

February 2007

SMALL BUSINESS ADMINISTRATION

Additional Steps Needed to Enhance Agency Preparedness for Future Disasters





Highlights of [GAO-07-114](#), a report to congressional addressees

Why GAO Did This Study

The Small Business Administration (SBA) is the federal government's primary provider of disaster loans to businesses, homeowners, and renters. In a previous report (GAO-06-860), GAO found that SBA's limited information systems planning contributed to delays in processing disaster loans for the victims of the 2005 Gulf Coast Hurricanes (Katrina, Rita, and Wilma). To provide further insight into how SBA's disaster preparedness could be enhanced, this second report, initiated under the Comptroller General's authority, assesses other logistical issues (e.g., staffing and space acquisition) that may have affected the efficiency of the agency's response to the hurricanes. Specifically, this report (1) assesses SBA's logistical planning efforts prior to the Gulf Coast hurricanes and current planning efforts and (2) discusses SBA's outreach services to hurricane victims.

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

What GAO Recommends

To help ensure that SBA is better prepared to provide disaster assistance, GAO recommends that the agency (1) establish time frames for completing key elements of its disaster management plan and (2) assess whether use of disaster simulations and models could enhance disaster planning efforts. SBA agreed with these recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-07-114. To view the full product, including the scope and methodology, click on the link above. For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

SMALL BUSINESS ADMINISTRATION

Additional Steps Needed to Enhance Agency Preparedness for Future Disasters

What GAO Found

SBA engaged in limited logistical disaster planning prior to the Gulf Coast hurricanes, which, in retrospect, likely contributed to the initial challenges that the agency faced in processing the related surge in disaster loan applications on a timely basis. GAO reports, reports by other investigative agencies, and disaster management experts have stated that comprehensive planning and the supplementary use of sophisticated techniques (e.g., simulations of varying disaster scenarios) can help organizations prepare for potential disasters and mitigate their effects. However, SBA did not engage in or complete comprehensive disaster plans prior to the Gulf Coast hurricanes, in part, due to the view by headquarters agency officials that such planning yielded limited benefits and that local agency officials were in the best position to estimate logistical requirements. With better planning, available evidence suggests the agency could have been better positioned to provide initial disaster assistance to hurricane victims in an organized and efficient manner. In particular, SBA faced challenges in training and supervising thousands of temporary employees hired to process loan applications, had not taken steps to help ensure additional trained staff would be available, and encountered difficulties in obtaining suitable office space for the expanded workforce.

In the wake of the Gulf Coast hurricanes, SBA officials said that they recognized the importance of disaster planning and have initiated a planning process designed to address key areas, which includes cross-training other agency staff to provide disaster assistance and recruiting and training a reserve of potential temporary employees. SBA has also taken steps to expedite the process for disbursing approved disaster loans. However, GAO continues to have concerns about several limitations in SBA's current planning process, including the lack of a timetable for competing key elements of its disaster management plan and the fact that the agency has not assessed whether its disaster plan would benefit from the supplemental use of disaster simulations or catastrophe models.

SBA took a variety of steps under trying conditions to inform victims of the Gulf Coast hurricanes about its assistance programs, but several factors may have limited the effectiveness of these outreach efforts. SBA staff members reached out to disaster victims by speaking at about 600 organized events and advertising. However, the effectiveness of SBA's outreach efforts may have been reduced by, among other things, both the extensive damage and victim relocations associated with the hurricanes. According to SBA officials, the agency has initiated an internal review of the outreach that it provided to victims of the Gulf Coast hurricanes and is developing a plan to better provide such outreach in future disasters.

Contents

Letter	1
Results in Brief	3
Background	7
SBA’s Limited Planning Likely Contributed to Initial Delays in Processing Gulf Coast Hurricane Disaster Loan Applications, and Announced Disaster Planning Improvements Also Have Potential Limitations	11
SBA Utilized a Variety of Outreach Approaches during the Gulf Coast Hurricanes, but Several Factors May Have Limited Their Effectiveness	25
Conclusions	29
Recommendations for Executive Action	30
Agency Comments and Our Evaluation	30
Appendix I: Objectives, Scope, and Methodology	34
Appendix II: Comments from the Small Business Administration	37
Appendix III: GAO Contact and Staff Acknowledgments	41
Figures	
Figure 1: SBA’s Realigned Disaster Loan Operation as of June 1, 2006	10
Figure 2: SBA Ft. Worth Loan Processing Staffing Levels	17
Figure 3: Example of an SBA Print Ad for Hurricane Katrina Victims	27

Abbreviations

ACP	Association of Contingency Planners
AIR	Applied Insurance Research
DCMS	Disaster Credit Management System
DHS	Department of Homeland Security
FEMA	Federal Emergency Management Agency
GSA	General Services Administration
IHP	Individuals and Households Program
SBA	Small Business Administration
USGS	U.S. Geological Survey

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



United States Government Accountability Office
Washington, DC 20548

February 14, 2007

Congressional Addressees

While the Small Business Administration (SBA) is generally known for the financial support it provides to small businesses, the agency also plays a critical if less publicized role in assisting the victims of natural and other disasters. Specifically, SBA provides financial assistance through its Disaster Loan Program to help homeowners, renters, and businesses of all sizes recover from disasters such as earthquakes, hurricanes, and terrorist attacks. In 2005 and 2006, SBA faced unprecedented demand for its disaster loan assistance services in the wake of Hurricanes Katrina (which made landfall in late August 2005), Rita, and Wilma, which battered the U.S. Gulf Coast region. The Gulf Coast hurricanes caused more than \$80 billion in estimated insured and uninsured property damages and over 1,400 deaths.¹ Nine months following Hurricane Katrina, SBA had approved more than 148,700 disaster assistance loans totaling \$9.7 billion to individuals and businesses that suffered losses from the Gulf Coast hurricanes. However, Congress and press reports expressed concerns that SBA's response to the hurricanes was slow, leaving many disaster victims without the timely assistance that they needed. In fact, as we previously reported, as of late May 2006, SBA took, on average, about 74 days to process disaster loan applications as compared with the agency's goal of processing all disaster loan applications within 21 days.²

In July 2006, we reported, that while the unprecedented volume of disaster loan applications contributed substantially to the challenges that the agency faced in providing disaster relief on a timely basis, limited information technology planning also played a significant role.³ In particular, we concluded that SBA had not fully planned for the implementation of its new disaster loan processing system—the Disaster Credit Management System (DCMS), which the agency implemented in January 2005. For example, SBA planning was limited for the maximum

¹In this report, we refer to Katrina, Rita, and Wilma collectively as the Gulf Coast hurricanes.

²See GAO, *Small Business Administration: Actions Needed to Provide More Timely Disaster Assistance*, [GAO-06-860](#) (Washington, D.C.: July 28, 2006).

³[GAO-06-860](#).

number of staff that would need to concurrently use DCMS during a disaster situation. In planning for the maximum user capacity of DCMS, we found that SBA relied on data on the volume of disaster loan applications it had received from victims of the most severe disaster in the agency's experience—the Northridge, California, earthquake of 1994—and other agency historical data. If SBA had considered information available from disaster simulations and risk modeling firms (particularly potentially more severe disaster scenarios than the Northridge earthquake), we concluded that the agency may have acquired additional capacity for DCMS that would have allowed it to process Gulf Coast hurricane-related applications on a timelier basis.⁴ We recommended, among other things, that SBA reassess DCMS's maximum user capacity based on lessons learned from the Gulf Coast hurricanes and information from catastrophe risk modeling firms, among other sources. Although SBA took issue with some of our analysis that supported this recommendation, the agency generally agreed to implement it.

We have prepared this second report under the Comptroller General's authority to conduct evaluations on his own initiative as part of a continuing effort to assist Congress in reviewing how SBA's preparedness for future disasters can be enhanced. This report generally focuses on SBA's disaster planning and preparations prior to the Gulf Coast hurricanes for logistical areas other than DCMS, such as hiring of additional staff necessary to process applications in large disaster situations, space acquisition, obtaining telecommunication and other necessary technologies, and efforts to inform disaster victims of the agency's relevant loan programs. Specifically, our objectives were to (1) assess SBA's logistical planning efforts prior to the Gulf Coast hurricanes and current disaster planning efforts and (2) discuss outreach efforts that SBA provided to Gulf Coast hurricane victims.

⁴Federal agencies and other organizations have developed assessments of the potential destructive consequences of varying disaster scenarios, which are intended to help federal, state, and local agencies enhance their disaster planning. Moreover, many insurance companies and state entities that provide catastrophe insurance coverage currently use computer programs offered by several modeling firms to estimate the financial consequences of various natural catastrophe scenarios. As described in this report, estimates from disaster simulations and catastrophe models completed prior to August 2005, when Hurricane Katrina made landfall, indicated that there were potentially more destructive disaster scenarios than SBA had contemplated through its disaster planning process.

To address the first objective, we reviewed our previous reports and reports from other organizations that have investigated the federal response to the Gulf Coast hurricanes, including the Association of Contingency Planners and the Office of Inspector General of the Department of Homeland Security.⁵ We also interviewed disaster management experts, SBA officials in headquarters and agency field offices, and state officials in Mississippi and Louisiana. Further, we reviewed SBA documents that pertain to the agency's disaster planning process. For the second objective, we reviewed SBA documentation that describes the agency's outreach efforts during the Gulf Coast hurricanes and discussed these outreach efforts with SBA officials. Further, we discussed SBA's current plans to evaluate its disaster outreach program with agency officials. Appendix I explains our objectives, scope and methodology in greater detail.

We conducted our work in Washington, D.C., at SBA's headquarters and at agency field offices that played a role in the agency's response to the Gulf Coast hurricanes, including the disaster loan processing center in Ft. Worth, Texas, the satellite loan processing facility in Sacramento, California, the disaster loan customer service call center in Buffalo, N.Y., and the Atlanta field office, which along with the Sacramento office, is responsible for disaster services outreach, among other duties. Additionally, we visited the DCMS operations center in Virginia, and SBA's Georgia District Office. We also visited state and local disaster response offices in Louisiana and Mississippi. Our work was conducted from November 2005 to January 2007 in accordance with generally accepted government auditing standards.

