we questioned how ODA justified continuation of the contract through the option years.

To help monitor the MEO's performance, we believe ODA should use loss verifiers assigned to the two Field Operations Centers to monitor the MEO's performance. These loss verifiers assess damages incurred outside the continental United States that are not covered by the MEO and are a sizeable workforce that could provide the manpower necessary to effectively monitor the MEO's performance through random on-site inspections. They also have the expertise necessary to effectively evaluate the MEO's performance and are frequently working out of the same field locations as the MEO.

**ODA Conducted Loss Verifications on Loan Applications that Were Declined, Resulting in the Expenditure of $10.3 Million that Could Have Been Put to Better Use**

Between October 2005 and March 2006 SBA conducted 88,692 loss verifications on applications that were declined during pre-processing of the applications. These applications were declined either because the applicants had questionable creditworthiness or lacked repayment ability.

Although these 88,692 loans were declined in pre-processing, ODA sent loss verifiers to the associated properties to conduct loss verifications. We estimated that the cost of conducting these unnecessary loss verifications was $10.3 million. This number is based on an average cost per verification of $116.28 divided by the $36.2 million in labor and travel costs incurred by the MEO in conducting the 311,046 loss verifications. Consequently, the $10.3 million could have been put to better use.

Our methodology is more fully explained in Appendix II.

## RECOMMENDATIONS

We recommend that the Associate Administrator for Disaster Assistance:

1. Reinforce the requirement, whenever possible, for loss verifiers to make all attempts to contact and/or meet the applicant at the damaged property, note the dates of contact and/or meetings with the applicant in DCMS, and ensure that future QARs determine the extent to which loss verifiers are attempting contact and meetings with applicants at the disaster site.

2. Incorporate database completeness checks when upgrading DCMS to ensure the completeness of data entry.

3. Ensure that loss verifiers receive additional training on the DCMS loss verification module.

4. Revise the *Loss Verifier Training Manual* to instruct loss verifiers to use tax assessments, insurance information, or other appropriate sources, as the basis for estimating square footage of property that has been completely destroyed.

5. Ensure that the MEO adheres to monitoring requirements specified in the Letter of Obligation by finalizing and executing the Quality Assurance Surveillance Plan and holding formal performance evaluation meetings.

6. Use loss verifiers from the Field Operation Centers to monitor the MEO's performance through random on-site inspections to ensure that the MEO is visiting the damaged property and properly evaluating the extent of damages.

7. Issue a notice to loan officers instructing them not to assign applications to loss verifiers that have been declined during pre-processing of the applications.

## AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

On March 5, 2008, we provided ODA with a draft of this report for comment. On March 26, 2008, ODA submitted its formal response, which is contained in its entirety in Appendix III. ODA concurred with three of the seven original recommendations and commented on several issues raised in the report. A summary of management's comments and our response follows. Where appropriate, we made necessary changes to the report to ensure all statements are factual based on our coordination with ODA.

*Comment 1*

ODA commented that the statistical universe sampled is not uniform because the data extrapolated covers damages that occurred during eight separate disaster declarations over a 9-month period and therefore, the type of damages, costs, time constraints and access to properties differed by region. ODA also stated that the selection of 31 cases to revisit resulted in a sampling equal to 1/10$^{th}$ of 1 percent of the 315,000 cases completed. As a result, ODA believes that the sampling may not be reflective of the overall quality of assistance provided to disaster victims during this period.

*OIG Response*

The OIG consulted with a professional statistician in conducting this audit, and our representation of the results were in accordance with the statistician's analysis and advice. Further, the statistical universe used in the audit was the same universe that SBA sampled from during its Quality Assurance Review (QAR) of loss verification reports. SBA extrapolated its sample results to the universe of 315,000 completed cases from the 8 disasters to make conclusions about the quality of loss verifications. Since SBA considered this universe to be uniform for purposes of making conclusions about the quality of the loss verifications performed in the various states affected by the eight disasters, it should also be uniform for our purposes as we used the same universe of loans and derived our sample from SBA's sample.

*Comment 2*

ODA stated our assertion that the June 2006 QAR results were altered to allow the MEO to meet performance requirements has not been substantiated, and therefore, should be removed from the report. ODA further stated it completed an independent validation of the changes made to the QAR results, and that the QAR supervisor had the authority to make, but unfortunately did not document his justification for, such changes.

*OIG Response*

We revised the report language to mirror that used in our previous report on the *Quality Assurance Review of Loss Verifications*. We reported that nearly 30 percent of the QARs were materially altered by a senior official, allowing ODA to avoid penalties and retain the work under the A-76 contract it had been awarded. We disagree with ODA's suggestion that the QAR supervisor made legitimate alterations that unfortunately were not documented. When interviewed, the QAR supervisor could provide no explanation or justification for any of the alterations he had made. He admitted making the alterations in collaboration with MEO management, without consulting the reviewers. Further, the supervisor never sought additional information with which to challenge the information reported by the loss verifiers. We believe that had the changes been justified, the supervisor would have been able to explain his reasons for the alterations.

Additionally, we disagree that ODA has performed an "independent" validation of the QARs. The validation was performed by ODA, which, as we previously reported, is in a conflicted position. Because ODA both managed the MEO and performed the QAR, and would also incur the penalties from for non-performance, it lacks the independence needed to fairly evaluate the MEO's performance. Therefore, we continue to believe that independence can only be achieved once QAR responsibilities have been reassigned to an SBA organization outside of ODA. Since these responsibilities and preparation of the new QAR guidance have been transferred to the Office of Human Capital Management, we believe that future QARs should be able to more reliably assess the quality of reviews conducted by ODA.

*Comment 3*

ODA took issue with the errors we identified in the report and said that it discovered numerous discrepancies, which significantly compromised the integrity of our review and any projections or assumptions that were based on our review. SBA further states that the discrepancies include inconsistent responses to the QAR questions, incomplete or missing loss verification reports (of the Field Operation Center verifiers), and incorrect square footage calculations.

*OIG Response*

ODA's position that the reports contain discrepancies is based on ODA's desk reviews of several documents provided by our office and analysis of our results, without having the added benefit of examining the property and talking to the applicants. In contrast, we identified errors based on field visits we conducted to the disaster locations and discussions with borrowers. Furthermore, we enlisted the technical expertise of ODA's Field Operation Center (FOC) loss verifiers in conducting our reviews. FOC loss verifiers re-verified each property, and assisted us in preparing revised loss verification reports. While we realize that the verification results may sometimes vary, we believe that site visits versus desk reviews are a more effective way of determining the accuracy of the initial verification.

While we believe our assessment of damages is accurate, we agreed to reduce our reported deficiencies from 16 to 11 based on either Agency policy changes that affected verification procedures that were not provided to the OIG during the audit, guidelines that allowed a range of options in estimating damages, or insignificant differences between the OIG and ODA estimates.

*Comment 4*

ODA questioned our position that loss verifications conducted on 88,692 files were declined during the pre-processing of applications. It stated that we did not properly review the status of each decline and, therefore, it was inaccurate to represent the entire pre-processing decline population as containing one set of variables, resulting in a projected $10.3 million in expenditures for these loss verifications.

*OIG Response*

We believe that the 88,692 pre-processing declines should not have been referred to loss verification. These declines were assigned multiple reason codes, but at a minimum, they were all coded as either 20, 21 or 28. Codes 20 and 21 are generated when the analysis of loan application information results in a conclusion that the applicant's income, adding in existing debts, is insufficient to repay a disaster loan. Code 28 is generated when an evaluation of the applicant's credit report and related information indicates that the applicant has not complied with the terms of prior debt obligations. In such cases, the Agency lacks reasonable assurance of the applicant's willingness or ability to comply with the terms of a disaster loan and further review would not qualify these individuals for disaster loans. Consequently, we believe the entire $10.3 million was unnecessarily spent on loss verifications that did not need to be performed.

**Recommendation 1**

*Management Comments*

ODA stated that the Field Inspection Team will continue to reinforce the requirements to make site visits.

*OIG Response*

We revised the recommendation to require the loss verifiers to make all attempts, whenever possible to contact and/or meet with applicants on site. We consider ODA's agreement to reinforce the site visit requirement to be partially responsive to our recommendation. However, ODA did not respond to other portions of recommendation 1, including that it reinforce the requirement for loss verifiers to note in DCMS the dates they met with applicants, whenever possible, and ensure that future QARs determine whether all attempts were made by verifiers to contact and/or meet with applicants. Both of these recommended actions provide better oversight of the loss verification process.

**Recommendations 2 and 3**

*Management Comments*

ODA stated that there are completion checks within the loss verification program in DCMS, but agreed to review additional checks when upgrading DCMS. ODA also stated that training sessions were implemented in Herndon last year that covered DCMS and other areas identified from its review and quality control process. These sessions will continue on an annual basis.

