

**SBA'S RESPONSE TO
THE DEEPWATER HORIZON OIL SPILL**

*Report Number 11-12
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**Prepared by the
Office of Inspector General
U.S. Small Business Administration**



U.S. Small Business Administration
Office of Inspector General

Memorandum

To: James E. Rivera
Associate Administrator, Office of Disaster Assistance

Date: April 7, 2011

From: /s/ Original Signed
Peter L. McClintock
Deputy Inspector General

Subject: Report on the SBA's Response to the Deepwater Horizon Oil Spill,
Report No. 11-12

This report summarizes OIG's review performed in response to a July 2, 2010 letter received from Senator Olympia J. Snowe. The letter inquired about the Small Business Administration's (SBA) strategy for developing economic relief to small business owners impacted by the Deepwater Horizon oil spill. Specifically, we were asked to provide: (1) total expenditures and additional resources committed by SBA to assisting disaster victims of the Deepwater Horizon oil spill; (2) performance benchmarks that have been reached as a result of the investment; and (3) recommendations for ensuring that SBA's disaster response is most cost effective and targeted toward the needs of those concerned. We have previously responded to Senator Snowe regarding the first two requests. Since the third request was to provide recommendations, this report has been addressed to the Agency.

The objectives of this audit were to determine whether SBA's disaster response was most cost effective and targeted toward the needs of those concerned. To accomplish this, we interviewed Office of Disaster Assistance (ODA), Small Business Development Center and state and local economic development officials. We also analyzed workload and statistics and related cost estimates pertaining to Business Recovery Centers (BRC) for the period May through August 2010. We visited four BRCs in Louisiana during June 2010 and one BRC in Mississippi during September 2010. We conducted the audit between June and December 2010 in accordance with *Government Auditing Standards* prescribed by the Comptroller General.

BACKGROUND

The Deepwater Horizon oil spill in the Gulf of Mexico stemmed from an April 20, 2010 drilling rig explosion, causing oil to flow for three months. It was the largest accidental marine oil spill in the history of the petroleum industry and the second widespread disaster to affect the Gulf Coast region within five years. After releasing million of gallons of crude oil, the leak was stopped in July 2010. In September 2010, the relief well process was successfully completed and the Federal Government declared the well "effectively dead."

The spill caused extensive damage to marine and wildlife habitats as well as the Gulf's fishing and tourism industries. The U.S. Government named British Petroleum (BP) as the responsible party, and officials committed to holding the company accountable for all cleanup costs and other damages. However, it was unknown how rapidly BP could provide the financial assistance needed to sustain local small businesses impacted by the disaster. Governors from Louisiana, Alabama, Florida, and Mississippi petitioned SBA to declare this event an economic injury disaster and provide financial assistance to the numerous small businesses affected.

In response to the Governors' requests, in May 2010, SBA issued Economic Injury disaster declarations for specific regions in the affected states. As is customary, SBA sent teams of employees to the disaster areas to provide onsite advice and assistance for obtaining SBA disaster assistance. Business Recovery Centers¹ (BRC) were established in key areas thought to have the largest number of businesses injured by the disaster.

Because the Deepwater Horizon oil spill was an extraordinary event, the Agency was not able to obtain accurate projections of the number of businesses impacted by the disaster. Therefore, SBA relied upon requests made by local and state government officials to determine where assistance was needed. In May 2010, SBA initially established 27 BRCs in 4 states, however, the number of open centers fluctuated during the six month period they were operational. The last BRC was closed by SBA on November 18, 2010.

At the BRCs, small business owners were interviewed to determine whether they met the requirements to qualify for an SBA Economic Injury Disaster Loan (EIDL) loan. Also, business owners that already had an SBA disaster loan as a result of a previous disaster were offered deferment of their prior loans. SBA made extensive outreach efforts, deploying staff from the BRCs and creating

¹ In most disasters, SBA co-locates with FEMA in their Disaster Recovery Centers. When FEMA is not involved, SBA establishes its BRCs.

outreach teams to educate small businesses impacted by the disaster about the availability of SBA assistance. The table below illustrates the magnitude of the BRC's efforts:

**Total BRC Actions
(May 2010 through August 2010)**

| Activity | Total |
|---|--------|
| Miscellaneous Outreach – Businesses Contacted | 11,489 |
| Other Interviews & Loan Deferrals | 4,723 |
| Loan Applications Issued | 4,410 |
| Loan Applications Accepted | 822 |
| Loan Closings | 159 |

ODA advised that total expenditures relating to the Deepwater Horizon Oil Spill for the period May through November 2010 were \$6.4 million. The costs captured at each center included salaries and benefits, travel, leased space, and miscellaneous expenses. We reviewed these expenses incurred by four different cost centers: (1) Field Operations Center West; (2) Field Operations Center East; (3) the Processing and Disbursement Center (PDC) in Fort Worth, TX; and (4) the Disaster Assistance Customer Service Center in Buffalo, NY.