Results in Brief

SBA engaged in limited logistical disaster planning prior to the Gulf Coast hurricanes, which, in retrospect, likely contributed to the initial challenges that the agency faced in processing the related surge in disaster loan applications on a timely basis. Our reports, including the report on SBA's limited planning for the implementation of DCMS, other investigative reports, and disaster management experts have stated that comprehensive planning, to include detailed staffing plans, and the supplementary use of sophisticated techniques as appropriate (e.g., using the results of disaster

⁵The Association of Contingency Planners is a nonprofit trade organization that is dedicated to fostering continued professional growth and development in effective business continuity and continuity of operations planning.

simulations and catastrophe models), can help organizations better prepare for potential disasters and thereby mitigate their effects. However, SBA did not engage in or complete comprehensive disaster plans prior to the Gulf Coast hurricanes, in part due to the view by headquarters officials that such centralized planning yielded limited benefits and that local agency officials were in the best position to estimate logistical requirements. While SBA had developed some estimates of staffing and other logistical requirements, it largely relied on the expertise of agency staff and previous disaster experiences (none of which reached the magnitude of the Gulf Coast hurricanes) in doing so and had not leveraged other resources, including the results of disaster simulations or catastrophe models. As a result, available evidence suggests that SBA could have been better positioned to provide initial disaster assistance to Gulf Coast hurricane victims in an organized and efficient manner as described below:

- SBA faced challenges in establishing a workforce to process the surge in disaster loan applications, which could potentially have been mitigated through better planning. For example, during the immediate aftermath of Hurricane Katrina, SBA had to move urgently to hire more than 2,000 temporary staff, largely through newspaper and other advertisements, at its Ft. Worth disaster loan processing center, which previously had a permanent and temporary staff of about 325 on board including 40 supervisors. SBA officials said that ensuring the training and supervision of this large influx of temporary staff proved very difficult. Prior to the Gulf Coast hurricanes, SBA had not taken steps to help ensure the availability of additional trained and experienced staff such as (1) cross-training agency staff not normally involved in disaster assistance to provide backup support or (2) maintaining the status of a reserve of potential temporary employees trained in the agency's disaster policies and systems (SBA officials said that the disaster reserve corps had shrunk from about 600 individuals in 2001 to less than 100 in August 2005).⁶
- SBA had not thoroughly planned for the office space requirements that would be necessary in a disaster the size of the Gulf Coast hurricanes. For example, SBA only had the capacity to house about 500 employees at its facility in Ft. Worth, so it had to identify another facility in the city after

⁶SBA's disaster reserve corps consists of volunteers, including retirees and students, who have backgrounds in the agency's disaster programs (e.g., loan officers and customer support) and who are willing to work on a temporary basis for the agency in an emergency situation. Such individuals must agree to relocate within 48 hours of notification of a disaster situation where their services are required by SBA.

Hurricane Katrina made landfall (which had not been configured with technology to meet the agency's needs) with the assistance of the General Services Administration (GSA) to house the remaining approximately 2,000 employees.⁷ Fortunately, SBA was also able to quickly reestablish its satellite loan processing facility in Sacramento, which was in the process of being closed under an agency reorganization initiative, to help to reduce the application backlog.⁸

In the wake of the Gulf Coast hurricanes, SBA officials said that they recognized the importance of enhanced disaster planning and have planned or implemented several measures to better prepare for and respond to potential disasters. For example, SBA officials said the agency is developing enhanced systems, largely based on previous agency experiences including the Gulf Coast hurricanes, to estimate staffing and other logistical requirements when particular disasters occur. SBA is also developing procedures to help ensure additional experienced and trained staff are available to respond to a disaster, which include cross-training other agency staff, reestablishing the disaster reserve corps, and reaching agreements with private lenders to provide disaster loan processing capacity. Additionally, SBA has significantly revised its approach for disbursing approved disaster loans, which agency officials said substantially reduced the disbursement backlog associated with Gulf Coast hurricane-related applications and should be similarly effective in future catastrophes.⁹ However, we have also identified several apparent limitations in SBA's disaster planning process, including that the agency has not: (1) established a time frame for implementing key elements of its disaster management plan such as cross-training other SBA staff to provide backup support, (2) assessed whether the agency's disaster planning process could benefit from the supplemental use of available resources—such as the results of disaster simulations or catastrophe

⁷GSA, among other responsibilities, provides office space and other logistical support services to federal agencies.

⁸As described in this report, SBA's Office of Disaster Assistance initiated a consolidation initiative (referred to as "workforce transformation") in 2004 to better structure its operations. SBA's Sacramento field office disaster loan processing center had been slated for closure in October 2005, but the facility was still available at the time Hurricane Katrina made landfall because its lease had not yet expired.

⁹According to SBA, as of August 2006, the agency had approved approximately 93,000 loans in which funds had not been disbursed to loan applicants. SBA officials said that figure had been reduced to about 35,000 as of November 2006 as a result of changes made to the loan review process.

models—to help develop estimates of its logistical requirements under varying disaster scenarios (particularly worse case scenarios), and (3) developed a long-term strategy to help ensure its capacity to obtain suitable office space in a disaster situation.¹⁰

SBA took a variety of steps under trying conditions to inform victims of the Gulf Coast hurricanes of the agency's assistance programs, but several factors may have limited their effectiveness. SBA staff members reached out to disaster victims (many of whom had relocated to other parts of the country) by speaking at about 600 organized events, advertising through the media, staffing disaster recovery centers, and making follow-up phone calls. However, SBA officials said that informing and educating the public about the agency's disaster services can be challenging because (1) it is not normally associated with providing such services and (2) the federal government's disaster relief programs are complex (e.g., both SBA and the Federal Emergency Management Agency [FEMA] provide financial assistance to disaster victims). Further, due to the extent of the disasters, SBA lacked the resources necessary to comply with an informal agency policy of conducting follow-up phone calls with all disaster victims to whom they mailed loan applications and, therefore, could not reach approximately 800,000 individuals.¹¹ According to SBA officials, the agency has initiated an internal review of the outreach that it provided to victims of the Gulf Coast hurricanes and is developing a plan to better provide such outreach in future disasters.

To help ensure that SBA is better prepared to provide critical assistance to victims of future disasters, this report recommends, among other steps, that the agency (1) establish a time frame for completing key elements of its disaster management plan and a long-term strategy to help ensure its capacity to obtain suitable office space and (2) assess whether available resources—such as the results of disaster simulations or catastrophe models—could enhance its disaster planning efforts.

¹⁰As described in this report, in December 2006, SBA contacted FEMA regarding a model that agency has developed to estimate the financial and other consequences of earthquakes, floods, and hurricanes. SBA officials contacted FEMA to help determine whether the model would enhance SBA's disaster planning process.

¹¹SBA's field management officials told us they had established an informal policy of contacting disaster victims to whom the agency had sent loan applications, but had not returned completed applications within a specified time frame. This practice was established and implemented before the occurrence of the Gulf Coast hurricanes.

We provided a draft of this report to SBA for its review and comment. In its written responses, SBA described a number of measures that the agency has initiated to better respond to a future disaster. SBA also agreed to implement the recommendations in the report, including (1) establishing time frames for completing key disaster planning initiatives and (2) assessing whether available disaster simulations and external catastrophe models could enhance the agency's disaster planning process. Additionally, SBA officials said the agency has taken steps to help ensure the availability of additional office space configured to meet its requirements in a future disaster.

Background

The Gulf Coast hurricanes formed a catastrophe that was one of the most devastating natural disasters in U.S. history. In August 2005, Hurricane Katrina struck first on the East Coast of Florida before hitting the northern Gulf Coast region, including Louisiana and Texas, resulting in a substantial loss of life and widespread devastation. The storm also caused substantial damage in the Florida panhandle, Georgia, and Alabama. In September 2005, Hurricane Rita caused substantial devastation and deaths near the Texas and Louisiana border. In October 2005, Hurricane Wilma made landfall in Florida, and also caused fatalities and created a significant amount of damage and destruction there.

The federal government provides funding and assistance to individuals and businesses after disasters, primarily through FEMA and SBA. FEMA is responsible for coordinating response and recovery efforts under presidential disaster declarations. FEMA works with other federal, state, and local agencies to assist victims after major disasters, and volunteer organizations such as the American Red Cross also participate in these efforts. Following a presidential disaster declaration, FEMA will open Disaster Recovery Centers where disaster victims can meet with representatives, obtain information about the recovery process, and register for federal disaster assistance. Victims may also register with FEMA by telephone or via FEMA's Internet site. FEMA provides housing assistance to disaster victims through the Individuals and Households Program (IHP).¹² Under the IHP, FEMA can make grants available to repair or replace housing damaged in a disaster that is not covered by insurance. However, the IHP is a minimal repair program that is designed to make the victim's home habitable and functional, not to restore the home to its

¹²FEMA also refers to the IHP program as Individual Assistance.

predisaster condition. When disaster victims register for FEMA assistance, they are asked to provide their approximate household income. If the applicant's income exceeds certain thresholds, FEMA automatically refers them to SBA's Disaster Loan Program.¹³

SBA's Disaster Loan Program is the primary federal program for funding long-range recovery for private sector, nonfarm disaster victims and the only form of SBA assistance not limited to small businesses. The Small Business Act authorizes SBA to make available the following two types of disaster loans:

- *Physical disaster loans*—These loans are for permanent rebuilding and replacement of uninsured or underinsured disaster-damaged property. They are available to homeowners, renters, businesses of all sizes, and nonprofit organizations. These loans are intended to repair or replace the disaster victims' damaged property to its predisaster condition.
- *Economic injury disaster loans*—These loans provide small businesses with necessary working capital until normal operations resume after a disaster declaration. They cover operating expenses the business could have paid had the disaster not occurred. The act restricts economic injury disaster loans to small businesses only.