ODA added that DCMS issues are addressed by a Field Inspection Team technical expert immediately as they arise, and are brought to the attention of DCMS managers. After the issues are resolved, all users are then trained on any changes and new procedures implemented for DCMS users. ODA added that this training will be conducted on a continual basis by the Field Inspection Team.

*OIG Response*

We consider management's comments to be responsive to both recommendations.

**Recommendation 4**

*Management Comments*

ODA stated that the Field Inspection Team requires inspectors to make site visits, and if no information is available on site, to use information available from the tax assessor, MSN Live, Pictometery, Inc., Google Earth, and any available reputable sources.

*OIG Response*

While we believe that the Field Inspection Team's actions are commendable, ODA's comments did not address our recommendation. We recommended that ODA revise the *Loss Verifier Training Manual* to instruct loss verifiers to use tax assessments, insurance information, or other appropriate sources, as the basis for estimating square footage of property that has been completely destroyed. The manual is the document that drives the loss verification process and such a requirement should be included in the manual. Therefore, we consider ODA's comments to be unresponsive to the recommendation, and will seek a management decision through the audit resolution process.

**Recommendation 5**

*Management Comments*

ODA stated that it is updating the Quality Assurance Surveillance Plan information, and monitoring the FIT through desktop and onsite reviews to evaluate work quality.

*OIG Response*

ODA's comments were not responsive to the recommendation that it execute the Quality Assurance Surveillance Plan specified in its Letter of Obligation as it did not indicate when it would finalize and implement the plan. We believe that ODA should take the necessary steps to implement the QASP in accordance with the Letter of Obligation. Accordingly, we will seek a management decision through the audit resolution process.

**Recommendation 6**

*Management Comments*

ODA stated that it is currently using Field Operation Center, PDC, and Customer Service Center employees to complete QAR inspections of the MEO. ODA further stated that it performs quarterly onsite QAR inspections on recently completed files using FOC and PDC employees.

*OIG Response*

We do not believe that an annual QAR satisfies the monitoring requirements specified in SBA's Letter of Obligation nor does it meet the intent of the recommendation. ODA's comments indicate that it is relying on its QAR process as its sole means for monitoring and evaluating the performance of loss verifiers. We recommended that ODA use FOC to conduct random on-site inspections to monitor the MEO's performance, in accordance with its Quality Assurance Surveillance Plan. This type of monitoring is real time and, if done properly, unannounced. Therefore, we do not consider ODA's comments to be responsive since it did not agree to monitor contractor performance in accordance with the Quality Assurance Surveillance Plan, and will seek a management decision through the audit resolution process.

**Recommendation 7**

*Management Comments*

ODA stated that it did not feel there is a need to issue a notice to loan officers instructing them to not assign applications declined during pre-processing to loss verifiers. ODA believes that because the pre-processing decline recommendations are system-generated, a final review by a skilled Senior Loan Officer is still required to determine whether a loss verification is required. However, ODA indicated that since the processing of the Gulf Coast loans, ODA has modified its process and completed extensive training to avoid needless verifications that result from of an unwarranted override decision.

*OIG Response*

The alternative actions taken by ODA may be sufficient to address the recommendation. However, ODA will need to provide additional details about the changes it has made to its process before we can consider its actions to be responsive to the recommendation.

## ACTIONS REQUIRED

Because your comments did not fully address recommendations 1 and 7, we request that you provide a written response by June 24, 2008, providing additional details and target dates for implementing these recommendations. Please specify in your response:

- Your plans for reinforcing the requirement for loss verifies to note in DCMS the dates they met with applicants;

- The steps you will take to ensure that future QARs determine whether verifiers are meeting with applicants; and

- Specific changes made in the processing of disaster loans to avoid needless verifications that result from of an unwarranted override decision.

We appreciate the courtesies and cooperation of the Office of Associate Administrator Disaster Assistance; Disaster Assistance Processing and Disbursement Center and DCMS Operations Center representatives during this audit. If you have any questions concerning this report, please call me at (202) 205-[FOIA Ex. 2] or Pamela Steele-Nelson, Director, Disaster Assistance Group, at (202) 205-[FOIA Ex. 2].

## APPENDIX I. REVIEW OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of the review were to determine whether: (1) loss verifications were accurate; (2) ODA provided adequate direction to verifiers to ensure that losses were adequately verified; and (3) SBA exercised the proper level of oversight over the loss verification process.

To assess whether the losses were accurately reported, we reviewed 65 loss verification reports that were statistically sampled from 777 loss verifications that had been completed as of June 30, 2006. Estimates for projections were made with a 95-percent confidence level. We focused our review on real property losses as we could not verify personal property losses, which were based strictly on borrower claims. We performed on-site inspections of properties in Florida, Mississippi and Louisiana associated with 30 of 47 loss verifications we sampled that involved real property. We also interviewed loss verifiers about the training provided to them and reviewed the results of ODA's September 2006 *Disaster Loss Verification Evaluation Report*. To determine whether SBA provided adequate direction to verifiers to ensure that losses were adequately verified, we interviewed loss verifiers and Office of Disaster Assistance (ODA) management about the direction provided SBA employees. We also reviewed ODA's *Loss Verifier Training Manual*.

To determine whether the proper level of oversight was provided, we evaluated the adequacy of the quality assurance process used by ODA to review the quality of loss verifications. We determined whether ODA followed the oversight provisions of its Letter of Obligation, which specified performance requirements for ODA employees designated to perform the loss verifications. Finally, we interviewed officials at ODA; the Loan Processing Center in Fort Worth, Texas; and East and West Field Operation Centers.

We conducted the review between November 2006 and November 2007.

## APPENDIX II. CALCULATION OF FUNDS PUT TO BETTER USE

In March 2005, the Most Efficient Organization (MEO) amended its bid in response to the Performance Work Statement projected workload of 60,549 file verifications conducted evenly throughout the year. Because of unexpected disasters, such as Hurricanes Katrina, Wilma, and Rita, the six-month performance period workload increased to 311,046 file verifications, or 10.3 times greater than the projected PWS workload of 30,275. Consequently, the MEO was required to make immediate increases in staffing levels from a projected 90.86 Full Time Equivalent (FTE) positions to 354.20 FTE, or 3.9 times greater than the projected number of FTE required. The table below compares actual MEO FTE positions and workload to projected MEO FTE positions and workload, and actual personnel costs of approximately $36.2 million.

**Actual Workload Compared to Proposed Workload and Actual Personnel Costs**

| | **Factors used to Calculate Funds Put to Better Use** | **Number of FTE Positions** |
|---|---|---|
| Proposed MEO | 30,275 | 90.86 |
| Actual MEO | 311,046 | 354.20 |
| Factor (actual/projected) | 10.3 | 3.9 |
| Total Personnel Costs | $32,292,660 | |
| Overhead (12%) | $3,875,119 | |
| Total Actual Cost | $36,167,779 | |
| Total Cost Per Loss Verification File | $116.28 | |
| Total number of site inspections where the applicants' loan applications were denied because of questionable credit or repayment ability. | 88,692 | |
| Estimated Loss Verification Costs Put to Better Use (*88,692 times $116.28*) | $10,313,106 | |
| Total Number of FTE Positions that "Could have been Put to Better Use" (*$10.3/$36.2 = 28.5 times 354.20 FTEs = 100.98 FTEs*) | (100.95) | |
| **Source: SBA September 27, 2006 Disaster Loss Verification Evaluation Report** | | |

APPENDIX III. AGENCY RESPONSE



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

Date: March 26, 2008

To: Debra S. Ritt
Assistant Inspector General for Auditing

From: Herbert L. Mitchell
Associate Administrator
for Disaster Assistance

Subject: OIG Draft Report – The Disaster Loss Verification Process (Project No. 7402 Part II)

We have reviewed the draft audit report on The Disaster Loss Verification Process prepared by your office.

The OIG audit objective was to determine:

(1) That loss verifications were accurate;
(2) ODA provided adequate direction to verifiers to ensure that losses were adequately verified; and
(3) SBA exercised the proper level of oversight of the loss verification process

The statistical universe sampled is not uniform. The data extrapolated covers damages occurring during eight separate disaster declarations occurring over a nine month period. These disasters covered 6 states and 147 primary counties. For example; the type of damages, costs, time constraints, access to properties and availability of applicants was substantially different in New Orleans in October of 2005 (Hurricane Katrina) than it was in Marathon Key, Florida in June of 2006 (Hurricane Wilma). The selection of 31 cases to revisit on site resulted in a sampling equal to 1/10$^{th}$ of 1% of the 315,000 cases completed. The results of the sampling may not be reflective of the overall quality of assistance provided to disaster victims during this period.

On page 2 of the draft it states that the date that the verification contract was awarded to the MEO was February 2005. The Letter of Obligation was signed on July 7, 2005. The award preceded the implementation of the contract (October 1, 2005) by less than three months, not the nine months presumed in the draft.