During the six month period the BRCs were operational, a significant number of small businesses were contacted and informed of the availability of SBA assistance. Ultimately, relatively few businesses sought SBA assistance. As of February 9, 2011, the PDC received 1,767 (822 were initially accepted at the BRCs) EIDL applications of which 410 were approved, totaling approximately \$37.2 million. An additional 1,098 prior disaster loans were deferred. In contrast, BP indicated that by November 2010, they had received over 315,000 claims of which 92,000 had been paid or approved for payments totaling \$1.7 billion.

RESULTS OF REVIEW

Cost Effectiveness of SBA's Disaster Response

During the Deepwater Horizon Oil spill, the Agency was slow to make adjustments to staffing levels despite a continuously low workload. This occurred because the Agency was tasked with maintaining a steady presence in the region, despite the limited demand for SBA financial assistance. The Agency made extensive outreach efforts to businesses impacted by the disaster and maintained BRCs in affected locations for several months.

In order to evaluate the cost effectiveness of staffing decisions made by the Agency, we reviewed staffing levels at the BRCs from May through August 2010. To analyze the cost effectiveness, we devised a production factor to measure the time employees spent providing assistance. The production factor represents the percentage of an 8 hour day utilized in completing specific tasks². We calculated this percentage using data compiled from field activity reports for the period May through August 2010. These reports listed daily actions performed by employees at the BRCs, including processing loan applications and performing loan closings, other interviews, and miscellaneous outreach. Staff employed at the BRCs spent an average of 38 percent of the work day accomplishing these tasks. ODA believed there may have been more time spent on tasks not recorded on the Daily Activity Reports; however, ODA had not provided data for these ancillary tasks to account for the remaining 62 percent of the work day and we had no basis to evaluate this time spent to account for the remaining work day.

The following table illustrates the BRC staffing levels and production:

Business Recovery Center Staffing Levels

| Month | Number of BRCs | Number of BRC Employees | Measurable Production (Hours) | Measurable Production (Percentage) |
|--------------|-----------------------|--------------------------------|--------------------------------------|---|
| May | 27 | 96 | 3.0 | 38 |
| June | 31 | 96 | 3.0 | 38 |
| July | 29 | 98 | 2.7 | 33 |
| August | 30 | 87 | 2.2 | 28 |

Source: Number of BRCs and Employees Provided by ODA

As the table illustrates, using estimates furnished by ODA, we determined that BRC employees spent only 38 percent of their time to accomplish daily tasks specified on the activity reports during May 2010. This was further evidenced during our site visits conducted at five BRCs located in Louisiana and Mississippi, where we observed that there were no business owners seeking SBA assistance. Demand for SBA assistance remained consistently low during the four month period ending in August 2010. Despite the low demand, SBA did not adjust staffing levels until August when the BRC staff was reduced by 11 employees. Based on the activity reports, it appears that staffing could have been reduced

² ODA provided estimates on the average time spent to complete each task. These averages were used to calculate the production factor.

sooner to a level which would have resulted in employees accomplishing key tasks identified on the daily activity reports for the majority of the work day.

While ODA officials advised that they monitored daily activity reports, we noted ODA did not have written guidance for establishing BRC sites, or monitoring BRC workload and adjusting staffing. Further, they did not make timely adjustments to BRC staffing levels based upon the daily activity reports. Given the low level of activity, SBA may have been able to reduce the hours and days of operation at some centers or potentially close those centers with minimal activity. These adjustments would have allowed SBA to continue to meet demands for assistance while simultaneously reducing staff.

SBA's disaster response could have been provided at a lower cost by reducing the number of BRCs, or staff at BRCs, or both. According to the ODA Daily Field Activity Report (DFAR), SBA employees appeared to experience a significant amount of idle time during the period of our review. We estimated the salaries and travel expense relating to the idle time totaled approximately \$2.5 million based on reported costs for the BRCs during May through August 2010. While ODA officials have acknowledged that all disasters may have some amount of idle time, we found no criteria or metric that would guide when to make adjustments in BRC staffing.