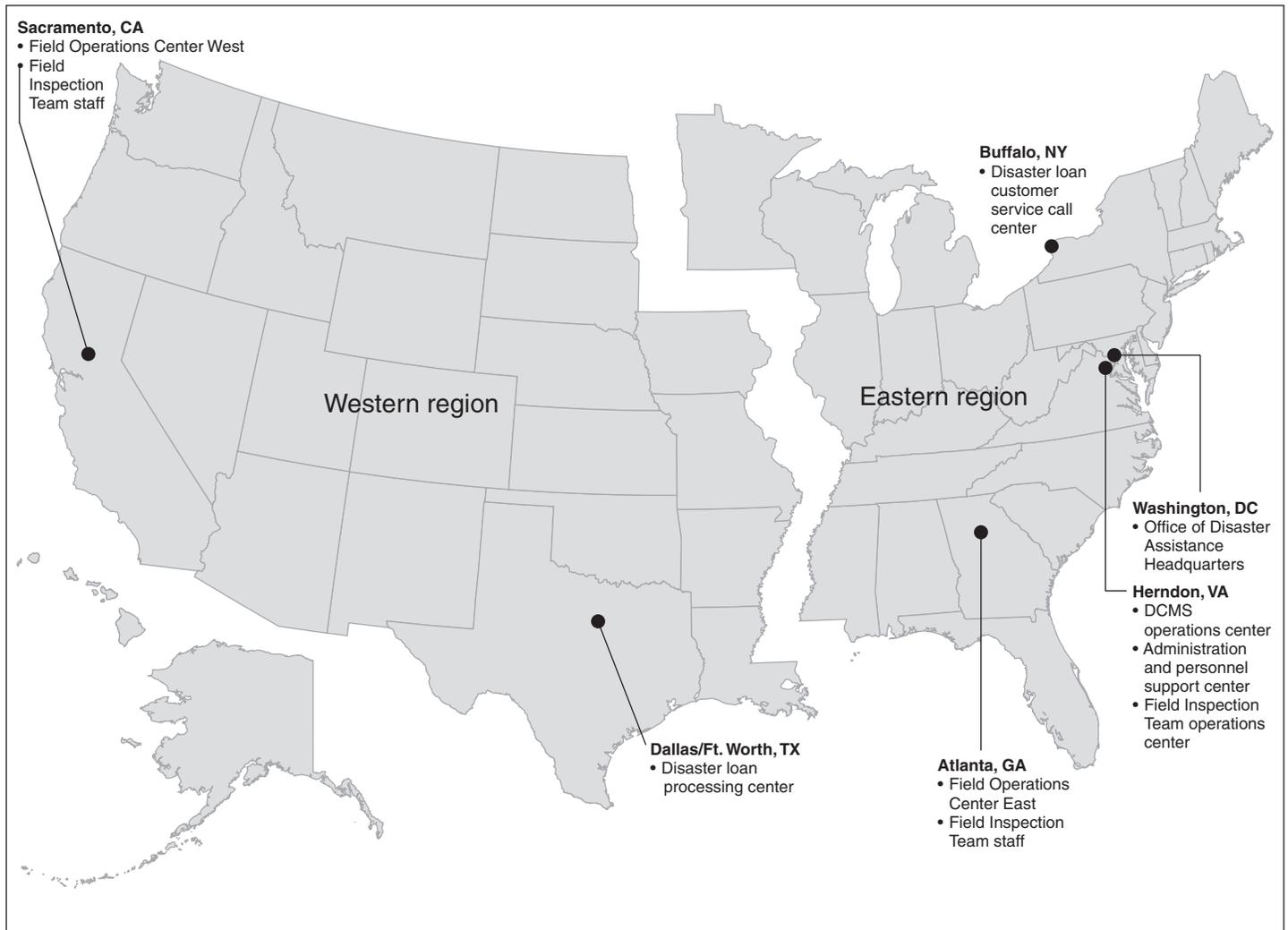
A key element of SBA's loan program is that the disaster victim must have repayment ability before a loan can be approved. If SBA determines that a victim cannot afford a loan, SBA will automatically refer the individual back to FEMA where they may be eligible for other grant assistance. FEMA may be able to provide funds for "other than housing" needs, however, this additional help is not available to businesses.¹⁴ FEMA's additional help is intended to meet necessary expenses and serious needs not met by any other form of help, including insurance and SBA disaster loans.

¹³SBA provides the income thresholds to FEMA, which vary based on the applicant's household size and are adjusted annually for inflation. For example, SBA's minimum income threshold for fiscal year 2005 was \$13,965 for a household size of one; the threshold increased to \$14,355 for fiscal year 2006. If the applicant's household income falls below the income thresholds, FEMA will automatically refer them to its Other Needs Assistance Program. This program provides financial assistance to individuals and households who have other disaster-related necessary expenses or serious needs, such as medical expenses.

¹⁴Funds are available for necessary expenses and serious needs caused by the disaster. This includes medical, dental, funeral, personal property, transportation, moving and storage, and other expenses that are authorized by law.

In 2004, SBA began a process to realign its Office of Disaster Assistance's organizational structure (referred to as "workforce transformation") that was designed to allow the agency to better provide disaster assistance, leverage technology such as DCMS, and reduce operating costs. Previously, SBA maintained four area offices nationwide that generally operated independently of one another. For example, each area office had its own customer service duties and loan processing functions, and provided administrative support within a geographic area. As a result of its transformation effort, SBA centralized its Disaster Loan Program's customer service function in its Buffalo office and its loan processing function in its Ft. Worth office. Additionally, SBA established two field operations centers in both Sacramento and Atlanta that are responsible for all disaster field operations, public information, and congressional relations functions. The centers also provide space for SBA's Field Inspection Team, which conducts property inspections in order to verify loan applicants' losses. SBA collocated its administrative and personnel support center in Herndon, Va., with the DCMS operations center. Figure 1 shows SBA's revised structure as of June 2006.

Figure 1: SBA's Realigned Disaster Loan Operation as of June 1, 2006



Sources: GAO, based on SBA's Workforce Transformation Blueprint (data); MapArt (map).

Prior to Hurricane Katrina, SBA's Office of Disaster Assistance had a staff of approximately 800 individuals, including about 350 to 400 permanent staff and about 400 temporary staff (who had generally been hired to process disaster loan applications associated with the four hurricanes that struck Florida in 2004). However, due to the volume of disaster loan applications associated with the Gulf Coast hurricanes, SBA had increased the size of its disaster loan staff to more than 4,300 employees by January 2006, primarily through hiring temporary employees. SBA largely hired

these temporary employees through advertisements in newspapers and on local radio stations.

**SBA's Limited
Planning Likely
Contributed to Initial
Delays in Processing
Gulf Coast Hurricane
Disaster Loan
Applications, and
Announced Disaster
Planning
Improvements Also
Have Potential
Limitations**

Our previous reports and reports of others as well as disaster experts have stated that advance contingency planning is a crucial element in helping organizations function and respond to large-scale disasters. However, we found that prior to the Gulf Coast hurricanes, SBA had generally not engaged in such comprehensive planning efforts in either headquarters or in field offices. SBA had not (1) taken practical steps to help ensure that there would be additional trained and experienced staff available to process applications, (2) established plans to secure additional office space configured to meet the needs of the agency, and (3) established adequate telecommunications support for the customer call center in Buffalo. While SBA partnered with GSA on an ad hoc basis to help address these challenges, in some cases it was fortunate to obtain the necessary logistical capacity. In the wake of the Gulf Coast hurricanes, SBA officials said that they had initiated steps to better plan and prepare for potential disasters, including developing more advanced disaster forecasting techniques and establishing measures to help ensure the availability of additional trained and experienced staff. SBA has also taken steps to expedite the process for disbursing approved disaster loans. However, SBA's planning approach appears to be limited in that the agency has not established a time frame for completing key aspects of its comprehensive disaster management plan, such as cross-training other agency staff to provide backup support in a disaster and has not assessed whether it could leverage outside resources—such as the results of disaster simulations or catastrophe models—to enhance its disaster planning processes. Further, SBA has not developed a strategy to help strengthen its long-term ability to obtain suitable office space in the event of a major disaster.

Various Sources Cite Planning as a Critical Element in Helping Organizations Prepare for Potential Large-Scale Disasters

As we have stated in a previous report and in testimony, the ability of the United States to prepare for, respond to, and recover from catastrophic disasters can be enhanced through strong advance contingency planning, both within and among organizations responsible for responding to such disasters.¹⁵ Our work has also identified instances where advance planning allowed federal agencies to respond effectively to the Gulf Coast hurricanes.¹⁶ For example, we found that the Coast Guard, Social Security Administration, and the National Finance Center were able to continue their services to Gulf Coast disaster victims with minimal interruptions because of their disaster planning initiatives.¹⁷ In contrast, our work identified other federal agencies, which did not engage in comprehensive planning prior to the Gulf Coast hurricanes, and thereby faced significant challenges in fulfilling their disaster response and recovery obligations.¹⁸ For example, as discussed previously, our July 2006 report found that SBA's limited information technology planning prior to the Gulf Coast hurricanes negatively affected the agency's capacity to process disaster loan applications.¹⁹ SBA based its information technology processing requirements primarily on the Northridge earthquake experience of 1994, which was the largest disaster that the agency had previously experienced, and did not evaluate the consequences of other potentially more severe disaster scenarios that were available from existing disaster simulations or

¹⁵GAO, *Catastrophic Disasters: Enhanced Leadership, Capabilities, and Accountability Controls Will Improve the Effectiveness of Nation's Preparedness, Response, and Recovery System*, [GAO-06-618](#) (Washington, D.C.: Sept. 6, 2006); GAO, *Hurricane Katrina: GAO's Preliminary Observations Regarding Preparedness, Response and Recovery*, [GAO-06-442T](#) (Washington, D.C.: Mar. 8, 2006).

¹⁶[GAO-06-618](#).

¹⁷The National Finance Center, based in New Orleans, designs, develops and operates financial, administrative and management information systems and services, which includes integrated payroll/personnel systems for the Department of Agriculture, and other government customers.

¹⁸GAO, *Hurricane Katrina: Better Plans and Exercises Needed to Guide the Military's Response to Catastrophic Natural Disasters*, [GAO-06-643](#) (Washington, D.C.: May 15, 2006); GAO, *Hurricanes Katrina and Rita: Unprecedented Challenges Exposed the Individuals and Households Programs to Fraud and Abuse; Actions Needed to Reduce Such Problems in Future*, [GAO-06-1013](#) (Washington, D.C.: Sept. 27, 2006); GAO, *Disaster Management: Improving the Nation's Response to Catastrophic Disasters*, [GAO/RCED-93-186](#) (Washington, D.C.: July 1993).

