What OIG Reviewed

This report presents the results of our audit of the Small Business Administration’s (SBA’s) Office of Disaster Assistance (ODA) improper payment appeal process. The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires agencies to review and identify programs susceptible to significant improper payments, report on the amount and causes of improper payments, and develop plans for reducing improper payments.

Improper payments are payments that should not have been made or that were made in an incorrect amount. In addition, when an agency's review is unable to discern whether a payment was proper because of insufficient or lack of documentation, the payment must be considered an improper payment.

SBA identified the Disaster Assistance Loan Program as being susceptible to significant improper payments. Quality Control (QC) Specialists conduct improper payment reviews. The specialist identifies any payments that appear to have an exception that would make it improper. The QC Supervisor reviews these exceptions before they are sent to the department managers. Department managers review the exception and either agree or disagree. If the manager agrees, the payment is reported as improper. If the manager disagrees, the exception is appealed to the QC Supervisor. If the supervisor disagrees with the appeal, the manager can further appeal to the Program Policy and Evaluation (PP&E) Director. The PP&E Director makes the final decision regarding whether the payment is an improper payment.

Our objective was to assess the disaster assistance improper payment appeal process. To answer our objective, we interviewed SBA personnel from the ODA Processing and Disbursement Center, the QC Department, and from other SBA programs that assessed improper payments in FY 2018. We also reviewed applicable policies and procedures. Lastly, we sampled and reviewed 35 of 115 exceptions that were removed by the PP&E Director.

What OIG Found

We found that the improper payments appeal process was effective to assess improper payments, but the initial review process was inefficient. Based on our review, 31 of 35 (89 percent) exceptions removed by the PP&E Director were appropriately removed. Nonetheless, the QC Specialist review process needs improvement.

For the FY 2018 review, 310 of 563 (55 percent) of exceptions identified by QC Specialists were appealed and removed by either the QC Supervisor or the PP&E Director. This occurred because QC Specialists were inexperienced in improper payment reviews; the related standard operating procedures (SOPs), training guides, and checklist did not provide clear and comprehensive guidance to assist QC Specialists to accurately identify exceptions; and the QC Supervisor did not always provide adequate oversight of the QC Specialists or conduct quality reviews of the exceptions identified by the QC Specialists.

Although alleged in a hotline complaint, we did not identify any misconduct or misuse of authority by the PP&E Director. However, we believe SBA should assess the current structure of the appeal process to determine if changes are needed to minimize the risk of a perceived appearance of impropriety and the risk of misconduct or misuse of authority.

OIG Recommendations

We recommend that ODA provide additional training to QC Specialists; update SOPs, training guides, and checklist; and establish controls to ensure the QC Supervisor provides adequate oversight of QC Specialists and conducts quality reviews of identified exceptions.

Agency Response

Management partially agreed with all three recommendations. Management plans to develop and provide targeted training; update procedures, training guides, and checklists; and explore additional tools that can be used by staff when transitioning from other functional areas to the QC Team; and conduct spot checks on improper payments. Management’s planned actions satisfy the intent of our recommendations.
DATE: February 20, 2020

TO: Jovita Carranza
    Administrator

FROM: Hannibal "Mike" Ware
      Inspector General

SUBJECT: Audit of the Office of Disaster Assistance Improper Payment Appeal Process

The report presents the results of our audit on the Small Business Administration’s (SBA’s) Disaster Assistance Improper Payment Appeal Process. We considered management’s comments on the draft of this report when preparing the final report. Management partially agreed with all three of our recommendations.

We appreciate the courtesies and cooperation extended to us during this audit. If you have any questions, please contact me at (202) 205-6586 or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6616.

cc: James Rivera, Associate Administrator, Office of Disaster Assistance
    Christopher M. Pilkerton, General Counsel
    Martin S. Conrey, Attorney Advisor, Office of General Counsel
    Michael A. Simmons, Attorney Advisor, Office of General Counsel
    Dorrice C. Roth, Acting Chief Financial Officer, Office of the Chief Financial Officer
    Tonia Butler, Internal Control Analyst, Office of Internal Controls
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Introduction

The Small Business Administration’s (SBA’s) Disaster Assistance Program is the federal government’s primary federal assistance program for providing disaster assistance for the repair and rebuilding of non-farm businesses of all sizes, nonprofit organizations, homeowners, and renters who have suffered damages from declared disaster events. Specifically, SBA provides low-interest loans for up to $200,000 for homeowners to repair or replace their primary residence to pre-disaster condition, and up to $40,000 to repair or replace homeowners and renters’ personal property. In addition, SBA provides up to $2,000,000 in disaster assistance for substantial economic injury loss to businesses and nonprofit organizations to help meet financial obligations and operating expenses.