In summary, SBA's response to the Deepwater Horizon Oil spill did not appear to be most cost effective. The Agency advised us that its priority was to maintain a presence and prevent the appearance of a lack of government support or curtailment of services. In future disasters, SBA should regularly review the daily activity reports and make periodic adjustments to staffing levels to ensure that service is maintained at a cost effective level. SBA should also evaluate BRC business operation days and times and ensure they correspond with activity levels.

SBA Targeted the Needs of Deepwater Horizon Oil Spill Disaster Victims Who Qualified for Assistance

SBA targeted the needs of Deepwater Horizon Oil Spill victims by offering:

- Low interest disaster loans - While these services were offered to all business owners impacted by the disaster, there was limited demand for SBA loans. SBA received 1,767 EIDL loan applications, of which 410 were approved as of February 9, 2011. In comparison, BP received 315,000 claims for assistance. As these statistics indicate, most of the Deepwater Oil Spill disaster victims sought compensation from BP rather than an SBA loan. Additionally, many businesses affected by the oil spill

were still recovering from the effects of the Gulf Coast hurricanes and were reluctant to incur new debt due to poor economic conditions.

- Loan Deferments on Active SBA Loans - SBA routinely approved deferral of existing SBA disaster loans for borrowers impacted by the disaster. As of December 15, 2010, the Agency had deferred 1,098 active disaster loans totaling approximately \$6 million. Deferments for existing borrowers in the impacted areas were provided upon request with no documentation required. SBA also encouraged private lenders to defer SBA-guaranteed business loans to borrowers impacted by the spill.
- Translation Services - In Louisiana, many of the disaster victims required translation services. SBA provided 14 Vietnamese translators at the BRCs during the crisis period. At three locations where SBA and BP were co-located, the SBA BRC staff provided Vietnamese translation services to borrowers during the process of filing BP claims. ODA also provided translation services in Spanish, Chinese, Arabic and other languages, as needed. Additionally, SBA staff from the BRCs participated in, and provided translation services, at numerous community meetings.
- Counseling Services Provided by SBA's Resource Partners - SBA sponsored its resource partners, the Small Business Development Centers (SBDCs) and SCORE Counselors to America's Small Business, who helped with local outreach by making potential applicants aware of SBA's services. They also provided business counseling, screened and interviewed potential applicants, helped the applicants complete documents, and assisted with loan applications and BP claims.

RECOMMENDATIONS

We recommend that the Associate Administrator for the Office of Disaster Assistance develop written procedures to establish:

1. Performance metrics to assess workload and appropriate onsite staffing levels.
2. Guidelines for monitoring onsite productivity and adjusting staffing levels in a timely manner.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

On March 18, 2011, we provided the Office of Disaster Assistance (ODA) with the draft report for comment. On April 7, 2011, ODA submitted its formal response which is contained in Appendix I. Management agreed with our findings and concurred with our recommendations. A summary of management's comments and our response is as follows.

Recommendation 1

Management Comments

ODA agrees to establish written procedures outlining performance metrics to assess workload for Governor Certification Declarations (described in 7(b)(2)(D) of the Small Business Act).

OIG Response

Management's comments are responsive to the recommendation.

Recommendation 2

Management Comments

ODA agrees to establish written procedures to monitor onsite productivity and adjust staffing levels in a timely manner for Governor Certification Declarations (described in 7(b)(2)(D) of the Small Business Act).

OIG Response

Management's comments are responsive to the recommendation.

ACTIONS REQUIRED

Please provide your management decision for each recommendation on the attached SBA Forms 1824, Recommendation Action Sheet, within 180 days from the date of this report. Your decision should identify the specific action(s) taken or planned for each recommendation and the target date(s) for completion. We appreciate the courtesy and cooperation of the Office of Disaster Assistance during the audit. If you have any questions regarding this report, please contact me at (202) 205-7203 or Craig Hickok, Director, Disaster Assistance Group, at (817) 684-5341.

APPENDIX I. AGENCY RESPONSE



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

Date: April 7, 2011

To: Peter L. McClintock
Deputy Inspector General

From: James Rivera
Associate Administrator
Office of Disaster Assistance

Subject: Report on the SBA's Response to the Deepwater BP Oil Spill (Project No. 10901)

We have reviewed the draft audit report regarding SBA's Response to the Deepwater BP Oil Spill (BP Oil Spill). The objectives of this audit were to determine whether SBA's disaster response was cost effective and targeted toward the needs of those concerned. Thank you for the opportunity to respond to the draft report.