¹⁹[GAO-06-860](#).

catastrophe risk model results.²⁰ For example, SBA did not take part in the Hurricane Pam disaster simulation, which FEMA organized in 2004 to help prepare for a hurricane striking New Orleans.²¹ In an earlier report, we found that a lack of advance planning at all levels of government hindered response and recovery efforts to Hurricane Andrew, which struck South Florida in 1992.²²

In addition to findings from our previous studies, other studies have concluded that a lack of contingency planning can affect an organization's ability to carry out its mission and meet program goals at the time of a major disaster, and that there is no substitute for thorough preparation.²³ Thus, these reports, such as Department of Homeland Security studies, congressional and White House reports, as well as private studies all

²⁰Hurricane Pam was a simulated exercise that FEMA conducted in conjunction with the National Weather Service and various federal, state, and local organizations in June 2004. The simulation demonstrated the impact of a hurricane that would force the evacuation of more than 1 million residents in the New Orleans area, and the destruction of 500,000-600,000 buildings. See www.globalsecurity.org/security/ops/hurricane-pam.htm for additional details. In contrast, the Northridge earthquake damaged or destroyed about 60,000 buildings, according to a study by a structural engineering firm. In 2004, a risk modeling firm—Equecat—publicly estimated that a recurrence of the 1935 Labor Day hurricane that struck the New York region would result in insured losses alone of \$60 billion or more. In 2002, we estimated that the insured losses associated with the Northridge earthquake would be about \$12.5 billion with total estimated losses of \$30 billion. See GAO, *Catastrophe Insurance Risks: The Role of Risk-Linked Securities and Factors Affecting Their Use*, GAO-02-941 (Washington, D.C.: Sept. 24, 2002).

²¹However, previous studies indicate that FEMA did not adequately leverage the Hurricane Pam simulation. For example, according to a 2006 report by the Department of Homeland Security's Office of Inspector General, FEMA did not execute catastrophic planning based on the Hurricane Pam simulation results. In the report, FEMA officials cited the lack of funding as the reason for not following through on the lessons from the exercise. (*A Performance Review of FEMA's Disaster Management Activities in Response to Hurricane Katrina*, OIG-06-32, March 2006.) Also, a 2006 Senate report concluded that many of the lessons from Hurricane Pam were either ignored or inadequately applied. (*Hurricane Katrina: A Nation Still Unprepared*, Report of the Committee on Homeland Security and Governmental Affairs, U.S. Senate (Washington, D.C.: May 2006).

²²[GAO/RCED-93-186](#).

²³The White House: *The Federal Response to Hurricane Katrina—Lessons Learned* (February 2006); Department of Homeland Security: *The National Response Plan* (December 2004 and updated May 2006); Department of Homeland Security: Office of Inspector General, *A Performance Review of FEMA's Disaster Management Activities in Response to Hurricane Katrina*, OIG-06-32, March 2006; Association of Contingency Planners (ACP)—*Hurricane Katrina Observations—Lessons Learned* (Jan. 31, 2006); *Hurricane Katrina—A Nation Still Unprepared*—United States Senate: Washington, D.C. (May 2006).

identified the necessity for conducting rigorous planning. For example, a study by the Association of Contingency Planners (ACP) emphasized the need for organizations to formally train their staff in disaster planning and engage in thorough disaster simulations, particularly worst case scenarios, to help ensure adequate preparation. In addition, the Department of Homeland Security Inspector General reported, in March 2006, that FEMA lacked final plans that specifically addressed the types of challenges the agency could be expected to face in catastrophic circumstances. The Inspector General recommended that FEMA develop a comprehensive plan to aid in responding to potential disasters.

Disaster experts we interviewed agreed that sound planning can help organizations—such as federal agencies—prepare for potential disasters. The experts said that the failure to have an established plan can negatively affect an agency’s response and recovery efforts. Additionally, the experts said that the failure to establish a plan requires agencies to relearn experiences from one disaster to the next, thereby further slowing agency recovery efforts. One expert stated that, to provide for an effective agency response to a disaster, a comprehensive plan should address, to a certain extent, components of command, operations, logistics, finance, and administrative needs. For example, the expert said that the logistical component should entail a detailed staffing plan to help ensure an organization’s ability to fulfill its mission at the time of a major catastrophe. The individual noted that most organizations, including federal agencies, did not have staffing plans in place at the time of the Gulf Coast hurricanes. However, the experts cautioned that an agency’s disaster contingency plan must be a flexible blueprint that can respond to changing circumstances and disaster scenarios. In estimating the potential consequences of varying disaster scenarios, another expert advised that organizations could benefit from the further use catastrophe models, given that such technology has been available for about 20 years.

SBA Did Not Engage in Comprehensive Disaster Planning Prior to Gulf Coast Hurricanes

As was the case with SBA’s limited planning efforts for the implementation of DCMS, the agency also did not engage in comprehensive disaster planning for other logistical areas prior to the Gulf Coast hurricanes. For example, SBA had not completed a formal, centralized staffing plan to help manage the surge in disaster loan applications that could be anticipated under various disaster scenarios. SBA headquarters officials said that they had not developed agency wide disaster planning guidance due to their view that field office staff were in a better position to plan their response in the event of a crisis. That is, the SBA headquarters staff said that agency field office staff had a vast level of knowledge and experience that allowed

them to establish plans for a range of potential disaster scenarios and that, given the uncertainty of disaster scenarios, centralized advance planning would likely yield limited benefits. SBA management said they considered this decentralized approach as appropriate and viewed headquarters' role as being more of a resource that the field offices could rely on for policy and high-level strategic guidance. However, at the time of the Gulf Coast hurricanes, SBA field offices had not completed written plans to guide their efforts in the event of a disaster. One field office official said, while SBA headquarters encouraged field offices to establish written disaster plans, field offices were not required to do so. While SBA had not engaged in comprehensive contingency planning, the agency had projected various logistical requirements during a disaster largely based on the expertise of its staff and experiences in responding to previous disasters (none of which reached the magnitude of destruction of the Gulf Coast hurricanes, as discussed earlier). SBA officials said that they did not use other information—such as the results of disaster simulations or catastrophe models—in developing their logistical projections.

SBA Faced Logistical Challenges during its Initial Response to Gulf Coast Hurricanes

We recognize that even if SBA had engaged in comprehensive planning prior to the Gulf Coast hurricanes, it likely would have encountered logistical challenges (staffing, space acquisition, and technological support) in providing timely disaster assistance due to the volume of loan applications, including erroneous applications.²⁴ However, information obtained during the course of our review indicates that SBA's limited disaster planning process, including the lack of a written plan for staffing requirements associated with surges in loan applications under varying disaster scenarios, further impeded the efficiency of the agency's response. For example, officials at SBA's Ft. Worth disaster loan processing center said that they developed staffing requirements as

²⁴According to SBA officials, the large volume of applications that SBA distributed and received resulted in part from a large number of referrals FEMA made to SBA's Disaster Loan Program without first applying SBA's income thresholds. This was done for disaster victims who registered for disaster assistance via FEMA's Internet site and did not report any income. SBA's Inspector General indicated that this resulted in the following: (1) increased costs incurred by SBA in mailing loan applications to disaster victims that normally would not be referred to SBA's Disaster Loan Program; (2) delayed response times for those applicants who did qualify for SBA's Disaster Loan Program; (3) lower SBA disaster loan approval rates; and (4) increased transaction flow through DCMS, which was near maximum capacity. For more information, see [GAO-06-860](#) and SBA Office of Inspector General, "Disaster Application Referrals with \$0 Income from FEMA Online Registration Have Increased Cost and the Demand for SBA Resources," Advisory Memorandum 06-12 (Feb. 17, 2006).

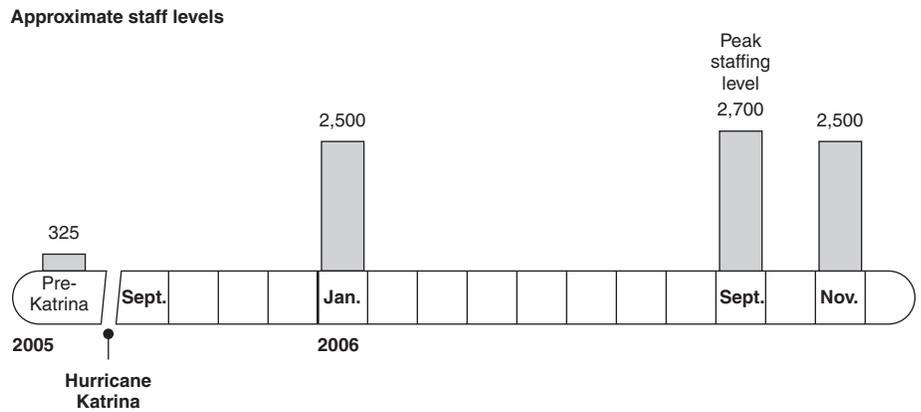
Hurricane Katrina struck the Gulf Coast and in its immediate aftermath. The officials said they initially estimated that the hurricane would require enough staff to process 150,000 to 200,000 loan applications, but they doubled the staffing estimate after the levees in New Orleans failed, based on reports from the media, FEMA, and SBA loss verification teams.²⁵ During the immediate aftermath of Hurricane Katrina, SBA had to move urgently to hire more than 2,000 staff by January 2006 at the Ft. Worth center, which previously had a permanent and temporary staff of about 325 on board including 40 supervisors (see fig. 2).²⁶ SBA officials said that most of the individuals hired to work in the Ft. Worth center were temporary employees who received notice of the job opportunities through SBA advertisements in newspapers and other media outlets.²⁷ Additionally, the SBA officials said that ensuring the appropriate training and supervision in hiring such a large number of inexperienced staff proved challenging.

²⁵SBA staff responsible for loss verification conduct on-site damage inspections for physical disaster loan applications to estimate the cost of restoring damaged property to predisaster condition.

²⁶Many of the temporary staff at the Ft. Worth center prior to Hurricane Katrina had been hired to process disaster loan applications associated with four hurricanes that made landfall in Florida in 2004.