Improper Payments

Office of Management and Budget (OMB) Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments, defines improper payments as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. The Circular also states that incorrect amounts are overpayments or underpayments that were made to eligible recipients. An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency’s review is unable to discern whether a payment was proper because of insufficient or lack of documentation, this payment must also be considered an improper payment. The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires agencies to review and identify programs susceptible to significant improper payments, report on the amount and causes of the improper payments, and develop plans for reducing improper payments.

SBA’s Disaster Assistance Improper Payment Identification Process

In accordance with IPERA requirements, SBA identified the Disaster Assistance Program as being susceptible to significant improper payments. Therefore, SBA is required to annually review disaster loan disbursements and report estimated improper payments. The Disaster Assistance Processing and Disbursement Center’s Quality Control (QC) Department, consisting of approximately 20 staff members (1 QC Supervisor and 19 QC Specialists), performs the improper payment reviews. The improper payment FY 2018 review was conducted quarterly, and the number of files reviewed was based on an independent statistical sample, which was dependent on the volume of loan disbursements for that period (July 1, 2017 to June 30, 2018). In FY 2018, SBA disbursed $3.08 billion in disaster assistance loans, which was a high-volume year of disbursements for Hurricanes Harvey, Irma, and Maria, in addition to other declared disasters.

To perform the improper payment reviews, QC Specialists used a 41-question checklist. QC Specialists identify any payment that appears to have an exception that would make it improper, such as payments made for repairs where the borrower did not have proper insurance or a building

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1 The Improper Payments Elimination and Recovery Act of 2010 (PL 111-204) defines significant improper payments as improper payments in the program or activity in the preceding fiscal year which may have exceeded $10,000,000 of all program or activity payments made during that fiscal year reported.

2 We will refer to these disbursements of disaster loan dollars as payments in this report.

3 The QC Department’s staffing level fluctuated between 6 and 22 personnel during FY 2018. At the end of FY 2018, the QC Department consisted of 20 personnel. In the third quarter of FY 2018, the QC Department added two team leads to help assist in the identification of improper payments.
permit, payments made to ineligible borrowers, or other situations that meet the improper payment definition in IPERA. The QC Supervisor or team lead reviews the exceptions prior to providing them to the applicable department manager for review. Each department manager has an opportunity to disagree with the exception and provide evidence to support their disagreement within 5 days of receiving the results. The department managers must indicate whether they concur, partially concur, or do not concur with the exception (see figure 1).

If the department manager concurs, the payment is reported as improper. If the department manager does not concur or partially concurs, they can appeal the exceptions to the QC Supervisor. The QC Supervisor reviews the department manager's appeal to determine whether the exception should be removed. If the QC Supervisor disagrees with the department's appeal, the QC Supervisor notifies the department manager that the initial decision is affirmed, and the payment will be reported as improper. Department managers can further appeal the QC Supervisor's decision to the Program Policy and Evaluation (PP&E) Director. The PP&E Director reviews the appealed exception(s) and makes the final decision regarding whether the payment is an improper payment.

**Figure 1: Disaster Assistance Improper Payment Appeal Process**

<table>
<thead>
<tr>
<th>Identify Exceptions</th>
<th>Departmental Review</th>
<th>Quality Control Reviews Response</th>
<th>Final Departmental Review</th>
<th>Departmental Appeal to Director</th>
<th>Final Decision Determined by Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Randomly selected file samples are reviewed by the QC Department</td>
<td>• Upon receipt of the exception the department manager reviews it</td>
<td>• QC Supervisor reviews all responses of partial or non-concurrence</td>
<td>• If the QC Supervisor does not agree with the information provided, the department managers are notified that the initial decision is affirmed</td>
<td>• Department managers can appeal the decision to the PP&amp;E Director</td>
<td>• The PP&amp;E Director reviews all the information submitted to determine the validity of the exception and notifies all parties of the decision in writing</td>
</tr>
<tr>
<td>• QC Supervisor or team lead reviews any identified exceptions</td>
<td>• The department manager responds in writing whether the department concurs, partially concurs, or does not concur with the noted exception</td>
<td>• If the QC Supervisor agrees with the information provided by the department, the exception is removed</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SBA OIG derived this flowchart from ODA Numbered Memorandum 11-08.