Additionally on page 2, the OIG's assertion that the June 2006 QAR results were altered for the purpose of allowing the MEO to meet performance requirements has not been substantiated and should be removed. While the QAR Team leader had the authority to make the final determinations, unfortunately he failed to document reasons and justification for such changes. As a follow up to the first part of Audit 07-29 regarding the altered QAR results, an independent validation of the changes was completed by ODA Management (details attached).

In the Results in Brief section of the report, the OIG reports that a significant number of loss verification reports did not accurately estimate the replacement value of property damages. The report cites 16 cases specifically and project from those cases that Gulf Coast loss verification reports completed as of July 2006 overstated losses by at least $471 million. After a thorough review of these 16 cases by ODA, it was determined that calculations made to support the OIG's findings on 13 of the 16 files sampled contained errors. The documentation that the OIG provided to ODA and was the basis for their analysis included:

a. the OIG Field inspection spreadsheet,
b. the FOC LV onsite QAR report, and
c. the original LV inspection report

As ODA reviewed OIG's documents and calculations numerous discrepancies were discovered which significantly compromises the integrity of this review and any projections or assumptions that are based on this review. Discrepancies included inconsistent responses to the QAR questions, incomplete or missing FOC reports, and incorrect square footage (sf) calculations.

Additionally, the Loss Verification report is intended to be an estimate of the damages to determine the eligible loan amount which may be adjusted based on the actual contract amount. Even with the actual contract amount disbursement of funds are then predicated upon the review of receipts. In the Gulf Coast region, as in many areas after a disaster, repair costs tend to increase based on an increase in the cost of construction materials and labor. Because of this, a significant number of original verifications have to be re-verified to increase the allowed losses in order to help the applicant repair their property to its pre-disaster condition.

On page 9 of the report, the OIG states that SBA did verifications on 88,692 files that were declined during pre-processing of applications. If the OIG is referring to the PPD process, the system generated decline code is only a recommendation based on the business rules as follows:

1. At the time of Hurricane Katrina, prior to Loss Verification, the business rules in DCMS performed a credit review on all home applicant wage earners and sole proprietors with credit scores of 540-579 and completes a repayment analysis on all home applicant wage earners with credit scores of 540-579 and GAI (Gross Annual Income) of less than $50,000 utilizing MAFD percentages of 45% for GAI of $24,999 or less and 55% for GAI $25,000 or greater.

As a result, if a file had a credit score between 540-579, or exceeded the repayment benchmarks the system would generate a 21, 28 or a 21/28 decline code recommendation. The file still needed to be reviewed by an SLO to determine if they concurred with the system generated decline recommendation. If the SLO determined the recommendation was not appropriate or needed additional processing the decline recommendation was overridden and the file was sent to LV. The 88,692 figure quoted by the OIG does not breakout the population of declines that were noted in the PPD, reasons they were overridden or if other decline codes were added during post LV processing. For example, if a file went through the PPD process, how many files had only

- One decline code
- How many had dual declines (21/28) or (20/44I/44R)
- How many had an additional decline codes added post LV during LP processing that are not included in the original PPD review

Without detailing and analyzing the above statistical data it is inaccurate as detailed in appendix II of the report to represent the entire PPD population as containing one set of variables and project a $10.3 million expenditure.

Comments on the Recommendations:

Recommendation #1: Reinforce the requirement for loss verifiers to make site visits, note the visit dates in DCMS, and ensure that future QARs determine the extent to which loss verifiers are making site visits.

*ODA Response: A site inspection is required on all properties with real estate losses. Attached Training Bulletin #2, dated October 5, 2005, and distributed to every Field Inspector, addresses the issue and it has been reinforced in all formal and informal training sessions since that time. Because DCMS and tablet software automatically time and date stamp all chron entries, FIT requires inspectors to make on site chron entries in real time. FIT has and continues to do on site Quality Control inspections on 5% of all completed initial inspections; this is beyond the requirement of the Letter of Obligation. FIT will continue to reinforce the requirements to make site visits.*

Recommendation #2: Incorporate database completeness checks when upgrading DCMS to ensure the completeness of data entry.

*ODA Response: There are completeness checks within the LV program in DCMS. ODA will review additional checks when upgrading DCMS.*

Recommendation #3: Ensure that loss verifiers receive additional training on the DCMS loss verification module.

*ODA Response: Training sessions were implemented in Herndon last year and serve to reinforce and update policies and procedures, including DCMS, SOP, Training Manual, Policy or Procedure changes and other areas identified in the review and QC process. These sessions will continue on an annual basis.*

*DCMS issues are addressed by a FIT technical expert who oversees all DCMS and tablet issues that arise in the field. All technical issues are addressed immediately as they arise and are brought to the attention of DCMS in Herndon. When the issue(s) have been resolved all users receive training regarding any changes and new procedures that may have been implemented. This also serves as an internal help desk for any field staff that is having computer difficulties or need more information. FIT will continue to provide training on the DCMS.*

APPENDIX III. AGENCY RESPONSE



Recommendation #4: Revise the *Loss Verifier Training Manual* to instruct loss verifiers to use tax assessments, insurance information, or other appropriate sources, as the basis for estimating square footage of property that has been completely destroyed.

*ODA Response: The first FIT Training Bulletin, attached as Training Bulletin #1, dated October 1, 2005 stressed the importance of accurate measurements, property observation and the inclusion of the representatives' name.*

*FIT requires inspectors to make site visits and if no information is available on site to use information available from tax assessors, MSN Live, Pictometery, Inc., Google Earth and any available reputable sources. This has been FIT policy from the inception; attached Louisiana Tax Assessor is an example of data that was provided to each inspector during Katrina. These and other, best available docs are provided to inspectors for every declaration. FIT also relies on this third party data, along with on site re-inspection as an integral part of the FIT review and QC process.*

*Attached documents SF.doc and SF- With Scenerio.doc are examples of the training tools that continue to be utilizes by FIT. The training has four different scenarios and a description of the damage. A total of eight classroom hours are devoted to these case studies which included a house that was destroyed by a tornado, flying debris, storm surge and flooding. FIT will continue to require the use of third party sources, when appropriate, to estimate square footage.*

Recommendation #5: Ensure that the MEO adheres to monitoring requirements specified in the Letter of Obligation by finalizing and executing the Quality Assurance Surveillance Plan and holding formal performance evaluation meetings.

*ODA Response: ODA is working on updating the QASP information. We are monitoring the FIT with monthly work quality reviews both desktop and onsite. We also complete a Quality Review of files at the end of the fiscal year. We review (daily) the reports submitted by FIT and generated by DCMS to make sure they are performing and in compliance with the LOO and, SOW requirements.*

Recommendation #6: Use loss verifiers from the Field Operation Centers to monitor the MEO's performance through random on-site inspections to ensure that the MEO is visiting the damaged property and properly evaluating the extent of damages.

*ODA Response: ODA is currently using FOC, PDC and CSC employees to complete QAR inspections on the FIT. Additionally, ODA does a quarterly onsite QAR inspection on recently completed files using FOC and PDC employees.*

Recommendation #7: Issue a notice to loan officers instructing them not to assign applications to loss verifiers that have been declined during pre-processing of the applications.

APPENDIX III. AGENCY RESPONSE



*ODA Response: ODA does not feel that there is a need to issue a notice to loan officers instructing them not to assign applications to loss verifiers that have been declined during the pre-processing of the applications. The PPD recommendations are system generated recommendations and require a final review by a skilled SLO for concurrence or to override the PPD recommendation. Under the Pre-process decline process, it should be noted that the PPD (system generated action) was a recommendation and not a final decision. The SLO reviewing the PPDs had the authority to override the system generated recommendation of a Pre-processing decline. It is a judgment call of the SLO.*

*Since the processing of the Gulf Coast files, ODA has changed the process slightly and it is currently called Pre-LV Review. We also significantly improved the reporting mechanisms to track files that go through the Pre-LV process and the business rules that generate the decline recommendations as part of the Pre-LV reviews. Additionally, extensive training has been completed on the entire Pre-LV process to avoid needless verifications as the result of an unwarranted SLO override decision. However, the SLO still has the authority to override a system generated recommendation and a file may still get declined post LV. ODA has developed reports within DCMS to assist in monitoring the Pre-LV Process as well as specific reports to identify files that are overridden and subsequently declined at Processing.*

Thank you for the opportunity to comment on this draft report and if you have any questions on this response please feel free to contact me or James Rivera.

[FOIA Ex 6 ]

Herbert L. Mitchell
Associate Administrator
for Disaster Assistance

# APPENDIX III. AGENCY RESPONSE



ODA's review of the information provided by OIG resulted in a disagreement of 13 of the 16 statements.

OIG provided the following list of account numbers with statements indicating if the square footage and/or the value of damages were understated or overstated as a result of their review of the original onsite LV reports. To draw these conclusions OIG relied on FOC verifiers to re-verify the selected properties on the list. OIG provided the documentation they used in their analysis which included: the OIG Field inspection spreadsheet, the FOC LV onsite QAR report and the original LV inspection report. As ODA reviewed OIG's documents and calculations numerous discrepancies were discovered, which included inconsistent responses to the QAR questions, incomplete or missing FOC reports, and incorrect Square Footage (sf) calculations by the FOC LV's.