The BP Oil Spill was an unprecedented event with a disastrous impact on the states surrounding the Gulf Coast and the small businesses located there. Small businesses in the Gulf Region that earned their living fishing in the local waters, as well as seafood retailers, boat yards, shipping companies, processing plants and many other small businesses that supported the oil industry and tourism industry, faced tremendous financial losses from having to shut down operations.

With the magnitude of the BP Oil Spill and the potential effects of the disaster along the Gulf Coast, SBA received requests for Economic Injury Disaster Loan (EIDL) declarations from the Governors of Alabama, Florida, Louisiana and Mississippi. Upon receipt and appropriate due diligence, SBA declared four Governor Certification Declarations (under Section 7(b)(2)(D) of the Small Business Act). A total of 42 primary counties and 64 contiguous counties were declared (see Figure 1), making EIDLs available in those disaster areas.

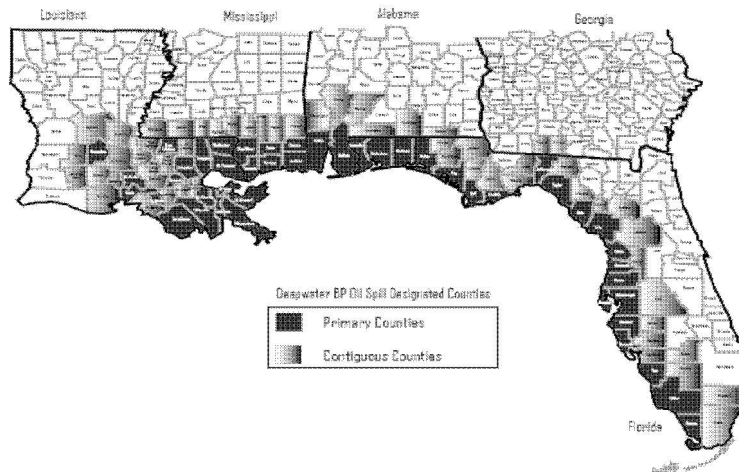


Figure 1

APPENDIX I. AGENCY RESPONSE

The BP Oil Spill disaster was not representative of a typical EIDL-only disaster. It is not customary for SBA to send teams of employees to the disaster areas and to stand up BRCs for EIDL-only declarations. For a number of reasons, however, the BP Oil Spill disaster required a more robust government response than is typically required for EIDL-only disasters:

Due to its magnitude, the BP Oil Spill was the first incident in U.S. history to be declared a Spill of National Significance (SONS) under the National Oil and Hazardous Substances Pollution Contingency Plan (NCP) by the Department of Homeland Security. SBA participated in the national coordinated effort led by the White House and concluded that it was critical that SBA establish a strong physical presence in the affected states by opening BRCs throughout the Gulf region and making assistance available as quickly as possible. In the absence of a Presidential disaster declaration and with no field presence by FEMA, SBA worked in concert with the State and local officials to determine the hardest hit areas and the best locations for the BRCs.

In order to maintain a high level of customer service in the affected areas and for security purposes, SBA assigned a minimum of two employees to most of the BRCs in the Gulf Coast. This allowed us to give prompt assistance to small business owners affected by the oil spill as well as to ensure the availability of translation services.

SBA staff in the BRCs met individually with small business owners to answer questions about the EIDL program, to issue loan applications, to provide help in completing the loan forms (both for SBA's EIDL loan program and applications for the Gulf Coast Claims Facility established by BP), and to answer questions regarding deferments of existing disaster loans. Due to the diversity of the disaster applicants, translation services in seven languages were a necessity in many of the centers. The typical interview for an EIDL application generally takes 30 minutes, however due to the complexity of the BP Oil Spill and the additional time required to translate, it was not uncommon for the issuance of a single EIDL application to take up to 2 hours, and sometimes up to 4 hours, for two SBA employees (one a loan officer and the other a translator). One particularly challenging translation required 11 hours.

Despite these challenges, BRCs were established to provide necessary services economically and in a manner that would require minimal overtime, if any.

OIG RECOMMENDATIONS AND AGENCY RESPONSE

OIG recommends the Associate Administrator for the Office of Disaster Assistance develop written procedures to establish:

1. Performance metrics to assess workload and appropriate onsite staffing levels.

ODA Response: ODA agrees to establish written procedures outlining performance metrics to assess workload for Governor Certification Declarations (described in 7(b)(2)(D) of the Small Business Act).

2. Guidelines for monitoring onsite productivity and adjusting staffing levels in a timely manner.

ODA Response: ODA agrees to establish written procedures to monitor onsite productivity and adjust staffing levels in a timely manner for Governor Certification Declarations (described in 7(b)(2)(D) of the Small Business Act).