**SBA’s Disaster Assistance Program QC Process Differed From Other SBA Programs**

In FY 2018, the following SBA programs and activity reported estimated improper payments rates: 7(a) guaranty loans, 7(a) purchases loans, 504 loans, and disbursement of goods and services. For the loan programs, the QC Specialists had final determination of identified improper payments. For disbursement of goods and services, the Director of the Office of Internal Controls identified potential improper payments and solicited feedback from the responsible officials. The Director of the Office of Internal Controls made the final decisions regarding improper payments.

**Prior Work**

SBA OIG 18-12, Audit of the Accuracy of the FY 2015 Disaster Loan Program Improper Payments Rate (February 13, 2018). This report found that SBA did not detect all improper payments when

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4 Each disaster assistance loan can be disbursed as a lump sum or in multiple payments. Each disbursement can have more than one exception that would make that disbursement an improper payment. Multiple exceptions for one disbursement are reported as one improper payment.
conducting its review because the review guidance used by the QC Team excluded relevant laws and regulations, the QC Team did not always follow the standard operating procedures (SOPs), management overturned identified improper payments without clear justification, and the QC Team disregarded relevant documents in the loan file if they were dated after loan disbursement. OIG also determined that SBA did not include all detected improper payments. As a result, SBA did not accurately report and assess the risk of improper payments related to the Disaster Assistance Program, and therefore, could not establish appropriate reduction targets or properly implement corrective actions to reduce improper payments and enhance program integrity. OIG provided four recommendations to improve SBA’s accuracy in reporting the improper payments rate for the Disaster Loan Program. All four recommendations have been closed.

SBA OIG 18-17, SBA’S FY 2017 Progress in Reducing Improper Payments (May 15, 2018). This report found that SBA’s corrective action plan to remediate root causes of the Disaster Assistance Program improper payments rate included the weakening of a control, Maximum Acceptable Fixed Debt (MAFD), that was implemented to reduce risk of default in the program. Additionally, the Disaster Assistance Program reported an estimated improper payment rate of 13.65 percent in FY 2017, resulting in SBA not meeting the reduction target rate of 4.78 percent and the IPERA compliance rate of 10 percent. OIG recommended implementing corrective action plans that address the quality of justifications for exceeding the standard MAFD rate. SBA disagreed with OIG’s recommendation, stating it recognizes the credit risk of exceeding 75 percent MAFD. The recommendation was closed as not implemented because loans approved subsequent to the policy change had not had sufficient time to perform. Thus, OIG could not assess the impact. We plan to monitor this matter and conduct a future audit.

SBA OIG 19-13, SBA’S FY 2018 Compliance with the Improper Payments Elimination and Recovery Act of 2010 (May 23, 2019). This report found no significant discrepancies. However, the report emphasized that OIG continues to have concerns with SBA’s easing of controls that are designed to reduce default risk in the Disaster Assistance Program. As of the date of the report, loans approved subsequent to the policy change had not had sufficient time to perform; thus, OIG will continue to monitor this matter.

**Hotline Complaint**

SBA OIG takes hotline complaints seriously and evaluates each complaint’s validity. When necessary, OIG audits or investigates the alleged infraction. In 2018, SBA OIG received an anonymous hotline complaint alleging, in part, that the QC Department’s results were being altered by SBA Headquarters officials, and the integrity of the department’s work was compromised by the supervisor at SBA Headquarters. It was alleged that this was done to disguise the true nature of the level of improper payments.

**Objective**

Our objective was to assess the Disaster Assistance Program improper payment appeal process.

**Results**

The Disaster Assistance Program’s improper payment appeal process was effective in assessing improper payments, but the initial review process was inefficient. The PP&E Director appropriately removed 31 of 35 exceptions that we reviewed. Nonetheless, the QC Department’s review process needs improvement. In FY 2018, the QC Department identified 563 exceptions. The QC Supervisor or PP&E Director removed 310 or 55.1 percent of these exceptions.
The inaccurately identified exceptions were a result of QC Specialists’ inexperience with conducting improper payment reviews. Additionally, the related SOPs, training guides, and checklist did not provide clear and comprehensive guidance to assist QC Specialists to accurately identify exceptions. Lastly, due to increased loan volume and the hiring and training of staff, the QC Supervisor could not provide adequate oversight of the QC Specialists and review all the exceptions identified by the QC Specialists. Without experienced staff to identify improper payments, the efficiency of the review process is compromised, which could jeopardize the accuracy of the improper payment rate.
Finding 1: Appeal Process was Effective to Assess Improper Payments; However, Improvements Needed for the Initial Identification of Improper Payments

