



U.S. SMALL BUSINESS ADMINISTRATION

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BEFORE THE SENATE HOMELAND SECURITY AND GOVERNMENT AFFAIRS,
AD HOC SUBCOMMITTEE ON DISASTER RECOVERY AND INTERGOVERNMENTAL AFFAIRS

“PREVENTING IMPROPERLY PAID FEDERAL ASSISTANCE IN THE AFTERMATH OF DISASTERS”

MARCH 17, 2011

Good morning Chairman Pryor, Ranking Member Ensign, and distinguished Members of the Subcommittee. My name is Michael A. Chodos, Deputy General Counsel at the Small Business Administration (SBA). It is an honor to appear before you today on behalf of SBA to discuss the safeguards in place at SBA to identify improper payments and prevent duplication of benefits (DOBs).

The SBA takes its on-going responsibility to guard against and to prevent waste, fraud and abuse in its programs very seriously. Maintaining the integrity and accountability of our programs is critical. To that end, we appreciate the role that the Office of Inspector General (OIG) plays in assisting management to ensure that our programs are effectively managed. Ensuring that proper controls are in place is crucial to the Agency's ability to implement and administer its programs in an environment that eliminates fraud, waste and abuse.

During this Administration, SBA and the OIG have made significant strides in terms of collaboration and cooperation. We believe the OIG reports that the Subcommittee is examining today are excellent examples of the progress that has been made over the past two years. By and large, SBA agreed with the OIG's recommendations in these reports, and we have taken steps to implement them. Let me describe just a few of the most significant changes we have made.

Improper Payments

The Office of Disaster Assistance (ODA), in an effort to prevent improper payments, revised the sampling design methodology for estimating improper payments. Through the Chief Financial Officer's office, ODA contracted with a statistician to review the process and revise the sampling design methodology in accordance with OMB guidance.

Shortly after the OIG issued its report, SBA also re-engineered the Quality Control (QC) process. Previously, the QC process was performed by a group of employees working at the Processing and Disbursement Center (PDC) who reported to the same management team that was responsible for the loan origination. Although the QC department remains housed at the PDC in

Fort Worth, Texas, they now report directly to the Director of Program Policy and Evaluation in Headquarters.

The QC department is responsible for conducting the Improper (Erroneous) Payment Review (IPR). These IPRs are completed on a semi-annual basis. The files are randomly selected using a formula engineered by an outside statistician. The number of files reviewed is based on the volume of activity for the period being reviewed. The final IPR findings are included in the Agency's annual report. The completion of these IPRs and the annual report allows corrective actions to be implemented, and for Agency management to evaluate the impact of the corrective action, in a timely manner.

Managers are vital to the Agency's success in reducing improper payments and are held accountable through the performance review process. The PDC has also adopted a series of measures, including ongoing training, to ensure awareness of what constitutes an improper payment. The managers are directly responsible for implementation of measures to reduce improper payments and monitor its adherence on a day-to-day basis.

Insurance Offsets

As part of our ongoing effort to ensure that applicable insurance payments are identified and properly offset against an individual's verified loss, we have revised SBA Standard Operating Procedure 50 30 (SOP) to clarify the requirement that we "determine that all DOBs (e.g., FEMA, State and local grants, insurance, etc.) have been addressed" before final disbursement. The SOP change will be formally incorporated in the SOP in the next update cycle. In addition, SBA issued a "Numbered Director's Memorandum" outlining the SOP change and reinforcing the need to address all insurance recoveries prior to all loan disbursements. The PDC training materials and course content were also updated to address the clarifications, as well as the need for clear documentation of contact with insurance carriers to confirm insurance payments.

SBA has also taken steps to identify and resolve loans with duplicate benefits. For example, we continually review the portfolio to confirm and address insurance recoveries. An additional safeguard in preventing insurance DOBs is the assignment of insurance proceeds. Borrowers are required to sign the assignment of insurance proceeds, which authorizes future insurance recoveries to be paid to SBA. ODA and the SBA's Office of Financial Assistance also work together to determine the universe of loans requiring follow-up for re-verifying insurance recoveries.

SBA and the Federal Emergency Management Agency (FEMA)

SBA and FEMA have consistently worked together in order to effectively provide assistance to disaster victims and reduce possible DOBs. SBA and FEMA implemented and maintain internal agency agreements, which allow SBA and FEMA to continually exchange data electronically. The data exchanges are important tools that provide improved disaster assistance to victims such as verifying DOB information, accelerating referrals to SBA and providing SBA loan application status updates.

For example, in accordance with the inter-agency agreement, FEMA grant award amounts are automatically downloaded into the Disaster Credit Management System (DCMS) – SBA's loan

processing system. This allows ODA to verify potential duplicate benefits during the application and disbursement phases of the loan process. Additionally, SBA employees who process loans and approve disbursements have access to FEMA's National Emergency Management Information System in order to verify DOBs in real time.

Declined SBA applicants referred to the FEMA Other Needs Assistance (ONA) grant program who are subsequently approved by SBA are required to use loan proceeds to repay the amount of the ONA grant. This is another DOB safeguard in place as a result of coordination between the agencies.

Finally, SBA's Office of Disaster Assistance Senior Leadership and FEMA's Response and Recovery management teams have initiated quarterly meetings to discuss ways to enhance the delivery sequence process and provide better assistance to disaster victims.

While SBA is pleased with the progress it has made to eliminate improper payments and work more closely with other agencies like FEMA, we recognize that additional work remains. As hurricane season approaches, SBA is well aware of the important role it plays in the lives of disaster victims. We are also well aware of our role as a steward for taxpayer funds. With the changes implemented thus far, SBA is confident that it will be able to carry out both roles efficiently and effectively.

Thank you and I am happy to take your questions.