ODA's comments are attached for each file reviewed and the supporting documentation is available to substantiate the findings/comments.

[redacted]: Disagree

FOC inspector SF incorrect from dimensions on his drawing, (stated 1576sf, actual 1546sf)

SF from original LV report of 1800sf and QA report of 1576sf (should be 1546sf)

Unable to determine actual SF and who is correct.

There is a difference in report totals but there was a price guideline change in-between inspections (original and QA) and there are opinions and multiple costs that can be used by the independent LV's onsite which can produce different totals. Both reports are reasonable.

QAR # 2 there was roof damage only and wind driven rain through damaged roof. Water entry would be N/A as stated. Water entry on the LV report is for surface water and to help with flood insurance determination.

QAR # 12 this is a rental property (even with son living there), furnishings can still be Business Contents. Applicant stated she fully furnished rental properties.

[redacted]: Disagree

No FOC field report to determine SF.

IG report QAR # 3 says there is an accurate and complete sketch. We were unable to confirm SF without the FOC field report.

QAR # 1 - Strong winds from the disaster description would cause roof damage and cracking of drywall.

QAR # 4 - LV did identify that he met with Applicants husband [FOIA EX6] in chron and in the report observation.

QAR # 6 – LV states damage to shed contents not shed.

QAR # 11 – LV met with Applicant onsite and addressed all areas of damage.

QAR # 12- PP damage is consistent with damages, LV allowed for shed contents and utility items.

[redacted]: Agree

***"A" was renter of one room L/V provided total structure SF/ LV also allowed replacement of structure.

[redacted]: Disagree

Property was washed away (destroyed) as per FOC LV; Neither original or FOC LV met with Applicant onsite. This is a condo unit apartment; there is no indication, comments or external documentation to support how SF was determined by either LV. One cannot determine size measuring a condo building slab unless you have someone to show you the area where the individual condo walls sat.

The original LV allowed the correct damage losses for a condo unit. SBA policy and the LV manual procedure direct LV's to allow skin in (Floor coverings and interior wall/ceiling finish) for condo units until the actual disaster damage responsibilities are determined by the Loan Officer.

QAR # 4 LV contacted Applicant and verified Condo damages as instructed in the LV manual.

QAR # 6 interior and exterior was damaged.

QAR # 12 damage allowance was correct with original verification, all pp allowed and RE limited to Condo loss allowances.

[redacted] Disagree

No information provided to us on how this was determined. Spread sheet provided does not identify where differences are or sketches of FOC onsite. Need additional FOC LV drawings to check SF differences since there are numerous errors in FOC LV report calculations.

48 properties

[redacted]: Disagree

Unable to determine FOC LV sf .....As per sketch of FOC LV front width of structure shows 54' wide, back of structure shows 48' wide. Left side shows 38' length and right side shows 39' length. Unable to get an accurate SF of this property by the sketch provided.
If FOC sf is correct this would be an overstatement of SF not understatement. No indication of Understatement of damages.

No QAR exceptions.

[redacted]: Disagree

**Original LV overstated SF by 65sf this is an inches rounding item where the original LV and FOC LV rounded up or down to the nearest foot. There was a price guideline change in-between inspections (original and FOC QA) both inspectors used the correct range of cost allowances which will produce different loss amounts. Both reports are reasonable. The only item I see that raises a question is the FOC verifier allowed well over an average pitch on the roof. This SF allowance is 2.5 times the sf of the structure which is very unusual.**

QAR # 6 many homes have a wooden sub floor or floor joists on top of the concrete slab.

[redacted] Disagree SF/ Agree damages

Drawing by FOC LV calculates out to 1424sf not 1504sf as stated in their report. This is a difference of 215sf between the original and FOC LV calculations. This is an issue of rounding up or down to the nearest foot by the different LV's. The original LV allowed 350 dollars for food loss which appears reasonable from the power outage stated in the description of damages. There are no further comments to describe how long the power was out. Original inspection was 11/05 and FOC verifier went in 1/07.

QAR # 4 Chron entry shows met with applicant, this area will not have detailed discussions with applicant.

[redacted]: Agree with SF/ Disagree on damages

SF difference on original LV report and FOC report, Original LV did understate SF, but did not understate damage allowances. LV allowed for condo losses as per the LV manual.

QAR # 12 Damage description explains roof damage caused damage to RE and PP.

[redacted]: Disagree

SF difference 74sf this is an inches rounding item where the original LV and FOC LV rounded up or down to the nearest foot. Drawing was off by 1'.

FOC verifier did not get name of friend next door he met with and stated he met with applicant on property observation page.

12' of water in home for 30 days would have caused significant damages with water/mold soaking into wood frame of home. The FOC LV was there after most of the cleanup was done and maybe some repairs (we have no comments). The original Verifier made his call with the information he had. There could have been more comments on both LV's reports. This loan is canceled in full and we do not know what the Applicant is doing with the property.

QAR # 5 Chron should have been completed for discussion of damages with applicant.

QAR # 6 with the quantity and duration of water most LV's would have totaled the home, this was the best repair option the original verifier had. There should have been more comments by both verifiers.

This Loan Canceled in full....

[redacted] Disagree

This is a custom built home in North Miami FL, the original LV report stated there was tile roofing and the FOC LV report stated there were comp shingles. It would be hard to have a custom home in South Florida with Comp shingles. The roofing is the only difference of damages I could see between the original LV and the FOC LV and no way to confirm what type of roofing was used.

QAR # 12 There is no indication that damages were limited to second floor of structure, there was roof damage but also window, walls, patio and landscaping damage. Most hurricanes will cause wind driven rain through windows into structure causing damage to PP anywhere in the structure.

[redacted]
Disagree

How were the value of damages overstated when there was a $5000 difference and the FOC LV's cost of repairs were higher by $5000?

QAR # 5 original LV should have met with someone onsite, FOC LV did not meet anybody onsite.

[redacted]: Agree

SF was incorrect from sketch

Applicant rented home from grandmother and original LV allowed for RE damages

This Loan Canceled in Full........

[redacted] Disagree

Sketch footprint is completely different on original LV report and FOC LV report. If this was the same house on both, the footprint should be similar. The dimensions are way off 30+ feet. Original LV did meet with someone on site to verify damages. The FOC LV did not meet with anybody onsite to verify damages.

No understatement of damages, FOC LV had no reason or comments justifying totaling the structure. Original LV report is reasonable for the description of damages.

QAR # 3 there is no mention in either report of a stream or body of water that was on the property or near the house.

QAR # 6 the original LV report losses are reasonable for the description of damages.

[redacted]:
**Disagree**

**LV did not understate value of damages. There is a range of costs the LV can choose from for replacement cost. Each individual verifier can choose the appropriate value based on their experience and site observation. There is not an understatement of costs on original verification the allowances are reasonable for the damages described.**

**QAR # 3 this was not a flooding or mudslide disaster so the distance to water would not matter in this report. The FOC verifier showed the water but failed to indicate how far away the structure was from it. The FOC verifier did not describe whether it was a pond, lake, river, or stream.**

QAR # 4 Original LV could have commented better on what was damaged.

QAR # 12 PP losses seem reasonable for the amount of damage indicated to the structure. Furniture, clothes etc... start molding within a day of being wet. Do to severe roof damage this structure was totaled.

[redacted]:
Disagree

Don't see where value of damages are understated, both original LV report and FOC QAR report provided are the same except values were put under another UP code as requested by the Loan Officer.

QAR # 3 the sketch is correct?

QAR # 6 the property loss is consistent to the damages described there should have been more comments involved on why the property was totaled.

QAR # 12 there should have been more comments involved on justifying PP losses.

This loan is canceled in full...

**Validating Changes Made to LV Audit Exception Findings**

On June $28^{th}$ and $29^{th}$, [redacted] met in the Ft. Worth PDC to review those files in the LV audit on which the auditors found one or more exceptions, but which the LV reviewers found that specific exceptions were not warranted. The process was continued and finalized during a phone call on July $2^{nd}$. Present at all of these sessions was [redacted] Center Counsel in the Ft. Worth PDC, to act soley as an observer as to the process.

The process was as follows:

- [redacted] identified a file, recited the exception(s) and read any IG Auditor notes that were provided.
- [redacted] opened the LV report that was the subject of the audit (original verification) from the supplied CD-ROM, which in all cases included the case file Comments as well as the report comments.
- [redacted] would, specifically when noted by the auditor and on other occassions when appropriate, reference the LV manual, as well as the DCMS based Verification form/tool. He would generally read aloud the text of the relevant sections (as identified by the IG auditor or which he identified as relevant to the exception)
- Each exception for each file was brought up separately. [redacted] would use the various references identified above to recite the basis for why the exception was not warranted, or, in some cases, why the exception was in fact warranted. Frequent reasons (among many) cited in support of striking exceptions he deemed NOT warranted included:
    - Action/comment/details not required by LV manual
    - No basis in report to draw conclusion sufficient to replace the judgment of verifier on site
    - DCMS form drives the numerical outcome in some way (preset figures, etc)
    - Item was related to another exception on the same file which already has been addressed as not warranted and same reasons would remove it.
- [redacted] recorded [redacted] finding and the reasoning provided, asking for clarification if required. [redacted] would sometime read back how he documented [redacted] reasoning to insure accuracy.
- [redacted] observed the interchanges so as to verify lack of coercion or influence in the process between HQ staff and the LV manager. None was observed, and the process progressed through each file through conclusion of the list.

