

**DUPLICATE BENEFIT ADJUSTMENTS TO  
DISASTER ASSISTANCE LOANS ASSOCIATED  
WITH HOUSING AND URBAN DEVELOPMENT  
GRANTS**

*Report Number: 07-25*

*Date Issued: May 15, 2007*



U.S. Small Business Administration  
Office Inspector General

# Memorandum

To: Herbert P. Mitchell  
Associate Administrator for Disaster Assistance

Date: May 15, 2007

From: Debra S. Ritt  
Assistant Inspector General for Auditing

Subject: Report on Duplicate Benefit Adjustments to Disaster Assistance Loans Associated with Housing and Urban Development Grants

This report presents the results of our review of SBA's processing of modifications to disaster assistance loans associated with Housing and Urban Development (HUD) grants. Starting in fiscal year (FY) 2006 and continuing to the present, SBA is processing a large number of modification transactions to disaster assistance loans related to the 2005 Gulf Coast Hurricanes. These modifications have been made to reduce SBA loan balances by amounts awarded through HUD Community Development Block Grants (CDBG) administered by the Louisiana Road Home Program and the Mississippi Homeowner Assistance Grant Program. SBA signed agreements with the states of Louisiana and Mississippi where SBA would evaluate each disaster loan for which a HUD grant may have duplicated benefits and identify the amount of funds which the states should remit to SBA. SBA would also determine if a reduction in loan eligibility was warranted and if so, process and notify borrowers of modifications made to their balances to account for the duplicate HUD grants.

As of May 2, 2007, SBA has processed 3,681 modifications totalling \$172,745,986 to reduce disaster loan eligibility amounts as a result of the HUD CDBG program. SBA had also received remittances totalling \$131,740,417 from both the Louisiana Road Home Program and Mississippi Homeowner Assistance Program to reduce SBA disaster loan balances.

The objective of our review was to determine if SBA loans were being properly identified and modified in accordance with provisions of the Stafford Act to prevent or detect duplication of benefits. 42 USC 68, Section 5155, *Disaster Relief Duplication of Benefits*, prohibits payments to individuals that duplicates benefits available to that person from another source. The review was performed in concert with the HUD Office of Inspector General (OIG).

We reviewed loans associated with 172 HUD CDBG grants that were statistically sampled by the HUD OIG. The sample included 56 grants from the Louisiana Road Home Program and 116 sample grants from the Mississippi Homeowner Assistance Grant Program. For each loan, we reviewed data in SBA's Disaster Credit Management System to determine whether modifications were made to loan balances to reflect grant benefits received from HUD. Nothing came to our attention other than the issues identified below.

## **RESULTS**

Our review of 172 grants showed that SBA generally complied with provisions of the Stafford Act relating to preventing or detecting duplicate benefits within SBA's Disaster Assistance Loan program. Of the 172 grants, SBA had 108 disaster loans. Of the 108 SBA loans:

- 44 were not subject to duplication of benefit provisions;
- 62 with remittances or modifications totalling \$2,472,663 were correctly processed to reduce SBA disaster loan balances;
- One loan for \$10,000 was erroneously reduced by SBA. After receipt of the funds, SBA realized that it had requested the remittance in error and corrected the error by re-disbursing \$10,000 to the borrower; and
- One loan was erroneously reduced by a \$25,000 remittance that was incorrectly sent to SBA by Mississippi. After the OIG brought this to SBA's attention, SBA reinstated the loan.

Because only two loans were incorrectly modified, we concluded that they did not represent a major breakdown in internal controls. Consequently, we are making no recommendations as a result of this report.

## **ACTIONS REQUIRED**

No actions are required as a result of this report. We appreciate the courtesies and cooperation of the Small Business Administration representatives during this review. If you have any questions concerning this report, please call me at (202) 205-[**Exemption 2**] or Jeff Brindle, Director of the Financial Management and Information Technology group, at (202) 205-[**Exemption 2**].

## **APPENDIX I. SCOPE AND METHODOLOGY**

We performed an agreed-upon-procedures review of loans associated with 172 grant recipients identified by the Department of Housing and Urban Development (HUD), Office of Inspector General as having received disaster benefits between August 14, 2006, and December 31, 2006, as a result of the Gulf Coast Hurricanes. Of the 172 sampled grant recipients, 116 received grants administered by the Mississippi Development Authority and 56 received grants administered by the Louisiana Road Home Program. Of the 172 sampled grants, 108 grant recipients had received an SBA disaster loan. Of the 108 SBA disaster loans, 64 were subject to adjustment by SBA, 33 were cancelled prior to disbursement, and 11 did not fall under Stafford Act criteria.

We queried the SBA Disaster Credit Management System (DCMS) to identify and confirm borrower information such as names, social security numbers, and property addresses. DCMS was further queried to identify SBA approved loan amounts for personal property, real estate, landscaping costs, debris removal and other land improvements. We also queried the Electronic Loan Information Processing System on all loans for amounts paid to SBA borrowers, amounts received from Louisiana and Mississippi, and adjustments to SBA loan accounts as a result of HUD Community Development Block Grant activity.

Our evaluation was performed at SBA's headquarters office in Washington, D.C. from January 2007 through February 2007 in collaboration with the HUD Office of Inspector General.

## **APPENDIX II. AGENCY COMMENTS**

Date: May 10, 2007

To: Debra S. Ritt  
Assistant Inspector General for Auditing

From: **/S/ Original Signed**  
Herbert L. Mitchell  
Associate Administrator  
For Disaster Assistance

Subject: OIG Draft Report – Duplicate Benefit Adjustments to Disaster Assistance Loans Associated with Housing and Urban Development Grants

We have reviewed the above mention draft audit that was prepared by your office. We are pleased that the results are favorable and concluded that we have complied with the provisions of the Stafford (and Small Business) Act to prevent the duplication benefits.

We feel that the draft is self explanatory and does not require an exit conference.

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

**APPENDIX III. REPORT DISTRIBUTION**

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