The Disaster Assistance Program improper payment appeal process was adequate in assessing improper payments, but the initial review was inefficient. We sampled 35 of 115 exceptions that were removed by the PP&E Director and found that 31 of 35 were appropriately removed. However, the QC Team's review process needs improvement. In FY 2018, the QC Department identified 563 exceptions. The QC Supervisor and PP&E Director removed 310, or 55.1 percent, of these exceptions.

Specifically, management agreed with 88 of 563 exceptions and disputed 475. Of the 475, the QC Supervisor removed 195, or 41 percent. Of the remaining 280, management appealed 248 to the PP&E Director, who removed 115. Without the PP&E Director, QC Supervisor, or another experienced manager’s involvement, the reported estimated improper payments rate for disaster loans could have been overstated and inaccurate.

In comparison with the 3 previous FYs, we found the removal rate was also high and varied from 38 to 68 percent, as shown in the figure below. For each inaccurately identified exception, it requires a review by the department managers, an appeal, and another review by either the QC Supervisor and/or PP&E Director.

Figure 2: Improper Payment Appeal Overturn Rates by Fiscal Year

![Figure 2: Improper Payment Appeal Overturn Rates by Fiscal Year]

Source: Appeals data provided by the Office of Disaster Assistance.

The inaccurately identified exceptions were the result of staff not having experience and training in improper payment reviews. In FY 2018, the QC Team was made up predominately of inexperienced and temporary staff. To address the increase in volume from 532 sampled disbursements in

5 For the remaining four, we determined the PP&E Director decision to remove the exceptions was based on insufficient documentation. It is possible that all four loan disbursements could be properly supported if SBA had contacted the borrowers to obtain the missing information. Without enough documentation, these loan disbursements should have been deemed improper payments as required by Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments.
FY 2017 to 1,315 sampled disbursements in FY 2018, the QC Department increased its staff size from 6 to 20. This additional staff was comprised of temporary, inexperienced employees hired or borrowed from other departments. For example, we found two temporary QC Specialists, who were on loan from other departments, with no record of performing improper payments reviews prior to their temporary assignment to the QC Department. These two temporary QC Specialists accounted for 52 of the 115 identified exceptions that were later removed by the PP&E Director. The QC Supervisor stated that several of his new staff had limited experience performing improper payment work and limited familiarity with the SOP.

Additionally, the SOP and training guides did not provide clear and comprehensive guidance for the QC Specialists to accurately identify exceptions. For example, 13 of the 115 PP&E Director removals were caused by QC Specialists’ confusion over the requirement for building permits. The SOP required a building permit for home loans when the real estate repairs exceed $50,000 and the property is substantially damaged. The SOP does not address what type of building permit is required or whether the permit must be current at the time of loan disbursement. We found issues such as building permit expiration or disagreement over the acceptance of a specific purpose permit, such as roofing versus a general building permit.

Further, given the inexperience of most of the staff during FY 2018, the 41-question checklist did not provide sufficient guidance to assist QC staff. The questions, as written, expected the QC staff to be familiar with the SOP requirements rather than provide more detailed instruction. For example, one question was, “have duplication of benefits been addressed as required by SOP?” and another question stated, “has eligibility been confirmed according to SOP?” Additionally, the checklist did not provide direction to specific sections of the SOP. The improper payments training also did not provide specifics for the checklist questions. A supplement to the checklist providing specific details that reviewers should be looking for may be helpful during periods where volume dictates hiring inexperienced staff.

Lastly, The QC Supervisor stated he was unable to review all the appealed improper payments because of the sheer volume of work (hiring new staff, training the staff, and identifying improper payments) being performed by the QC Department in FY 2018.

SBA QC Memorandum 11-08 requires the QC Department to perform the improper payment review with competent and proficient knowledge of loan approvals, which did not meet underwriting/eligibility requirements in the current SOP or as amended by a numbered memorandum.

Additionally, the OMB Memorandum 15-02 states, “All agencies shall institute a systematic method of reviewing all programs and identify programs susceptible to significant improper payments...At a minimum, agencies shall consider the following risk factors likely to contribute to improper payments, regardless of which method (quantitative or qualitative) is used.” One of the risk factors is “[t]he level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate.”