FOIA Ex 6

APPENDIX III. AGENCY RESPONSE



**FIT (Field Inspection Team)**
**Training Bulletin #1**
**Verification Report**

1) Rep. Nm.: In this box you must enter the name of the individual that you met onsite.

2) See examples below.

   Hurricane Katrina August 29, 2005 and Continuing:
   High winds and heavy rains caused roofing to fail allowing water entry into home damaging real and personal property.

   Hurricane Katrina August 29, 2005 and Continuing:
   Interior of home flooded to X feet for Y days damaging real and personal property.

   *If you are allowing for total reconstruction explain why (damaged beyond repair, shifted off foundation, etc.)
   *Be sure that the verified loss is consistent with your description of damage.

3) Be sure to ask applicant at time of the inspection if they anticipate insurance recovery for their disaster damage and advise them that they may be eligible for mitigation funds once an SBA loan is approved.

4) Make sure that all "PROPERTY OBSERVATION" boxes (property type, occupancy, construction class, etc.) are input correctly.

5) Water Entry: Make sure that selection for water entry is consistent with description of damage and training manual directives. Damages due to roof failures or water entry due to wind driven rains is N/A. Water entry only applies as to how water entered living area. If damage is limited to only site improvements such as fencing, driveways, etc. or if damage is a vehicle only water entry is N/A.

6) Square footage is critical! You must use a measuring device (tape measure, wheel, etc.) to measure home. Sketch dimensions and square footage must match. Sketch should include all structures (garages, carports, sheds, etc.).

7) Be sure that Pre-Disaster Value for both Land and Improvements is entered as accurately as possible as this effects additional eligibility determinations.

8) Is the Personal Property loss consistent with the property observations and the description of damages? If the quality of the home is average the allowances for personal property should reflect average replacement value or mid –guideline. and not low guidelines.

**** ALL VERIFICATIONS ARE TO BE COMPLETED CONSISTENT WITH THE VERIFICATION TRAINING MANUAL****

10/01/05

**FIT (Field Inspection Team)**
**Training Bulletin #2**

***The SBA Disaster assistance program is customer driven. We must always provide guidance and assistance in a professional and respectful manner. The people coming to the SBA for assistance have been through a traumatic experience from which they may not have recovered. Because the Loss Verifier is often the only SBA employee the Applicant will meet face to face, it is critical to exercise compassion, patience, tact and understanding, while on-site. This will often set the tone of the SBA's response to the Applicant's needs throughout the recovery process.***

1) Everyone please remember that first and foremost that this job is about the Disaster victim.

**VERIFICATION REPORTS**

2) Review Training Bulletin #1 and make sure that all reports comply with those directives.
3) Condominiums: Based on the SBA "skin-in" policy original verifications for condominiums should address "Floor Covering" and "Interior Finishes" ONLY.

4) Field Inspection Team approved process for verification of damages on properties when the ***applicant is unable to meet*** the verifier on-site or in the event that the ***applicant can not be contacted.***

    1) If the property is accessible, the Loss Verifier is able to contact the applicant, but the Applicant is not able to meet the Loss Verifier: In this case the Loss Verifier should receive permission from Applicant to verify the property without the Applicant or their Representative present. Contact with the Applicant and the subsequent permission to inspect the property needs to be entered into the comment section of the assignment details page (chron). After completion of the verification the Verifier should make an attempt to contact the applicant and advise them of the results of the verification and enter this information in the chron.
    If permission is not granted the file should be completed indicating Applicant is unable to meet for on-site verification and file should be withdrawn pending applicant's ability to meet for the inspection. (Reports should be submitted as "completed" not "can not complete". Enter minimum of information required to "validate" and "submit" file.)
    2) If the property is accessible but the Applicant cannot be reached after three calls to all available numbers within a two day period, the verification may be completed without the Applicant present. Attempts of contact must be entered into the comment section of the assignment details page (chron). After completion of the verification the Verifier should make an attempt to contact the applicant and advise them of the results of the verification and enter this information in the chron.

10/05/05

**FIT (Field Inspection Team)**
**Training Bulletin #3**

# IMPORTANT NOTICE

## ON THE BUSINESS REPORT *DO NOT* USE THE "HOME" BUTTON ON THE ASSIGNMENT DETAIL TO CREATE AN ADDITIONAL REPORT.

**THE REASON IS THAT THIS ACTION WILL CREATE A REPORT THAT DOES NOT TRANSFER DAMAGE AMOUNTS INTO DAYBREAK (LOAN PROCESSING).**

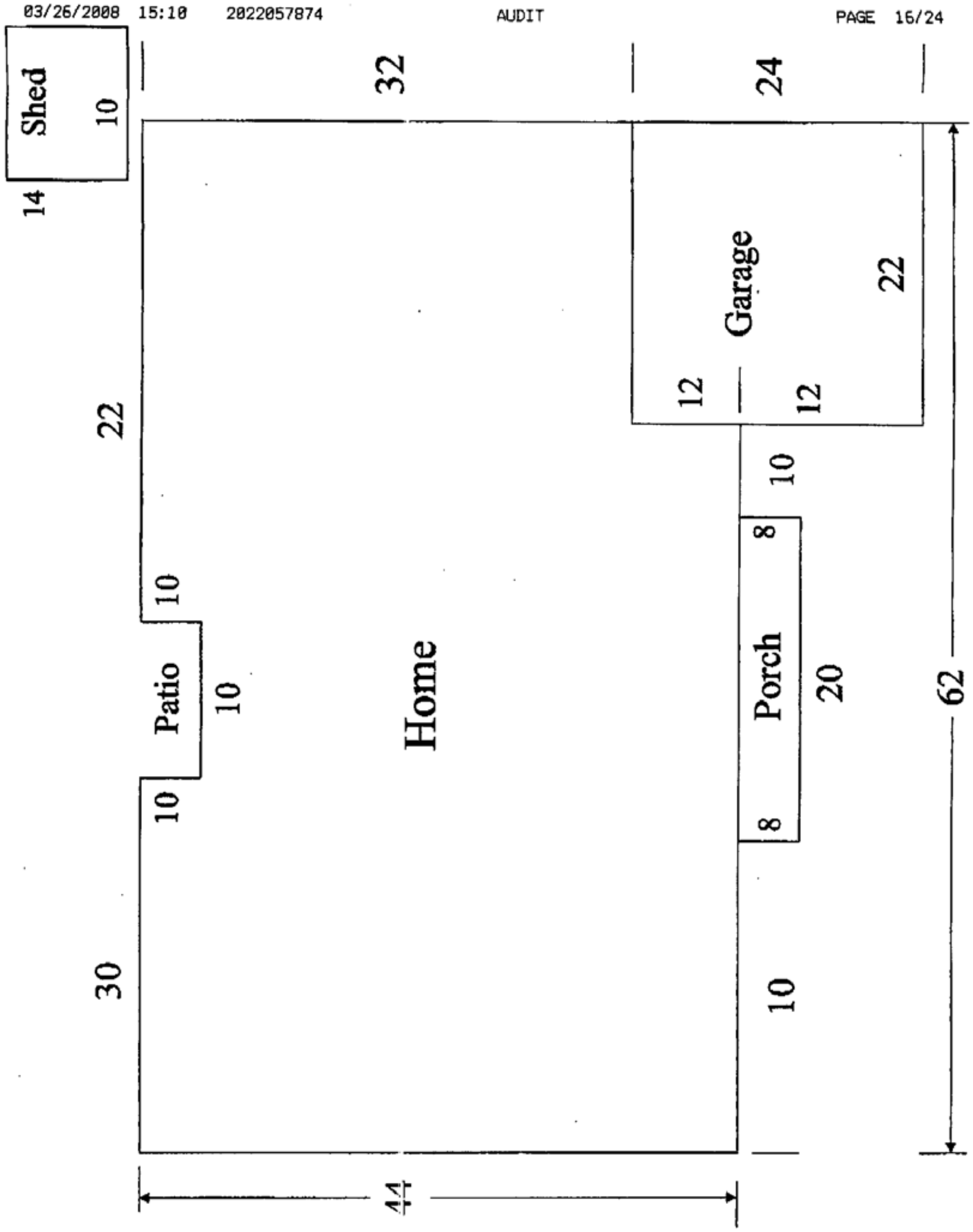
**ALL DAMAGES IN BUSINESS REPORTS MUST BE COMPLETED ON THE BUSINESS FORM. TO CREATE ANOTHER REPORT CLICK THE "BUSINESS" BUTTON.**