²⁷SBA also transferred several staff members who work in other Office of Disaster Assistance locations to Ft. Worth, and the agency recalled some staff that had been laid off under the workforce transformation initiative.

Figure 2: SBA Ft. Worth Loan Processing Staffing Levels



Sources: GAO, based on information provided by SBA. The figure represents approximate SBA staffing levels at particular points in time rather than hiring data by month.

Moreover, in preparing for potential disasters, SBA did not take practical steps to help ensure the availability of additional trained and experienced staff as described below:

- SBA did not have a system for “cross-training” its staff so that individuals not normally associated with disaster assistance could help out in the case of an emergency. With such cross-training, SBA could have potentially quickly leveraged the expertise of loan officers who are normally involved in the agency’s other small business lending programs to help process disaster loan applications. We note that, subsequent to Hurricane Katrina’s landfall, SBA’s former Administrator directed some of the agency’s district offices to request that staff not normally involved in disaster assistance volunteer to process disaster loans. However, SBA officials at one district office we visited said that staff who volunteered to process disaster loans lacked access to the agency’s loan processing system—DCMS—and, consequently, this presented further challenges in their ability to process disaster loan applications in a timely manner. For example, without access to DCMS, the district staff needed to take additional time to contact SBA’s Ft. Worth disaster loan processing center to verify data and other information contained in disaster applications. Moreover, the Ft. Worth staff, as mentioned in our previous report, had to engage in a labor-intensive process of shipping files to the district office and manually inputting information into DCMS because the district office staff lacked access to the system.

-
- SBA did not maintain the status of a reserve group of potential voluntary employees with expertise in the agency’s disaster assistance programs. According to an SBA official, in approximately 2001, the agency had in place a disaster reserve corps of about 600 individuals, who had a background in areas such as finance, accounting, property inspections, and customer service who could be asked to volunteer as temporary employees in the event of a crisis. SBA officials said that the agency’s disaster reserve corps includes retirees and students who must be willing to locate within 48 hours of notification that their services are required to assist in an emergency. As discussed in our 2003 report, SBA officials believed that the disaster reserve corps facilitated the agency’s capacity to process the surge in disaster loan applications associated with the September 11, 2001, terrorist attacks.²⁸ However, SBA officials said that the agency did not subsequently maintain the status of the disaster reserve corps afterwards, and after the terrorist attacks, it largely dissolved. While an official said that SBA was in the process of rebuilding the corps when Hurricane Katrina struck, a senior agency official said the corps had fewer than 100 individuals at that time.

Moreover, SBA did not have adequate plans in place to help ensure that it had adequate office space to house its expanded workforce—particularly in the Ft. Worth and Buffalo offices—or telecommunications support in Buffalo. While SBA partnered with GSA on an ad hoc basis to address its logistical challenges after Hurricane Katrina made landfall, in some cases, the agency was fortunate to quickly obtain the needed capacity. The following provides specific information regarding SBA’s Ft. Worth and Buffalo offices at the time of and after the Gulf Coast hurricanes:

- At the Ft. Worth office, SBA did not initially have adequate space to accommodate the more than 2,000 employees that were hired to process disaster loans or an established plan to acquire such space (e.g., the Ft. Worth center could only accommodate 500 out of the 2,700 staff that were ultimately employed, by September 2006, to process Gulf Coast hurricane-related disaster loan applications). In September 2005, SBA worked with GSA on an ad hoc basis in an effort to locate additional space for the newly hired staff and was able to identify available offices near its existing facility. However, SBA officials said that the newly acquired space was not configured to serve as a disaster loan processing center, so the agency had

²⁸GAO, *Small Business Administration: Response to September 11 Victims and Performance Measures for Disaster Lending*, GAO-03-385 (Washington, D.C.: Jan. 29, 2003).

to upgrade the space to accommodate its needs. Even so, we note that SBA still lacked sufficient capacity in Ft. Worth to process the growing backlog of disaster loan applications. To address this challenge, SBA was also able to reestablish the loan processing function at its Sacramento office, which had previously been discontinued as a result of its workforce transformation initiative. The Sacramento office space was available shortly after Hurricane Katrina struck because the lease had not yet expired. SBA established a workforce of approximately 250 individuals at the Sacramento office, and the office played a significant role in reducing the backlog of Gulf Coast hurricane disaster loan applications.²⁹ In June 2006, SBA also leased a 60,000 square foot facility in Ft. Worth, which, upon acquisition, was configured to meet the agency's needs to house the staff that are processing disaster loans associated with the Gulf Coast hurricanes, according to officials.

- SBA's Buffalo office did not initially have sufficient space to serve as a customer call center in a catastrophic disaster situation. In June 2005, SBA closed a loan processing facility in Niagara Falls, New York, and opened a facility in Buffalo, with the intention of it becoming the agency's customer service center (i.e., call center) at a later date. While SBA provided us with planning documents that recognized that the Buffalo office lacked sufficient space in order to expand during an emergency, the agency did not develop a contingency plan to guide its efforts in identifying suitable space to accommodate an expanded workforce if a major disaster occurred. As was the case in Ft. Worth, SBA collaborated with GSA on an ad hoc basis after Hurricane Katrina and was able to locate nearby available space in a federal office building.³⁰
- Further, SBA faced challenges due to limited support for the telecommunications system at its disaster loan customer service call center in Buffalo. According to SBA field managers, while the customer service call center's telephone system processed calls as required, vendor service and support for the system were inadequate. An SBA official said that there was only one vendor in the Buffalo region that services the type

²⁹In our July 2006 report ([GAO-06-860](#)), we reported that, according to SBA, 8 months after Hurricane Katrina, the Sacramento satellite office had processed about 95,500 home and 4,800 business applications through DCMS for the Gulf Coast hurricane victims. SBA also used the Sacramento satellite office to process about 10,700 home loan applications for smaller disaster declarations.

³⁰According to an SBA official, the agency had to seek space outside of the existing call center building because leasing additional space within the facility was considered cost prohibitive.

of phone system that the agency uses. The SBA official said that limited support and maintenance for the agency's phone system impacted the agency's ability to be able to efficiently respond to inquiries from disaster loan applicants. Further, an SBA official said that the phone system was not designed to interface with other key agency systems, which also affected the center's operations. For example, due to limitations in the phone system's design, SBA customer service managers were forced to manually track and tally critical information necessary to effectively manage the center, such as the number of inbound/outbound calls received in a given time period. According to an SBA field official, this information is necessary in order for the office's workforce manager to accurately forecast staffing needs, but tracking this data manually is time consuming and inefficient. SBA officials said that they have initiated a review of the Buffalo phone system and are considering options to upgrade it.

SBA Has Initiated Measures to Better Prepare for Potential Disasters but Has Not Established Time Frames for Plan Completion or Leveraged Available Disaster Planning Resources

In the wake of the Gulf Coast hurricanes, SBA officials said that they recognized the importance of further enhancing their disaster planning and have developed a master plan and initiated measures based on "lessons learned" from the experience. In particular, SBA convened a Disaster Oversight Council composed of senior agency leadership, to better leverage the resources of the agency as a whole, and incorporate new ideas and best practices into the agency's preparedness capability. In September 2006, SBA also appointed a single individual to coordinate the agency's disaster preparedness planning and coordination efforts. Further, SBA officials said that the agency is taking steps to address limitations that existed in its disaster planning prior to the Gulf Coast hurricanes and weaknesses in disbursing approved disaster loan applications as follows:

- *Developing enhanced disaster forecasting and response capabilities.* SBA officials said that the agency is developing automated models to better estimate loan application volumes when disasters strike. The officials said that these models are based on data from the agency's experiences in responding to previous disasters, including the Gulf Coast hurricanes. The officials said that the models allow the agency, for example, to estimate the number of loan applications that can be expected under varying disaster scenarios. Officials said that the models' estimates can be refined, after disasters occur, based on information provided by FEMA and SBA loss verification teams. SBA officials also said that they are developing the capacity to better estimate resource requirements—such as staffing requirements—to better respond to potential disaster scenarios. Additionally, SBA stated that DMCS has been tested and verified to support a minimum of 8,000 concurrent users (the agency

maintained a workforce of about 4,300 at its peak in January 2006 to respond to the Gulf Coast hurricanes). SBA stated that it continues to explore the best means of upgrading DCMS' capacity.

- *Ensuring additional trained and experienced staff in the event of a disaster.* SBA officials said that the agency is developing a plan to cross-train staff agencywide to provide disaster loan assistance. They also said SBA is planning to develop partnerships with private sector lenders who could assist SBA with loan processing and loan closing activities in the event of a major disaster. Additionally, SBA officials said that the agency has reestablished a disaster reserve corps of about 750 individuals, the majority of whom have been trained in the agency's policies and systems. An SBA official added that the agency plans to ensure that corps members will be able to quickly obtain government identification and credit cards to help ensure their immediate availability in the event of a disaster. However, SBA officials said that maintaining the status of the corps may prove challenging over the longer term if their services are not required for long periods. The officials said it can be difficult to ensure the training of potential volunteers or their continued availability.
- *Acquiring office space to provide additional capacity.* SBA officials said that the agency has acquired additional facilities to house its disaster assistance staff. As described previously, for example, SBA officials said that, in June 2006, they leased a third facility in Ft. Worth with 60,000 square feet of space that has been configured to serve as a disaster loan processing center (this facility has a 2-year lease). However, SBA officials said that there are trade-offs associated with maintaining such space over the longer term. A senior SBA official also said that, if the space is ultimately no longer required to process Gulf Coast hurricane-related loan applications, SBA would be required to incur lease costs at a time when funding for federal agency operations is limited.
- *Revising the existing approach to processing disaster loan applications to help ensure expedited fund disbursements.* According to senior SBA officials, in July 2006, they reviewed the agency's approach to disbursing approved Gulf Coast hurricane disaster loan applications and found that inefficiencies in the process were contributing to substantial disbursement delays.³¹ Senior SBA officials said that the previous loan disbursement approach was an "assembly-line" type process wherein loan applications

³¹The officials said that as of July 2006, approximately 93,000 loans had only been partially disbursed. The officials also said that many of the loans had not been totally disbursed due to loan modifications (e.g., borrowers sought changes in the loans' terms and conditions).

moved from one stage to another (e.g., from loss verification to the legal department) and that mistakes or delays in any one stage could result in significant disbursement backlogs. Further, SBA officials said that the previous approach lacked accountability and made it difficult for applicants to find the status of their application or to obtain consistent information from the agency. Subsequently, SBA officials said that they have instituted a “case-manager” model in which each loan application is assigned to a case manager to ensure accountability, and the loan review units use in a team-oriented approach. According to SBA officials, the revised approach reduced the backlog of disbursed loans associated with the Gulf Coast hurricanes from about 93,000 in August 2006 to approximately 35,000 in November 2006.³² SBA officials also said that the revised approach should allow the agency to more efficiently disburse approved disaster loans in a future catastrophe.