Without proficient, trained staff to identify improper payments, the efficiency of the review process is compromised, which could jeopardize the accuracy of the improper payment rate. The appeal process is designed to remove incorrectly identified exceptions, and in this case, 310 exceptions were removed. However, this scope of this audit did not include whether QC Specialists missed exceptions, which is also a risk given the high error rate.
**Recommendations**

We recommend that the Administrator require the Associate Administrator for the Office of Disaster Assistance to:

1. Develop and provide additional training to QC Specialists to ensure they possess the knowledge necessary to accurately identify improper payments.

2. Update improper payment standard operating procedures, training guides, and checklists to provide clear and comprehensive guidance and instructions to assist QC Specialists to accurately identify improper payments and help mitigate the risk associated with using inexperienced staff.

3. Establish controls to ensure the QC Supervisor provides adequate oversight of QC Specialists and conducts quality reviews of identified exceptions to mitigate the risk of misidentified improper payments and inaccurate reporting of the improper payment rate.
Other Matter

We did not identify any misconduct or misuse of authority by the PP&E Director. Of those we reviewed, we found that the PP&E Director appropriately removed 31 of 35 (89 percent) of exceptions identified by the QC Specialists in FY 2018.

However, we believe the current structure could give the appearance of potential impropriety, especially when the exception removal rate is high. The PP&E Director is responsible for making the final decision of all appeals in addition to coordinating improper payment estimates and oversight of the department tasked with reporting the final improper payment rate. The PP&E Director reports directly to the Deputy Associate Administrator for Disaster Assistance who was tasked as the senior agency official responsible for bringing the Disaster Assistance Program improper payment rate in compliance with IPERA.

SBA should consider restructuring the process to minimize the perception of impropriety and the risk of misconduct or misuse of authority.
Analysis of Agency Response

Management provided formal comments, which are included in their entirety in appendix II. Management partially agreed with all recommendations, stating that their response to the report and findings is to partially agree to the recommendations with a focus on reinforcing targeted training that will help to reduce the overturn rate and mitigate the risk of misidentified improper payments and inaccurate reporting of the improper payment rate.

Summary of Actions Necessary to Close Recommendations

The following provides the status of the recommendations and the necessary actions to close them.

1. **Resolved.** Management partially agreed with our recommendation, stating that it would develop and provide targeted training to QC Specialists, QC Leads and the QC Supervisor based on examples of overturned improper payments to ensure they possess the knowledge necessary to accurately identify improper payments. Management partially agreed to emphasize their stance to provide targeted training. Management plans to complete final action on this recommendation by September 30, 2020. Management’s planned actions satisfy the intent of the recommendation to provide additional training to ensure QC Specialists possess the knowledge necessary to accurately identify improper payments. This recommendation can be closed when management provides evidence that they implemented a formal process to assess commonly overturned improper payment issues and provided targeted training to address those issues to QC personnel.

2. **Resolved.** Management partially agreed with the recommendation because they believe the current SOP, training guides, and instructions provide clear and comprehensive guidance and instructions to assist QC Specialists to accurately identify improper payments. However, management agreed to update the procedures, training guides, and checklists, and explore additional tools that can be used by staff when transitioning from other functional areas to the QC Team. Management plans to complete final action on this recommendation by September 30, 2020. This recommendation can be closed when management provides evidence that it updated procedures, training guides, checklists and additional tools to assist staff to accurately identify improper payments.

3. **Resolved.** Management partially agreed with the recommendation. Management stated the PP&E Senior Loan Specialists located at headquarters will conduct quarterly spot checks on a random sampling of improper payments and share the findings with QC Specialists, QC Supervisor and the PP&E Director. The information will be used to develop targeted training to mitigate the risk of misidentified improper payments and inaccurate reporting of the improper payment rate. Management plans to complete final action on this recommendation by September 30, 2020. This recommendation can be closed when management provides evidence that they implemented a process to conduct quality reviews of identified exceptions and provided targeted training to address identified issues to mitigate the risk of misidentified improper payments and inaccurate reporting of the improper payment rate.