**ANY QUESTIONS PLEASE CONSULT YOUR TEAM LEADER OR REVIEWER.**

10/01/05

APPENDIX III.  AGENCY RESPONSE





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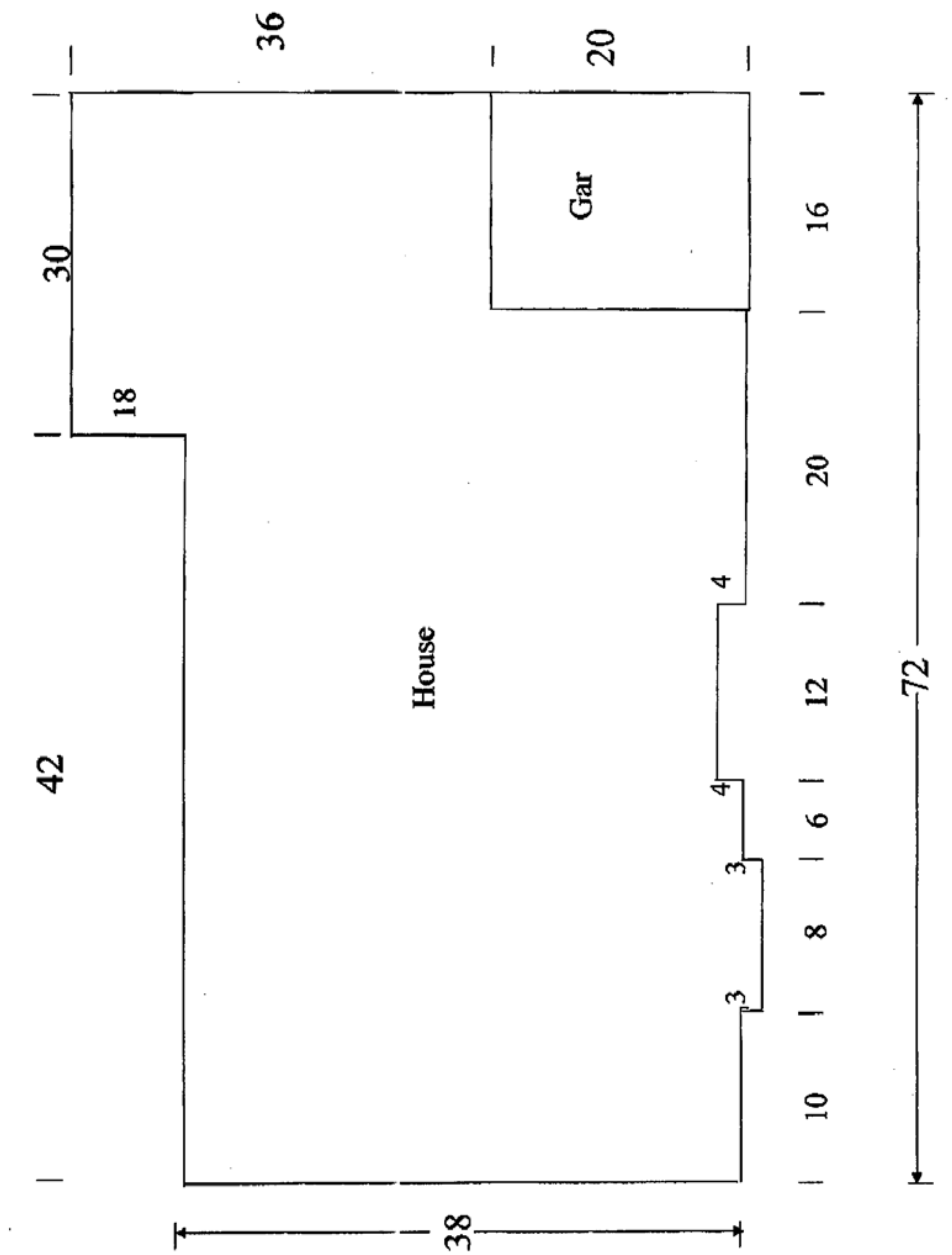
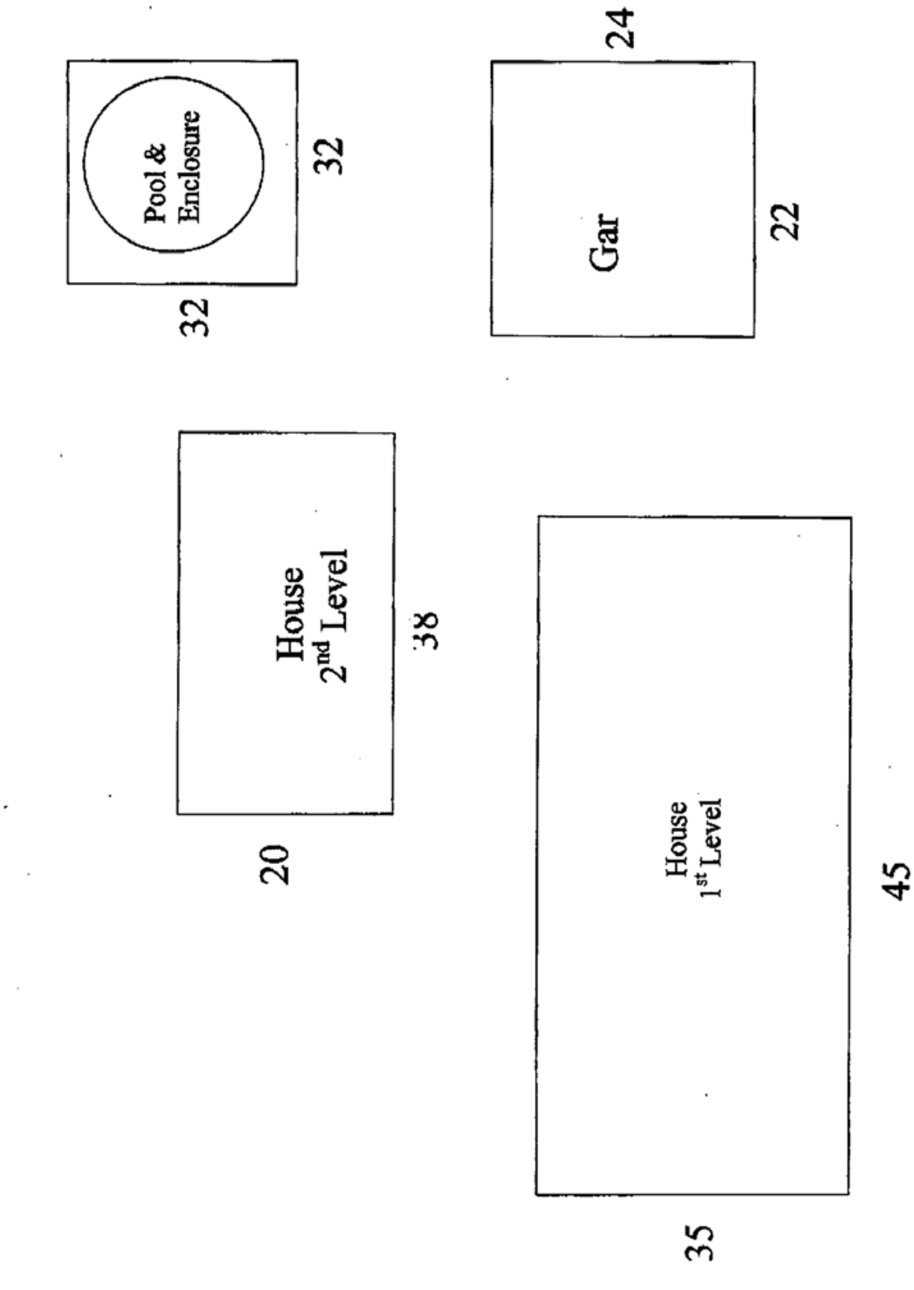