While SBA’s announced changes address key limitations in its disaster planning process and preparedness efforts prior to the Gulf Coast hurricanes, agency officials have not established a time line for completing key elements of the disaster management plan. SBA officials explained that the planning process is ongoing and that they intend to review and implement a variety of changes in the agency’s Office of Disaster Assistance in coming years. However, we note that several elements of SBA’s planning and preparedness process are discrete tasks that lend themselves to the establishment of a time line for completion. These elements include cross-training agency staff to provide backup support for disaster assistance services and reaching agreements with private sector lenders to process a surge in loan applications associated with disasters. Without the establishment of reasonable time frames for completing such planning and preparedness elements, it is difficult for SBA management, Congress, the public, and others to assess the progress of the agency’s efforts to better prepare for future disasters.

Moreover, until recently, SBA had not taken steps to assess whether it could leverage outside resources to enhance its disaster planning and preparation efforts. SBA officials said that they had contacted other organizations, including FEMA, the National Weather Service, and the U.S. Geological Survey, in developing the agency’s enhanced model for

³²In August 2006, SBA initiated the “90/45” initiative to reduce the backlog of loan disbursements associated with the Gulf Coast hurricanes. That is, SBA planned to finalize about 93,000 loan files, which were partially disbursed or pending modification, over a 45-day period.

forecasting loan application volumes when disasters strike. However, as discussed previously, SBA officials said that they were largely relying on the agency's previous disaster experiences in enhancing their forecasting capacity, which is similar to the agency's disaster planning approach prior to the Gulf Coast hurricanes. SBA officials said that they had not used other outside resources, such as the results of disaster simulations or catastrophe models, in the disaster planning process. A senior SBA official said that the agency has not determined how catastrophe models could be incorporated into its planning process, given the differences that exist between the insurance sector and SBA's Disaster Loan Program. For example, the official noted that insurers use the models to limit their financial losses, due to hurricanes or earthquakes of varying severity, in specific areas where they insure properties, whereas SBA covers uninsured homes and businesses on a nationwide basis. While we recognize these differences, as discussed in our report on SBA's implementation of DCMS, the results of disaster simulations or catastrophe models could provide SBA with additional insight into potential disaster loan application volumes, and related agency logistical resource requirements, for particularly severe events that potentially rival or surpass the scope of disasters that the agency has previously encountered, including the Gulf Coast hurricanes.³³

In December 2006, SBA took initial steps to assess whether an available catastrophe model could help enhance its disaster planning efforts. SBA contacted FEMA regarding a catastrophe model that the agency has developed, referred to as HAZUS, that is designed to help estimate the damages associated with potential hurricanes, earthquakes, and floods, as well as the potential financial losses associated with varying disaster

³³In April 2006, USGS, Stanford University, Lawrence Livermore National Laboratory, URS Corp., and the University of California, Berkeley, released the results of a disaster simulation involving a repeat of the 1906 San Francisco earthquake in the San Francisco Bay Area. The simulation involved the use of computer models developed by USGS to predict the consequences of an earthquake striking the Bay Area with a magnitude of 7.9 on the Richter scale. This simulated exercise estimated that the consequences of such an earthquake on the Bay Area today would damage or destroy 90,000 buildings with an estimated repair and replacement cost of \$90 billion. Additionally, the simulation estimated that up to 250,000 households would be displaced from damaged residences. See <http://quake.usgs.gov> for additional details. Moreover, in 2006, a risk modeling firm, Applied Insurance Research (AIR), estimated the insured losses that would occur if past disasters were to recur today. For example, AIR estimated that a repeat of the 1906 earthquake would result in insured losses of about \$108 billion, whereas a repeat of Hurricane Katrina would result in insured losses of about \$41 billion. See http://www.air-worldwide.com/_public/html/air_currentsittem.asp?ID=1031.

scenarios.³⁴ SBA informed FEMA that the agency was interested in exploring the use of HAZUS as part of its disaster planning program. SBA requested that FEMA brief the agency's senior managers on HAZUS, as well as the types of training on the system that is available. It remains to be seen the extent to which SBA will decide to incorporate the HAZUS system into its disaster planning efforts.

Finally, while we acknowledge that SBA would incur lease and other costs associated with maintaining facilities in anticipation of disasters, developing pragmatic strategies to help ensure the timely acquisition of suitable space over the long-term should be a key component of the agency's disaster contingency planning. Currently, SBA has a substantial amount of office space leased in Ft. Worth, for example, to complete the processing of Gulf Coast hurricane-related disaster applications, and which agency officials said could be used if another disaster occurs in the near term. However, if no such disaster occurs, and SBA reduces its office space inventory in Ft. Worth over the next several years to save costs, and the agency closes its Sacramento satellite loan processing facility in fiscal year 2007 as planned, the agency would lack adequate loan processing space to respond to a future disaster the size of the Gulf Coast hurricanes or larger. Under such a scenario, a repeat of the steps SBA took during the Gulf Coast hurricanes (i.e., contacting GSA after Hurricane Katrina made landfall) could similarly compromise the agency's capacity to provide efficient and timely disaster services. Analyzing the cost-effectiveness of obtaining and retaining certain office facilities over the long-term could improve SBA's preparedness for future disasters.

³⁴We have not reviewed HAZUS or its use in previous disasters.

SBA Utilized a Variety of Outreach Approaches during the Gulf Coast Hurricanes, but Several Factors May Have Limited Their Effectiveness

SBA took a number of steps, under trying conditions, to reach out to Gulf Coast hurricane victims to provide information and assistance regarding disaster recovery loan assistance services. For example, the agency mobilized its staff members to reach out to victims by speaking at organized events and by advertising in a variety of media including the Internet. However, various factors (including the fact that many people do not equate SBA with disaster assistance) may have limited the effectiveness of the agency's efforts. For example, due to the number and dislocation of the hurricane victims, the catastrophic damage caused by the storms, and limited agency resources, SBA was not able to comply with an informal policy of conducting follow-up calls with all individuals who were mailed disaster assistance loan applications. According to SBA officials, the agency has initiated a review of its outreach to Gulf Coast hurricane victims and is developing a plan to better provide such outreach in future disasters.

SBA's Outreach to Gulf Coast Hurricane Victims May Have Been Reduced by the Complexity of Federal Disaster Assistance Programs and the Damage Associated with the Hurricanes

SBA officials told us that they took a variety of steps to explain the agency's disaster assistance programs to the victims of the Gulf Coast hurricanes. After Hurricane Katrina made landfall, officials from SBA's field operations centers said they acted quickly to mobilize their staff and sent them to the Gulf Coast region to begin assisting the victims by providing information about their Disaster Loan Program. These officials told us that staff members shared information about SBA's Disaster Loan Program at meetings with various groups including congressional offices, chambers of commerce, community-based organizations, and local businesses. According to an SBA official, staff members from one field operations center attended more than 600 of these meetings between October 1, 2005, and May 15, 2006. This official said that the number of meetings they participated in was more than were typically held, due to the increased needs of the hurricane victims. SBA also provided information about its Disaster Loan Program to Small Business Development Centers, as well as state and local disaster management agencies.³⁵ Further, SBA staff members provided outreach at FEMA-established Disaster Recovery Centers where they conducted initial interviews with disaster victims to determine whether the victim and the

³⁵The SBA administers the Small Business Development Center Program to provide management assistance to current and prospective small business owners. The centers offer one-stop assistance to small businesses by providing a wide variety of information and guidance in branch locations. The program is a cooperative effort of the private sector, the educational community, and federal, state, and local governments.

damaged property were generally eligible for the loan program and to explain the application forms and process. SBA also established Business Recovery Centers to provide business owners with information on how disaster loans could help them in financing recovery from the hurricanes.

In addition, SBA advertised through various forms of media such as the SBA Internet site, radio, television, and newspapers. Figure 3 shows an example of a newspaper advertisement SBA placed following Hurricane Katrina. SBA advertisements about its Disaster Loan Program are intended to inform potential loan applicants where to obtain loan applications and otherwise to assist victims in applying for disaster loans. Following the Gulf Coast hurricanes, field operations center staff members also posted informational flyers throughout the declared disaster areas, according to SBA officials. An SBA official also told us that many of these outreach activities were not just localized to the declared disaster areas, but staff members also conducted these activities in the cities where victims had relocated.

Figure 3: Example of an SBA Print Ad for Hurricane Katrina Victims



Source: SBA.

However, SBA officials said that the agency's outreach efforts face challenges even under normal (nondisaster) circumstances, which can limit their effectiveness. For example, agency officials said that most people tend to equate SBA with small business lending activities rather than its disaster assistance programs. In a limited survey of 62 Gulf Coast hurricane victims who filed SBA disaster loan applications, we found that more than half reported not being aware of the agency's disaster

assistance program prior to August 2005.³⁶ Additionally, an SBA official said that the public tends to confuse SBA's disaster assistance programs with those of FEMA. As noted previously, this potential for confusion was heightened when, in the wake of the Gulf Coast hurricanes, FEMA referred many disaster loan applications to SBA even though such applications did not meet SBA's creditworthiness standards. Furthermore, SBA's outreach efforts may face substantial challenges when disasters of the magnitude of the Gulf Coast hurricanes or greater strike. In such cases, millions of people may be relocated throughout the United States, and widespread telephone and electrical service disruptions may take place.