We addressed management’s technical comments regarding the percentage of improper payments overturned. However, contrary to their responses regarding the team leads and the amount of improper payments that were removed, the evidence provided shows the two QC team leads were added on May 27, 2018 (third quarter FY 2018), which is what we stated in the report.
Additionally, ODA did not provide the amount of improper payments that were removed during our audit or per subsequent request. Therefore, as stated in the report, we could not quantify the impact in dollars or impact on the improper payment rate for the four improper payments that were incorrectly removed.
Appendix I: Objective, Scope, and Methodology

Our objective was to assess the Disaster Assistance Program improper payment appeal process. Our scope of work focused on FY 2018. To accomplish our objective, we reviewed the applicable procedures regarding the QC Department and regulations on improper payments measurement and reporting. We also obtained and analyzed the FY 2018 Disaster Assistance Program universe, appeals data, Sampling Plan and Results, and other pertinent data to the FY 2018 Disaster Assistance Program improper payment appeal process. Additionally, we reviewed a judgmental sample of 35 exceptions that were removed (deemed not to be improper payments) upon appeal to the PP&E Director.

ODA provided us with copies of the appeals data sent to the individual departments for response and potential appeal. The data did not include the amount of the potential improper payments. ODA stated they could not provide the amount of improper payments that were removed. Therefore, we could not quantify the impact in dollars or impact on the improper payment rate for the four improper payments that were incorrectly removed.

Additionally, we interviewed the PP&E Director and QC Department staff, including the supervisor and the team leaders, to gain an understanding of the process and identify any concerns. We reviewed performance standards of team members to determine if there are incentives tied to the improper payment rate. We reviewed the organizational charts for the QC Department and for the Office of Disaster Assistance. We also reviewed the process for other SBA programs reporting estimated improper payments rate for FY 2018 and interviewed the responsible officials for those programs. We analyzed the results to identify significant issues and risks.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Use of Computer-Processed Data

We tested the reliability of information and documentation provided through an independent statistician during our annual review of IPERA. We believe the sampling plan and appeals data are reliable for the purposes of this audit.

Review of Internal Controls

We reviewed SBA's SOP, which provides guidance on implementing and maintaining effective internal control systems, as required by OMB Circular A-123. We also reviewed OMB Circular A-123, which provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal controls. Accordingly, we assessed internal controls used for the improper payments review process and compliance with laws and regulations to the extent necessary to satisfy the audit objective. We interviewed Office of Disaster Assistance management and

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6 The QC Department added QC team leads in third quarter of FY 2018.
7 SOP 00 02, Internal Control Systems (January 1986).
responsible personnel, to identify controls to ensure program integrity and mitigate fraud and financial loss. We also reviewed training materials for the improper payments training. We made recommendations in this report to address deficiencies identified.
SBA RESPONSE TO AUDIT REPORT
Date: February 6, 2020

To: Hannibal “Mike” Ware
   Inspector General

From: James E. Rivera
   Associate Administrator
   Office of Disaster Assistance

Subject: OIG Draft Report – Audit of the Office of Disaster Assistance Improper Payment Appeal Process
         (Project No. 19803)

We have reviewed the OIG Draft Report. The objective of this audit was to assess the Disaster Assistance Program improper payment appeal process. Thank you for the opportunity to respond to the Draft Report.

The mission of the SBA Disaster Loan Program is to help businesses of all sizes, private non-profit organizations, homeowners and renters recover from disasters and rebuild their lives by providing affordable and timely financial assistance. Consistent with the mission to provide affordable and expedient disaster assistance, SBA remains committed to providing disaster loan assistance quickly and effectively while striving to reduce and eliminate improper payments.

*SBA has reduced the improper payment rate for two consecutive years, successfully reducing the rate to 6.3 percent in Fiscal Year 2019.*

SBA Progress on Improper Payment Rate Reduction

The SBA decreased the improper payment rate from 13.65 percent in Fiscal Year 2017 to 8.91 percent in Fiscal Year 2018, which also exceeded the 10 percent threshold for compliance established in the Improper Payments Elimination and Recovery Improvement Act. The following year, SBA again reduced the improper payment rate below the target of 8.91 percent down to 6.3 percent in Fiscal Year 2019. Reducing the improper payment rate continues to be an Agency management challenge in Fiscal Year 2020; however, SBA anticipates removal of the challenge if the target is met for a third consecutive year signaling the Disaster Loan Program has sufficient controls in place to reduce and eliminate improper payments.

Audit Findings

The audit report identified one finding: (1) Appeal Process was Effective to Assess Improper Payments; However, Improvements Needed for the Initial Identification of Improper Payments.