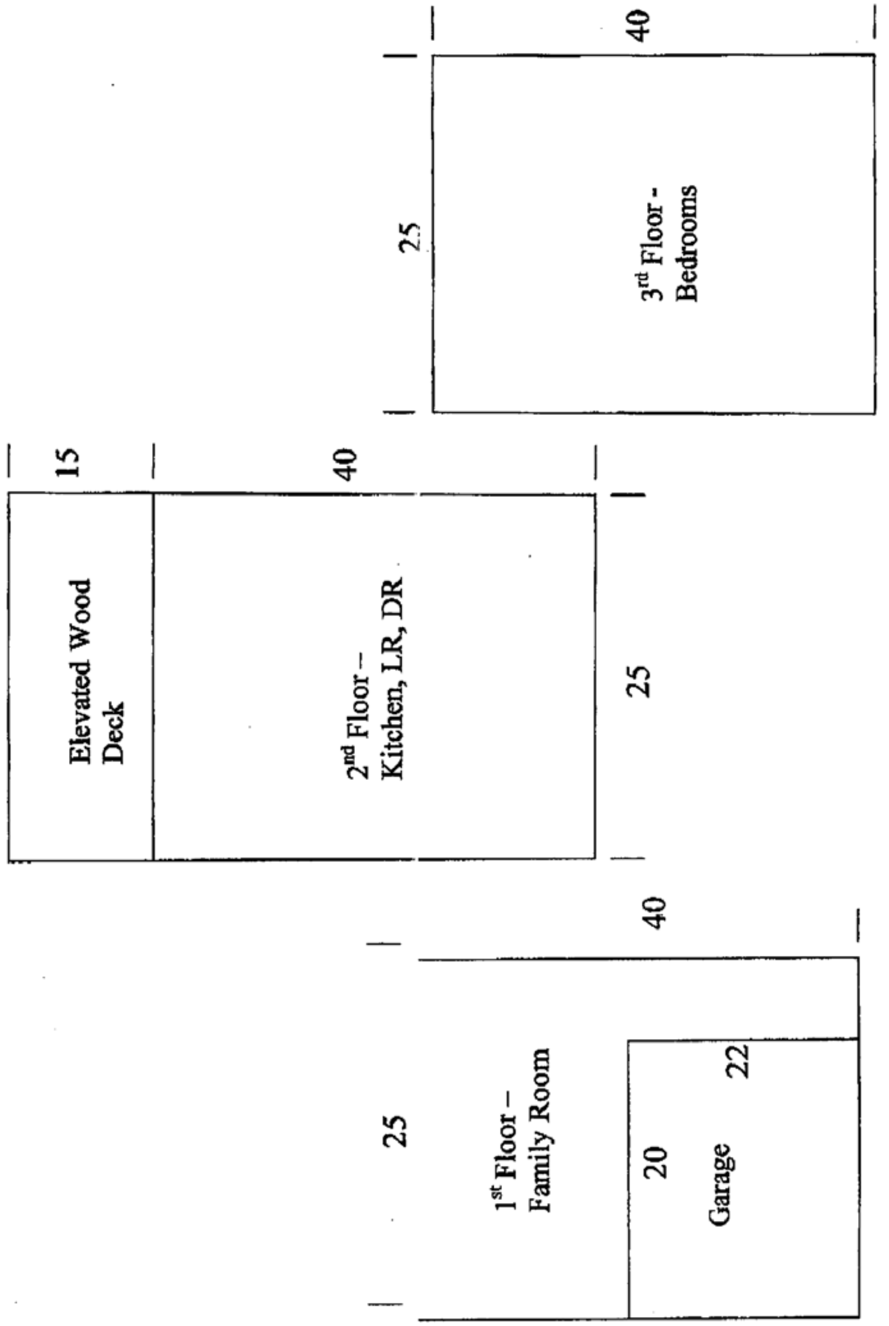
APPENDIX III. AGENCY RESPONSE





APPENDIX III.  AGENCY RESPONSE





APPENDIX III.  AGENCY RESPONSE

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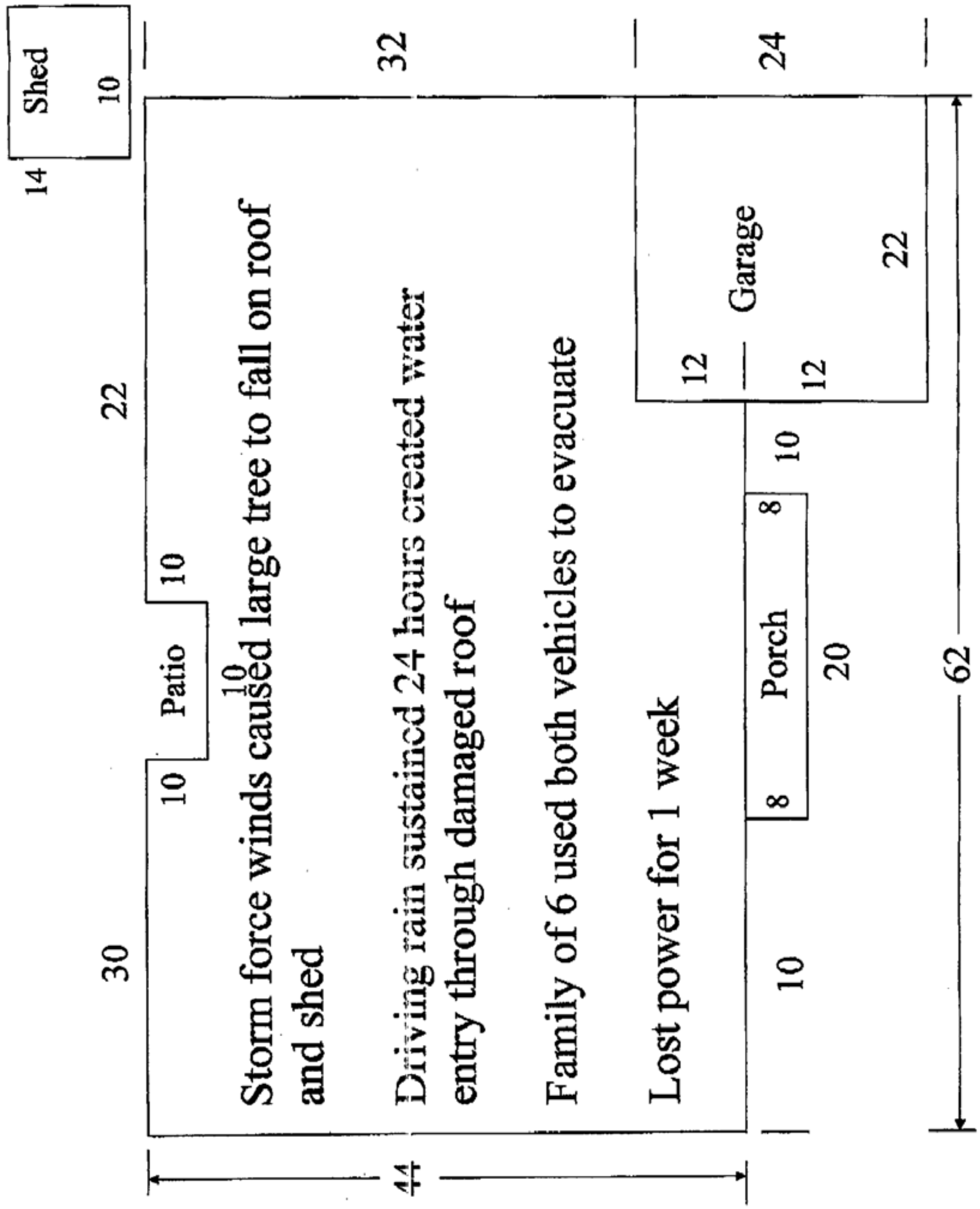
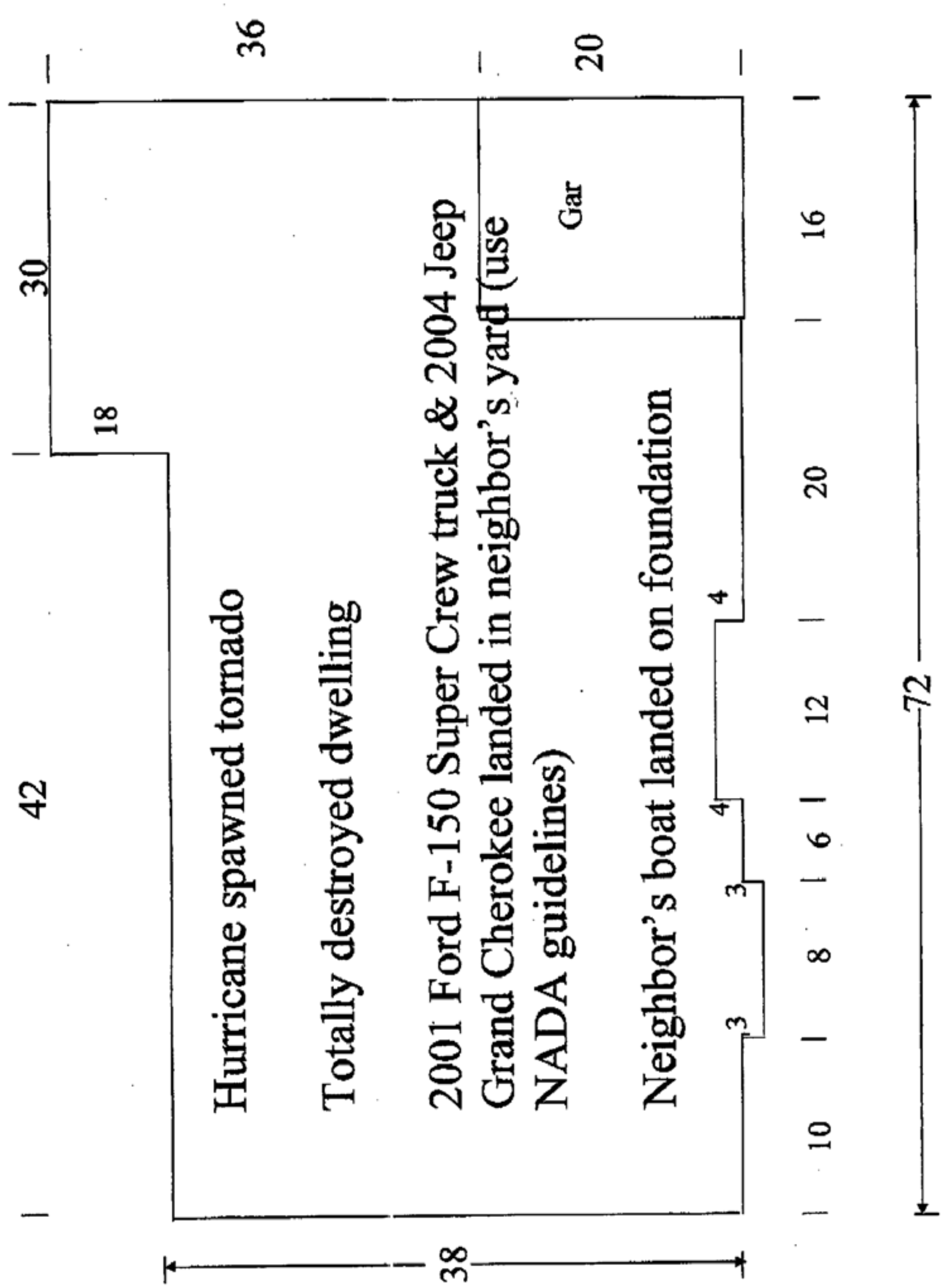