To illustrate the potential impact that a large-scale disaster can have on SBA's outreach efforts, we note that the agency was not able to comply with an informal policy requiring follow-up phone calls to all individuals who did return disaster assistance loan applications after the Gulf Coast hurricanes. While such phone calls are not mandatory, SBA officials said that in previous disasters they had attempted to contact 100 percent of all individuals who did not return applications that had been mailed to them. The officials said that such follow-up phone calls provided the agency with another opportunity to explain the Disaster Assistance Loan Program and potentially assist victims. While SBA mailed about 2 million disaster loan applications to victims of the Gulf Coast hurricanes, it only received about 400,000 completed applications in return.³⁷ SBA officials said that the agency made follow up phone calls to 800,000 individuals who did not return the applications but was unable to contact the remaining 800,000.³⁸ Although SBA officials said the agency makes it a practice to make such follow up phone calls, it lacked the necessary staff resources to do so and that contacting people who may be relocated in such circumstances is highly challenging.

³⁶We provide more details on our survey in appendix I.

³⁷Statistics are compiled for the Gulf Coast hurricanes and are as of May 1, 2006.

³⁸SBA provided the data regarding these figures, based on their estimates. However, the agency does not have a formal procedure for verifying the number of follow-up calls the staff made.

SBA Has Initiated an Internal Review of Outreach Provided to Victims of the Gulf Coast Hurricanes

According to SBA officials, the agency has initiated a follow-up internal review of its outreach to victims of the Gulf Coast hurricanes. An SBA official said that the agency is developing a plan to strengthen its outreach communication and coordination and that this plan will be submitted to the SBA Administrator in early 2007. According to this official, SBA has consulted internal outreach staff as well as federal disaster relief agencies, including FEMA, and local agencies to conduct the evaluation of its outreach efforts. Additionally, the SBA official said that the agency has created a revised brochure to explain its disaster outreach services to the public and that the SBA Administrator has held forums with the public in the Gulf Coast region to explain the agency's assistance services.

Conclusions

While the unprecedented volume of disaster loan applications clearly affected SBA's capability to provide timely assistance to Gulf Coast hurricane victims, the absence of a comprehensive and sophisticated planning process beforehand also likely limited the efficiency of the agency's initial response. SBA officials said that they recognize the importance of better disaster planning and are in the process of developing a disaster plan that is designed to address key limitations in the agency's previous planning approach (e.g., strengthening loan surge capacity through potential agreements with private sector lenders and reestablishing the disaster reserve corps). Additionally, according to SBA officials, the agency has significantly revised its loan processing approach to reduce the backlog of approved, but not disbursed, disaster loan applications associated with the Gulf Coast hurricanes. SBA officials said that the revised approach should allow the agency to more efficiently disburse approved disaster loans in a future catastrophe. However, SBA has not established a time frame for competing key elements of the disaster management plan such as cross-training other agency staff to provide backup support, and has not assessed whether the plan would benefit from the supplemental use of available resources, such as the results of disaster simulations or catastrophe models (although SBA did recently contact FEMA about using its catastrophe model). Further, while we recognize that maintaining unused office space would not be cost-effective, SBA has not developed a long-term strategy to help ensure that it could acquire necessary and suitable office space in an emergency. Consequently, SBA should take additional steps to help ensure that it would be better prepared to provide timely and effective assistance to the victims of a future disaster.

Recommendations for Executive Action

To better position SBA to prepare for and respond to potential disasters, we recommend that the Administrator of SBA direct the Office of Disaster Assistance to take the following two actions:

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

Agency Comments and Our Evaluation

We provided SBA with a draft of this report for review and comment. The Associate Administrator for Disaster Assistance provided written comments that are presented in appendix II. The agency also provided technical comments, which we have incorporated as appropriate. In its comments, SBA stated that the agency is better prepared to respond to potential disasters as a result of the measures that have been initiated since the Gulf Coast hurricanes. Additionally, SBA stated that it agreed with the report's recommendations. Specifically, SBA stated that the agency will (1) establish clear time-lines for completing key disaster planning initiatives discussed in the report and (2) assess the more extensive use of disaster simulations and external catastrophe models to enhance its disaster planning process.

SBA also said that it had taken steps to help strengthen its capacity to ensure the availability of adequate office space in the event of a future disaster. In particular, SBA stated that it will retain 100,000 square feet of additional office space that it obtained in Ft. Worth after Hurricane Katrina to process disaster loans. SBA said that the additional space should allow the agency to respond to the initial surge in loan applications of a future disaster while allowing time for it to work with GSA to obtain additional space as needed. We contacted SBA to obtain additional information about its space acquisition plans. SBA officials said that the agency will retain a 60,000 square foot facility in Ft. Worth that has been specifically configured to process disaster loans and plan to expand it by another 40,000 square feet. Further, the officials said that SBA will retain the facility for at least 5 years (the facility originally had a 2-year lease) and may retain it longer. We acknowledge that such an approach, if implemented, is a step that is consistent with the development of a comprehensive disaster management plan.

We are sending copies of this report to appropriate congressional committees, the Administrator of the SBA, and other interested parties, and we will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have questions regarding this report, please contact me at (202)512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



William B. Shear
Director, Financial Markets and
Community Investment

List of Congressional Addressees

The Honorable Joseph I. Lieberman
Chair

The Honorable Susan M. Collins
Ranking Member
Committee on Homeland Security
and Governmental Affairs
United States Senate

The Honorable John F. Kerry
Chair

The Honorable Olympia J. Snowe
Ranking Member
Committee on Small Business and Entrepreneurship
United States Senate

The Honorable Richard J. Durbin
Chair

The Honorable Sam Brownback
Ranking Minority Member
Subcommittee on Financial Services and General Government
Committee on Appropriations
United States Senate

The Honorable Barbara A. Mikulski
Chair

The Honorable Richard C. Shelby
Ranking Member
Subcommittee on Commerce, Justice and Science
Committee on Appropriations
United States Senate

The Honorable Henry A. Waxman
Chair

The Honorable Tom Davis
Ranking Member
Committee on Oversight and Government Reform
House of Representatives

The Honorable Nydia M. Velazquez
Chair

The Honorable Steven J. Chabot
Ranking Member
Committee on Small Business
House of Representatives

The Honorable Jose E. Serrano
Chair
The Honorable Ralph Regula
Ranking Minority Member
Subcommittee on Financial Services
Committee on Appropriations
House of Representatives

The Honorable Donald Manzullo
House of Representatives

The Honorable Dianne Feinstein
United States Senate

The Honorable Mary L. Landrieu
United States Senate

Appendix I: Objectives, Scope, and Methodology

The objectives of this report were to (1) assess the Small Business Administration's (SBA) logistical planning efforts prior to the Gulf Coast hurricanes and current disaster planning efforts and (2) discuss SBA's outreach efforts to Gulf Coast hurricane victims.

To address the first objective, we reviewed our previous studies related to disaster planning as well as similar studies by other organizations and available disaster simulation reports.¹ We also interviewed disaster experts to obtain their insight and views on appropriate planning efforts and the aspects that a comprehensive disaster plan should entail.² Further, we reviewed relevant SBA planning and other documentation including the agency's standard operating procedures, internal policy memos, and the Office of Disaster Assistance's 2003-2008 strategic plan. Moreover, we reviewed SBA documentation regarding the agency's workforce transformation initiative, which aided our assessment of the logistical challenges that SBA encountered in its response to the Gulf Coast hurricanes. These documents included an organizational impact study and a cost-benefit analysis. We also interviewed officials from SBA's Office of Disaster Assistance (ODA) in headquarters regarding the agency's disaster planning initiatives both before and after the Gulf Coast hurricanes. Additionally, we conducted site visits to each of SBA's four disaster loan

¹GAO/RCED-93-186; *The National Response Plan*, December 2004 and updated May 2006; Department of Homeland Security; *The Robert T. Stafford Disaster Relief and Emergency Assistance Act*, 42 U.S.C. §§ 5121-5206.

Department of Homeland Security: Office of Inspector General, *A Performance Review of FEMA's Disaster Management Activities in Response to Hurricane Katrina*, OIG-06-32, March 2006; The White House: *The Federal Response to Hurricane Katrina – Lessons Learned*, February 2006; *A Failure of Initiative: Final Report of the Select Bipartisan Committee to Investigate the Preparation for and Response to Hurricane Katrina*, U.S. House of Representatives, February 16, 2006; *Hurricane Katrina: A Nation Still Unprepared*, Report of the Committee on Homeland Security and Governmental Affairs, U.S. Senate, May 2006; *Hurricane Pam Exercise* (<http://www.ohsep.louisiana.gov/newsrelated/hurripamends.htm>), Louisiana Homeland Security & Emergency Preparedness, July 26, 2004; *Managing Risk in Earthquake Country: Estimated Losses for a Repeat of the 1906 San Francisco Earthquake and Earthquake Professional's Action Agenda for Northern California*, April 17, 2006.

²We defined "expert" as someone having extensive knowledge in disaster planning and management. The expert's knowledge was derived from his or her formal education and experience. For example, some of the experts we contacted have served in consulting roles for state and local agencies with disaster planning responsibilities.

field offices to discuss the agency's disaster planning initiatives.³ Finally, we visited the Gulf Coast region and met with federal, state and local officials, as well as disaster victims.

To address the second objective, we reviewed SBA's various methods and techniques for informing and educating disaster victims about the disaster loan program. Further, we reviewed the section of SBA's 2003-2008 strategic plan that described the agency's goals and objectives for promoting public awareness, which includes outreach. We also interviewed officials in SBA's headquarters and the public information officers in the Atlanta and Sacramento field offices to discuss the agency's outreach efforts during the Gulf Coast hurricanes, as well as current plans to evaluate such outreach efforts.

To obtain further insight into SBA's outreach efforts, we conducted a limited structured telephone survey of 62 Gulf Coast hurricane victims who had applied for an SBA disaster assistance loan. Using data from its Disaster Credit Management System (DCMS), SBA provided us with a list of the 414,289 loan applications, for either a home or business physical disaster loan, or an economic injury disaster loan in response to losses due to the Gulf Coast hurricanes. We selected a stratified random sample of 400 loan applications based on the type of loan—business and economic injury, home, and economic injury only—and loan decision—approved, withdrawn, declined, or pending—in order to get coverage across loan type and decision outcomes. We attempted to reach 168 loan applicants by phone and were able to contact and complete telephone interviews with a total of 62 applicants. Of the 62 respondents to our survey, 46 were affected by Hurricane Katrina, 9 by Hurricane Wilma, and 7 by Hurricane Rita. Of those, 28 had applied for home loans, 22 had applied for economic injury and business loans, and 12 had applied for economic injury loans. At the time we surveyed the applicants, SBA had approved loans for 24 of the applicants, declined loans for 26 of the applicants, and had decisions pending for 6 of the applicants. The other 6 applicants had either withdrawn their applications or had their applications withdrawn by SBA.