*The Disaster Assistance Program improper payment appeal process was adequate in assessing improper payments.*
SBA is in full agreement with the first part of the audit finding that the overall improper payment appeal process did correctly assess improper payments. Additionally, the audit report states that the Program, Policy and Evaluation (PP&E) Director appropriately removed 89 percent of the improper payment exceptions that were sampled as a part of the audit. This demonstrates that PP&E Director role as an experienced manager is critical to ensuring that the estimated improper payment rate for disaster loans is accurate.

Additional improvements are still needed for the initial identification of improper payments.

The second part of the audit finding suggests that while management review of the improper payment exceptions correctly overturned improper payments that were incorrectly identified by the Quality Control (QC) Team, the appeal overturn rates are high and lowering the rates will be a more effective and efficient use of the QC Team, Supervisor and PP&E Director's limited time, especially during periods of higher than normal activity that follow large-scale disasters. For each identified improper payment exception that is overturned, it requires a review by the department managers, an appeal, and another review by either the QC Supervisor and/or the PP&E Director. Reducing the overturn rate will also help to reduce the amount of time spent on various levels of review.

In summary, SBA partially agrees with the audit findings and recommendations. Both the audit results and the past two consecutive years of progress on reducing the improper payment rate demonstrate very clearly that SBA is taking the appropriate actions towards effectively reducing or eliminating improper payments, as required by the Improper Payments Elimination and Recovery Improvement Act. However, the audit finding also suggested that additional improvements are needed for the initial identification of improper payments. While SBA does agree that the overturn rate should be lower, it is SBA’s view that the best way to effectively lower the overturn rate is through targeted training for the QC Specialists and Supervisor. SBA’s response to the audit report and findings is to partially agree to the recommendations with a focus on reinforcing targeted training that will help to reduce the overturn rate and mitigate the risk of misidentified improper payments and inaccurate reporting of the improper payment rate.

**OIG Recommendations and Agency Response**

1) **Develop and provide additional training to QC Specialists to ensure they possess the knowledge necessary to accurately identify improper payments.**

**ODA Response:** ODA partially agrees with the recommendation. ODA agrees to develop and provide targeted training to QC Specialists, QC Leads and the QC Supervisor based on examples of overturned improper payments to ensure they possess the knowledge necessary to accurately identify improper payments.

2) **Update improper payment standard operating procedures, training guides, and checklists to provide clear and comprehensive guidance and instructions to assist QC Specialists to accurately identify improper payments and help mitigate the risk associated with using inexperienced staff.**
ODA Response: ODA partially agrees with the recommendation. The current improper payment standard operating procedures, training guides, and checklists provide clear and comprehensive guidance and instructions to assist QC Specialists to accurately identify improper payments; however, ODA agrees to update the procedures, training guides and checklists, and explore additional tools that can be utilized by staff when transitioning from other functional areas to the QC Team.

3) Establish controls to ensure the QC Supervisor provides adequate oversight of QC Specialists and conducts quality reviews of identified exceptions to mitigate the risk of misidentified improper payments and inaccurate reporting of the improper payment rate.

ODA Response: ODA partially agrees with the recommendation. ODA agrees to conduct quarterly spot checks on a random sampling of improper payments that will be conducted by PPE Senior Loan Specialists in headquarters. The spot check findings will be shared with the QC Specialists, QC Supervisor and PPE Director and used to develop targeted training to mitigate the risk of misidentified improper payments and inaccurate reporting of the improper payment rate.

Technical Comments

Draft Page 1, Footnote 3 – The QC Department added two team leads in June 2018, which was the last month of the Improper Payment Fiscal Year. The footnote states they were added in the third quarter of Fiscal Year 2018, which implies that the leads were onboard for a longer period when in fact it was only for the last month of the audit period.

Draft Page 8, Paragraph 1 – Change 88 percent to 89 percent. The percentage of improper payments overturned (31 of 35) should be 89 percent, which is consistent with the 89 percent referenced in the Executive Summary.

Appendix I, Paragraph 2 – The following statements are inaccurate, “The data did not include the amount of the potential improper payments. ODA could not provide the amount of improper payments that were removed.” The PPE Director sent the audit team an email on November 11, 2018, containing the amounts for all FY 2018 Improper Payments. Additionally, the PPE Director emailed to the audit team on November 17, 2018, the Improper Payment department appeal spreadsheets that also contained the amounts based on the QA Team findings.