APPENDIX III.  AGENCY RESPONSE





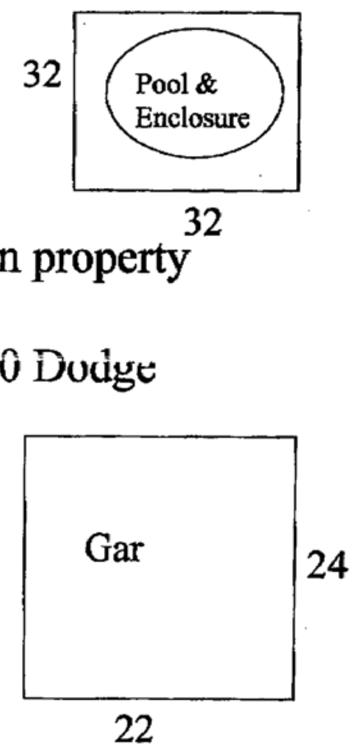
Storm force winds and flying debris

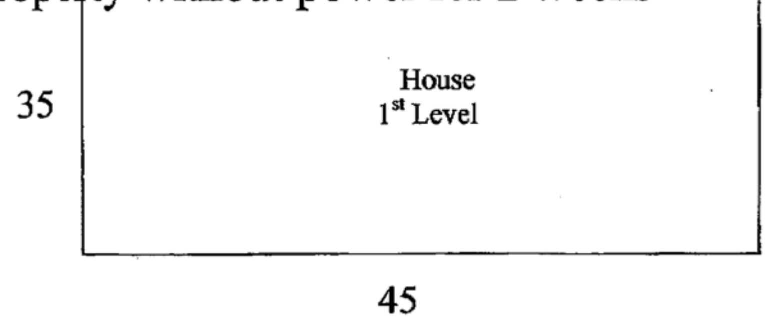
Two large oaks on fell on the property causing moderate damage to house and pool enclosure

Driving rain for 30 hours resulted in 3' of water on property

Family of 4 evacuated in family minivan, left 2000 Dodge Dakota in garage

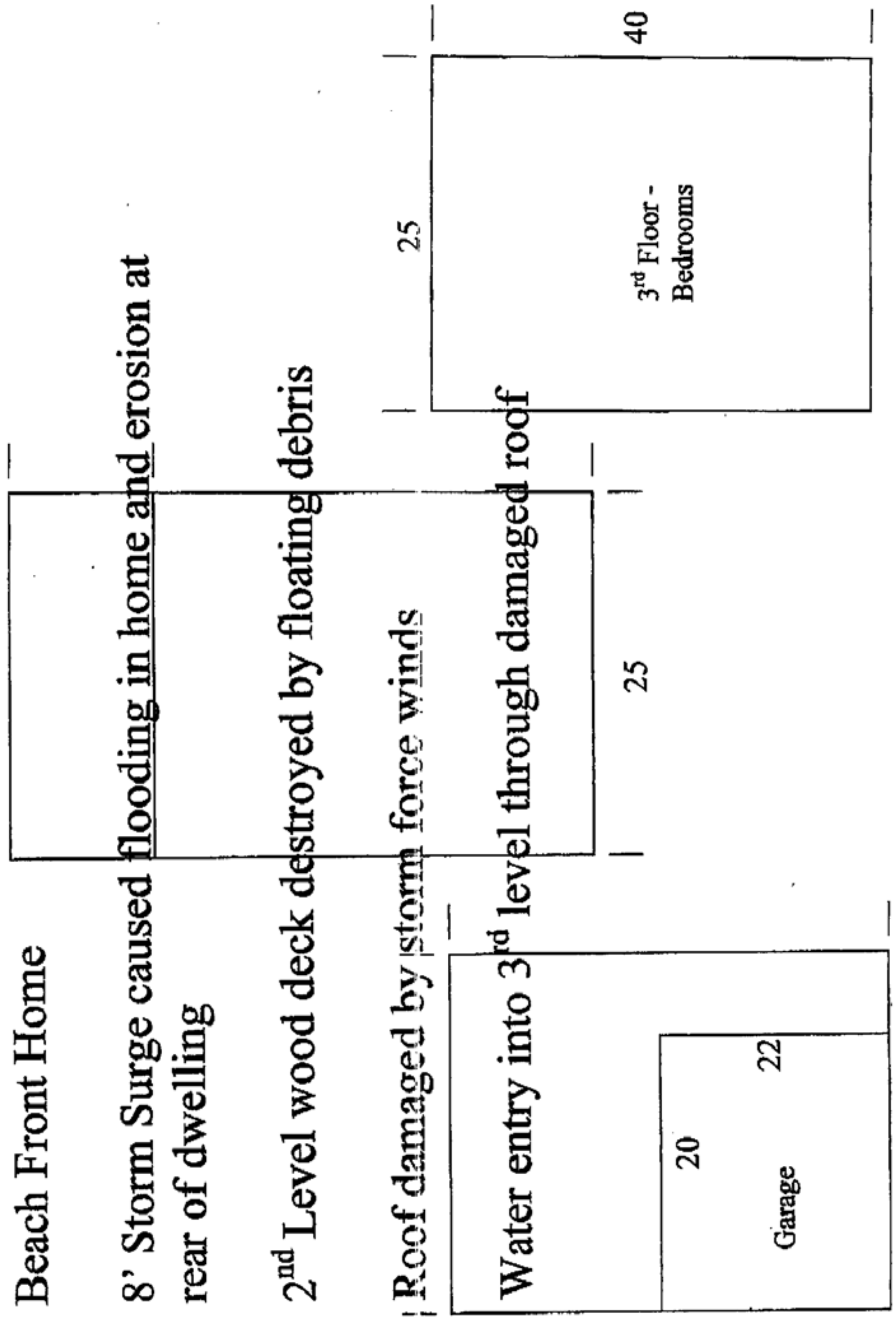
Property without power for 2 weeks



APPENDIX III.  AGENCY RESPONSE





APPENDIX III. AGENCY RESPONSE



## Louisiana Tax Assessors

**Louisiana Assessor's Association** <www.louisianaassessors.org>

### Parish Assessors

- **Orleans Parish Appraiser's Office** www.opboa.org
- **Bossier Parish Appraiser's Office** <www.bossierparishassessor.org>
  - Property Search <www.bossierparishassessor.org/cgi-bin/pro_search.pl>
- **Caddo Parish Appraiser's Office** <www.caddoassessor.org>
  - Property Search <www.caddoassessor.org/cgi-bin/pub_search.pl>
- **Jefferson Parish Appraiser's Office** <www.jpassessor.net>
  - Map Search <www.jeffparish.net>

    * Parts of site under construction. See Jefferson Parish Main Page

    * * Site May Not Work with Netscape or other Browsers *
- **Lafayette Parish Appraiser's Office** <www.lafayetteassessor.com>
  - Property Search <www.lafayetteassessor.com/search>
- **Lincoln Parish Appraiser's Office** <www.assessor.lincolnparish.org>
  - Maps <maps.lincolnparish.org>
- **Tangipahoa Parish Appraiser's Office** <www.tangiassessor.org>
  - Maps <www.tangiassessor.org/mapping>
- **Vernon Parish Appraiser's Office** <www.tradecompany.com/vptax>