³The field offices are the field operations centers East and West in Atlanta, Ga., and Sacramento, Calif., respectively, the disaster loan processing center in Ft. Worth Texas, and the disaster loan customer service call center in Buffalo, N.Y. We also visited the Disaster Credit Management System Operations Center in Virginia and SBA's Georgia district office.

From the survey, among other things, we obtained the loan applicants' views on how and when they learned of the disaster loan program. In developing the survey questions, we relied on SBA's 2003-2008 strategic plan, strategic operation plans, SBA 2003-2005 customer satisfaction surveys, and other information that SBA officials provided to us through interviews as it related to our request. We pretested our survey with five loan applicants who represented a mix of home, business, and economic injury loans, as well as decisions that were approved and withdrawn. We conducted analysis using the Statistical Analysis System (SAS) version 9 with appropriate checks for missing data and incorrect responses and deemed it to be sufficiently reliable for the purpose of this report. Because of the small sample size, the survey results are limited to those we spoke with but may also be considered as indicative of how Gulf Coast victims might have responded; however, results could not be projected to the entire population.

We conducted our work in Washington, D.C.; Sacramento, Calif.; Atlanta, Ga.; Ft. Worth, Texas; Buffalo, N.Y.; and in state and local offices in Louisiana and Mississippi from November 2005 to January 2007, and in accordance with generally accepted government auditing standards.

Appendix II: Comments from the Small Business Administration

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



January 18, 2007

William B. Shear
Director
Financial Markets and Community Investment
United States Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Shear:

We appreciate the opportunity to provide comments on the U.S. Small Business Administration's (SBA) response to the catastrophic Hurricanes Katrina, Rita, and Wilma in 2005 as articulated in the Government Accountability Office's (GAO) draft report entitled *Small Business Administration, Agency's Response to Gulf Coast Hurricanes Highlights Need to Enhance Preparedness for Future Disasters*.

SBA agrees with the recommendations of the report and continues to make important progress in addressing them, i.e. establishing clearer timeframes and assessing the more extensive use of simulations. We would like to emphasize the Agency's increased preparedness to provide timely and effective assistance as a result of measures the Agency has taken. This increased preparedness is enabled by improvements made to our systems and processes, many of which were in direct response to challenges in the Katrina, Rita, and Wilma Hurricanes. These measures have already been tested through the SBA's accelerated processing of outstanding loans as well as through its response to more recent disasters.

SBA has completed a series of process improvements through reengineering and technology initiatives that have improved service delivery. Based on an aggressive use of management techniques in executing the following improvements and initiatives, we believe the Agency is poised at a high level of preparedness:

- **Upgraded System Capacity.** To accommodate a larger workforce to process loans, SBA has expanded the capacity of the Disaster Credit Management System (DCMS) to support a minimum of 8,000 concurrent users. This expansion represents a four-fold increase in capacity over peak usage during the 2005 Gulf Coast Hurricanes. The system also enables users to work remotely, thus expanding the geographic alternatives for recruiting the workforce.

- **Expedited Referrals to Grant Providers.** Focusing on the need to render more decisions in a timely and efficient manner, SBA is using tools to enable it to refer applicants to grant providers much more quickly, with less work for the applicant and a significantly reduced processing burden for SBA. As a result, SBA not only processed a larger amount of loans in a shorter period of time, but referred those applicants determined ineligible for SBA disaster loans for possible grant assistance much sooner. This improvement reduced the volume of files pending a decision, minimized the aging of such files, and eased the processing burden on DCMS.
- **Operational Reengineering and Oversight.** Based on a review of customer feedback and internal performance indicators, SBA identified multiple inefficiencies and quality issues in its processes. This review led to a full redesign of its internal production and support services operations by establishing integrated teams with case managers, attorneys, loan experts, and other support staff working together in a collaborative unit on cases assigned to each team. This new process has yielded improved coordination and communication not only with the disaster victims but also between employees. Integrated teams accounted for faster response times, decreased error rates, and improved customer service and support. Each applicant is assigned a case manager who provides a personal one-on-one approach, assisting the disaster victim in explaining the process, answering questions, and clarifying outstanding issues which has resulted in less confusion, a reduction in errors, and a minimization of duplicative or additional work.
- **Business Intelligence Tools.** The expanded use of performance metrics and reengineering tools significantly improves the ability of management to establish clear timelines for initiatives, clarify performance goals, recognize individual accountability, and provide greater insight into the issues that we must address as they arise.
- **Enhanced Disaster Workforce.** SBA's Disaster Assistance capability expands and contracts in size based on the level of disaster activity. Prior to the Gulf Coast Hurricanes making landfall, SBA had about 800 employees on the payroll but quickly surged to over 4,300 employees in response to these unprecedented storms. Today, SBA's Disaster Loan Program has roughly 2,700 employees across all key functions. Recognizing the benefits and effectiveness of the ability to immediately supplement its workforce, the Agency expanded its Disaster Reserve Corps. Currently, SBA has selected approximately 750 employees in this expansion and continues to add personnel to the Reserve Corps. This capability allows the Agency to activate this specialized group of trained personnel to report for duty within 48 hours. The number of trained employees on board and in the Reserve Corps increases the Agency's capacity to quickly respond to disasters, including catastrophic events in 2007 and beyond.
- **Partnered with Private Sector.** As a result of the unprecedented application volume received, SBA created the Disaster Loan Partners Initiative and awarded three private sector contracts to assist with SBA's loan processing and loan closing activities. This unique partnership with the private sector provides the Agency with additional experienced personnel to enhance program delivery to disaster victims. This model can

be expanded to include additional service providers which can support various aspects of the lending operations. SBA is actively evaluating the alternatives for expanding private sector support in serving the needs of disaster victims.

- **Leveraged SBA's Nationwide Infrastructure.** During the Gulf Coast Hurricanes response, the Agency utilized SBA's nationwide District Office infrastructure to handle increased disaster activity. Additionally, the Agency has implemented an initiative to utilize District employees in future disasters in such activities as processing support and coordinating local resources through SBDCs, Chambers of Commerce, and other local professional and charitable organizations to improve outreach and accelerate response in the field.
- **Expanded Agency Footprint.** The Agency has secured over 400,000 sq. ft. of space in multiple locations across the country with 285,000 sq. ft. specifically allocated for the Processing and Disbursement Center in Fort Worth, TX. Of that amount, the Agency will retain 100,000 sq. ft. as permanent space. This will provide space to handle any initial surge requirements while allowing time for the Agency to work with GSA in obtaining any necessary additional space.
- **Bolstered Forecasting Ability and Risk Monitoring Procedures.** The Agency has enhanced its capability to immediately forecast application volumes when disasters strike. This new model – which includes a flexible tool for forecasting purposes – provides a more robust methodology for predicting application volume based on assets at risk and disaster characteristics thus allowing SBA to gauge its response to a catastrophe. Based on the current capacity status of systems, facilities, and trained personnel at the time of the disaster, the models permit SBA to determine the level and method of escalation necessary to respond in a timely and effective manner. Recognizing the benefits of forecasting, SBA is reviewing external disaster models to determine the value of linking the expected scope of potential disasters with our preparedness estimates.
- **Developed Disaster Scalability Preparedness Tool.** The Agency now possesses the capability to determine resource needs – financial, human capital (by function), and logistics – required to maximize SBA's response against a number of different application volume scenarios. The Agency is refining detailed action plans to determine the appropriate resource needs outlined in each scenario and to establish protocols for action to respond accordingly.

We note that the comments in the recommendations section in the draft report suggest several ways to better improve our program performance. We generally agree with the recommendations and intend to improve the delivery of our program for disaster events of all sizes. Our response to the recommendations is as follows:

Recommendation 1 - Develop timeframes for completing key elements of the disaster management plan and long-term strategy for acquiring adequate office space. SBA has incorporated the aggressive use of program management techniques in the management of all of

our initiatives to improve the Agency's disaster preparedness. The value of these tools has been clear in the Accelerated Disaster Response Initiative, which dramatically reduced borrower backlogs in a short period of time. These tools have put in place clear timelines for initiatives, clarified performance goals, established clear accountabilities for individuals, and provided greater insight into the issues that we must address. While other initiatives that address issues in the report are ongoing and are being actively managed, the Agency is putting in place clear timelines with accountabilities to support all of them, which will allow SBA to communicate them more effectively externally.

Recommendation 2 - Direct staff involved in developing the disaster plan to further assess whether the use of disaster simulations or catastrophic models would enhance the agency's disaster planning process.

Modeling is a critical management tool that can drive the Agency to escalate its disaster response in a catastrophe in terms of capacity. As previously mentioned, the Agency is currently at a capacity with respect to systems, facilities, and trained personnel which will allow SBA to respond to a very large disaster in the short term. As such, our models will support the need to escalate at a time when our staffing is reduced to a more normalized level. SBA currently uses two models for forecasting ability and risk monitoring that provide an understanding of agency requirements at various levels of volume, and is putting in place a clear playbook to document the response process. Additionally, the Agency is reviewing external disaster models to determine the value of linking the expected scope of potential disasters with our preparedness estimates. The most critical element in preparedness will be the Agency's ability to increase its capacity, supported by the Agency's improved processes, to meet the projected need. The models are a tool that helps manage that expansion.

We appreciate the opportunity to provide clarifying comments and have included our specific requests for clarifications and/or changes within the attachment to this letter.

Sincerely,



Herbert L. Mitchell
Associate Administrator
for Disaster Assistance

Attachment

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

William B. Shear, (202) 512-8678, shearw@gao.gov

Staff Acknowledgments

In addition to the individual named above, Wesley Phillips, Assistant Director; Daniel Blair; Tania Calhoun; William Chatlos; Landis Lindsey; Marc Molino; David Pittman; Cheri Truett; and Michelle Zapata made key contributions to this report.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548